

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 1-15371

ISTAR FINANCIAL INC.
(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)
1114 AVENUE OF THE AMERICAS, 27TH FLOOR
NEW YORK, NY
(Address of principal executive offices)

95-6881527
(I.R.S. Employer
Identification Number)

10036
(Zip code)

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

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

Title of each class:	Name of Exchange on which registered:
COMMON STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
9.375% SERIES B CUMULATIVE REDEEMABLE PREFERRED STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
9.200% SERIES C CUMULATIVE REDEEMABLE PREFERRED STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
8.000% SERIES D CUMULATIVE REDEEMABLE PREFERRED STOCK, \$0.001 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant: (i) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports); and (ii) has been subject to such

filing requirements for the past 90 days. Yes /X/ No / /

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12-b-2). Yes /X/ No / /

As of June 30, 2002, the aggregate market value of the common stock, \$0.001 par value per share of iStar Financial Inc. ("Common Stock"), held by non-affiliates(1) of the registrant was approximately \$2.4 billion, based upon the closing price of \$28.50 on the New York Stock Exchange composite tape on such date.

As of March 14, 2003, there were 98,622,217 shares of Common Stock outstanding.

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

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's definitive proxy statement for the registrant's 2003 Annual Meeting, to be filed within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.
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TABLE OF CONTENTS

	PAGE

PART I	
Item 1. Business.....	2
Item 2. Properties.....	17
Item 3. Legal Proceedings.....	17
Item 4. Submission of Matters to a Vote of Security Holders.....	17
PART II	
Item 5. Market for Registrant's Equity and Related Share Matters.....	18

Item 6. Selected Financial Data.....	20
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	23
Item 7a. Quantitative and Qualitative Disclosures about Market Risk.....	41
Item 8. Financial Statements and Supplemental Data.....	44
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	95
PART III	
Item 10. Directors and Executive Officers of the Registrant.....	95
Item 11. Executive Compensation.....	95
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	95
Item 13. Certain Relationships and Related Transactions.....	95
Item 14. Controls and Procedures.....	95
Item 16. Principal Accountant Fees and Services.....	95
PART IV	
Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.....	96
SIGNATURES.....	100

ITEM 1. BUSINESS

EXPLANATORY NOTE FOR PURPOSES OF THE "SAFE HARBOR PROVISIONS" OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which involve certain risks and uncertainties. Forward-looking statements are included with respect to, among other things, iStar Financial Inc.'s current business plan, business strategy and portfolio management. The Company's actual results or outcomes may differ materially from those anticipated. Important factors that the Company believes might cause such differences are discussed in the cautionary statements presented under the caption "Factors That May Affect the Company's Business Strategy" in Item 1 of this Form 10-K or otherwise accompany the forward-looking statements contained in this Form 10-K. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this Form 10-K.

CODE OF CONDUCT

iStar Financial Inc. (the "Company") has adopted a code of business conduct for all of its employees and directors, including the Company's chief executive officer, chief financial officer, other executive officers and personnel. A copy of the Company's code of conduct is attached to this Annual Report on Form 10-K as Exhibit 10.21 and is also available on the Company's website at www.istarfinancial.com. The Company intends to post on its website material changes to, or waivers from, its code of conduct, if any, within two days of any such event. As of December 31, 2002, there were no such changes or waivers.

OVERVIEW

The Company is the leading publicly-traded finance company focused on the commercial real estate industry. The Company provides structured financing to private and corporate owners of real estate nationwide, including senior and junior mortgage debt, corporate mezzanine and subordinated capital, and corporate net lease financing. The Company, which is taxed as a real estate investment trust ("REIT"), seeks to deliver strong dividends and superior risk-adjusted returns on equity to shareholders by providing innovative and value-added financing solutions to its customers.

The Company's primary product lines include:

- STRUCTURED FINANCE. The Company provides senior and subordinated loans that typically range in size from \$20 million to \$100 million to borrowers holding high-quality real estate. These loans may be either fixed or variable rate and are structured to meet the specific financing needs of the borrowers, including the acquisition or financing of large, high-quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim facilities. The Company's structured finance transactions have maturities generally ranging from three to ten years. As of December 31, 2002, based on gross carrying values, the Company's structured finance assets represented 27.02% of its assets.
- PORTFOLIO FINANCE. The Company provides funding to regional and national borrowers who own multiple facilities in geographically diverse portfolios. Loans are cross-collateralized to give the Company the benefit of all available collateral and underwritten to recognize inherent portfolio diversification. Property types include multifamily, suburban office, hotels and other property types where individual property values are less than \$20 million on average. Loan terms are structured to meet the specific requirements of the borrower and typically range in size from \$25 million to \$150 million. The Company's portfolio finance transactions have maturities generally ranging from

2

three to ten years. As of December 31, 2002, based on gross carrying values, the Company's portfolio finance assets represented 7.08% of its assets.

- CORPORATE FINANCE. The Company provides senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Financings may be either secured or unsecured and typically range in size

from \$20 million to \$150 million. The Company's corporate finance transactions have maturities generally ranging from five to ten years. As of December 31, 2002, based on gross carrying values, the Company's corporate finance assets represented 12.18% of its assets.

- LOAN ACQUISITION. The Company acquires whole loans and loan participations which represent attractive risk-reward opportunities. Loans are generally acquired at a small discount to the principal balance outstanding. Loan acquisitions typically range in size from \$5 million to \$100 million and are collateralized by all major property types. The Company's loan acquisition transactions have maturities generally ranging from three to ten years. As of December 31, 2002, based on gross carrying values, the Company's loan acquisition assets represented 8.60% of its assets.
- CORPORATE TENANT LEASING. The Company provides capital to corporations and borrowers who control facilities leased to single creditworthy tenants. The Company's net leased assets are generally mission-critical headquarters or distribution facilities that are subject to long-term leases with rated corporate credit tenants, and which provide for all expenses at the property to be paid by the corporate tenant on a triple net lease basis. Corporate tenant lease transactions have terms generally ranging from ten to 20 years and typically range in size from \$20 million to \$150 million. As of December 31, 2002, based on gross carrying values, the Company's corporate tenant lease assets represented 43.64% of its assets.
- SERVICING. Through its iStar Asset Services division, the Company provides rated loan servicing to third-party institutional loan portfolios, as well as to the Company's own assets. The servicing business did not represent a meaningful percentage of the gross carrying value of the Company's assets as of December 31, 2002.

As more fully discussed in Note 1 to the Company's Consolidated Financial Statements, the Company began its business in 1993 through private investment funds formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their approximately \$1.1 billion of assets to the Company's predecessor in exchange for a controlling interest in that company. Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions.

Specifically, in September 1998, the Company acquired the loan origination and servicing business of a major insurance company, and in December 1998, the Company acquired the mortgage and mezzanine loan portfolio of its largest private competitor. Additionally, in November 1999, the Company acquired TriNet Corporate Realty Trust, Inc. ("TriNet" or the "Leasing Subsidiary"), then the largest publicly-traded company specializing in corporate sale/leaseback transactions for office and industrial facilities (the "TriNet Acquisition"). The TriNet Acquisition was structured as a stock-for-stock merger of TriNet with a subsidiary of the Company.

Concurrent with the TriNet Acquisition, the Company also acquired its former external advisor in exchange for shares of the Company's common stock ("Common Stock") and converted its organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, the Company replaced its former dual class common share structure with a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange on November 4, 1999. Prior to this date, the Company's common shares were traded on the American Stock Exchange.

INVESTMENT STRATEGY

The Company's investment strategy targets specific sectors of the real estate credit markets in which it believes it can deliver value-added, flexible financial solutions to its customers, thereby differentiating its financial products from those offered by other capital providers.

The Company has implemented its investment strategy by:

- Focusing on the origination of large, structured mortgage, corporate and lease financings where customers require flexible financial solutions.
- Avoiding commodity businesses in which there is significant direct competition from other providers of capital such as conduit lending and

investment in commercial or residential mortgage-backed securities.

- Developing direct relationships with borrowers and corporate customers as opposed to sourcing transactions solely through intermediaries.
- Adding value beyond simply providing capital by offering borrowers and corporate customers specific lending expertise, flexibility, certainty and continuing relationships beyond the closing of a particular financing transaction.
- Taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate customers' underlying credit obligations.

The Company intends to continue to emphasize a mix of portfolio financing transactions to create asset diversification and single-asset financings for properties with strong, long-term competitive market positions. The Company's credit process will continue to focus on:

- Building diversification by asset type, property type, obligor, loan/lease maturity and geography.
- Financing high-quality commercial real estate assets in major metropolitan markets.
- Underwriting assets using conservative assumptions regarding collateral value and future property performance.
- Requiring adequate cash flow coverage on its investments.
- Stress testing potential investments for adverse economic and real estate market conditions.

As of December 31, 2002, based on current gross carrying values, the Company's business consists of the following product lines:

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

PRODUCT LINE

Portfolio Finance	7%
Structured Finance	27%
Loan Acquisitions	9%
Corporate Finance	12%
Corporate Tenant Leases	45%

4

The Company seeks to maintain an investment portfolio which is diversified by asset type, underlying property type and geography. As of December 31, 2002, based on current gross carrying values, the Company's total investment portfolio has the following characteristics:

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

ASSET TYPE

First Mortgages	37%
Second Mortgages	5%
Corporate/Partnership Loans	13%
Corporate Tenant Leases	45%

PROPERTY TYPE

HOTEL - LENDING	12%
Hotel - Investment Grade CTL	5%
Mixed Use	4%
Office - Lending	20%
Office - CTL	27%
Industrial / R&D	15%
Apartment / Residential	5%
Conference Ctr.	2%
Retail	4%
Other	6%

GEOGRAPHY

Northeast	18%
North Central	4%
Central	8%
South	12%
Southwest	2%
West	29%
Northwest	4%
Various	1%
Southeast	11%
Mid-Atlantic	11%

5

THE COMPANY'S UNDERWRITING PROCESS

The Company discusses and analyzes investment opportunities during regular weekly meetings which are attended by all of its investment professionals, as well as representatives from its legal, risk management and capital markets areas. The Company has 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 the Company evaluates an investment opportunity prior to beginning its formal commitment process.

THE SIX POINT METHODOLOGY

- First, the Company evaluates the source of the opportunity. The Company prefers opportunities where it has a direct relationship with the customer or an intermediary who has worked with the Company before, because it believes that such relationships enable it to add more value to a transaction.
- Second, the Company evaluates the quality of the collateral or corporate credit, as well as its market or industry dynamics.
- Third, the Company evaluates the equity or corporate sponsor, including factors such as its reputation, financial strength and commitment to the collateral.
- Fourth, the Company determines whether it can implement an appropriate legal and financial structure for the transaction given its risk profile, including the Company's ability to control the collateral under various circumstances.
- Fifth, the Company performs an alternative investment test. If the Company believes that it 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, the Company evaluates the liquidity of the investment and its ability to match fund the asset. A security that is too highly structured is less desirable because it may limit the Company's ability to obtain appropriately priced financing for the asset, or its ability to sell it if it ever so desires.

The Company has an intensive underwriting process in place for all potential investments. This process provides for comprehensive feedback and review by all disciplines within the 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 the Company's internal and Board of Directors investment committees.

Commitments of less than \$30.0 million require the unanimous consent of the Company's internal investment committee, consisting of senior management representatives from each of the Company's key disciplines. For commitments between \$30.0 million and \$50.0 million, the further approval of the Company's Board of Directors' investment committee is also required. All commitments of \$50.0 million or more must be approved by the Company's full Board of Directors.

FINANCING STRATEGY

The Company has access to a wide range of debt and equity capital resources to finance its investment and growth strategies. At December 31, 2002, the Company had over \$2.0 billion of tangible book equity capital and a total market capitalization of approximately \$6.6 billion. The Company believes that its size, diversification, investor sponsorship and track record are competitive advantages in obtaining attractive financing for its businesses.

6

The Company seeks to maximize risk-adjusted returns on equity and financial flexibility by accessing a variety of public and private debt and equity capital sources, including:

- iStar Asset Receivables ("STARs"), the Company's proprietary match-funded, securitized debt program.
- Long-term, unsecured corporate debt.
- A combined \$2.7 billion available under its unsecured and secured revolving credit facilities at year end.

The Company's business model is premised on significantly lower leverage than many other commercial finance companies. In this regard, the Company seeks to:

- Target a maximum consolidated debt/book equity ratio of 2.0x.
- Maintain a large tangible equity base and conservative credit statistics.
- Match fund assets and liabilities.

The Company has not historically utilized, and does not currently plans to utilize, "off-balance sheet" financing vehicles other than normal corporate tenant leasing joint ventures with unrelated third parties, which may be accounted for under the equity method due to the existence of provisions providing for a sharing of control with the venture partners. Detailed information on joint ventures in which the Company currently has investments/operations, including information on the Company's share of the joint ventures' non-recourse debt, is provided in Item 7--"Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources," and in Note 6 to the Company's Consolidated Financial Statements.

A more detailed discussion of the Company's current capital resources is provided in Item 7--"Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

HEDGING STRATEGY

The Company has variable-rate lending assets and variable-rate debt obligations. These assets and liabilities create a natural hedge against changes in variable interest rates. This means that as interest rates increase, the Company earns more on its variable-rate lending assets and pays more on its variable-rate debt obligations and, conversely, as interest rates decrease, the Company earns less on its variable-rate lending assets and pays less on its variable-rate debt obligations. When the Company's variable-rate debt

obligations exceed its variable-rate lending assets, the Company utilizes derivative instruments to limit the impact of changing interest rates on its net income. The Company does not use derivative instruments to hedge assets or for speculative purposes. The derivative instruments the Company uses are typically in the form of interest rate swaps and interest rate caps. Interest rate swaps effectively change variable-rate debt obligations to fixed-rate debt obligations. Interest rate caps effectively limit the maximum interest rate on variable-rate debt obligations.

In addition, when appropriate the Company may occasionally enter into interest rate swaps that convert fixed-rate debt to variable rate in order to mitigate the risk of changes in fair value of the fixed-rate debt obligations.

The primary risks from the Company's use of derivative instruments is the risk that a counterparty to a hedging arrangement could default on its obligation and the risk that the Company may have to pay certain costs, such as transaction fees or breakage costs, if a hedging arrangement is terminated by it. As a matter of policy, the Company enters into hedging arrangements with counterparties that are large, creditworthy financial institutions typically rated at least "A/A2" by Standard & Poor's and Moody's Investors Service,

7

respectively. The Company's hedging strategy is monitored by its Audit Committee on behalf of its Board of Directors and may be changed by the Board of Directors without stockholder approval.

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

BUSINESS

REAL ESTATE LENDING:

The Company provides structured financing to private and corporate owners of real estate nationwide, including senior and junior mortgage debt, as well as corporate mezzanine and subordinated capital.

Set forth below is information regarding the Company's primary real estate lending product lines as of December 31, 2002:

	CURRENT CARRYING VALUE	%
	-----	OF TOTAL
	-----	-----
	(IN THOUSANDS)	
Structured finance.....	\$1,516,326	49.24%
Portfolio finance.....	397,114	12.90%
Corporate finance.....	683,381	22.19%
Loan acquisition.....	482,771	15.67%
	-----	-----
Gross carrying value.....	\$3,079,592	100.00%
		=====
Provision for loan losses.....	(29,250)	

Total carrying value, net.....	\$3,050,342	
	=====	

As more fully discussed in Note 3 to the Company's Consolidated Financial Statements, the Company continually monitors borrower performance and completes a detailed, loan-by-loan formal credit review on a quarterly basis. After having originated or acquired over \$6 billion of investment transactions, the Company and its private investment fund predecessors have experienced minimal actual losses on their lending investments. Further, based on current reviews of its portfolio, management is not aware of any factors relating to specific loans which indicate that such losses may be experienced in the foreseeable future.

Despite the Company's historical track record of having minimal credit losses and loans on non-accrual status, the Company considers it prudent to reflect provisions for loan losses on a portfolio basis based upon the Company's assessment of general market conditions, the Company's internal risk management policies and credit risk rating system, industry loss experience, the Company's assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Accordingly, since its first full quarter operating its current business as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for loan losses in its operating results.

SUMMARY OF INTEREST CHARACTERISTICS

As more fully discussed in Item 7--"Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" as well as in Item 7a.--"Quantitative and Qualitative Disclosures about Market Risk," the Company utilizes certain interest rate risk management techniques, including both asset/liability matching and certain other hedging techniques, in order to mitigate the Company's exposure to interest rate risks.

As of December 31, 2002, the Company's Lending Business portfolio has the following interest rate characteristics:

	CURRENT CARRYING VALUE	%
	-----	-----
	(IN THOUSANDS)	OF TOTAL
Fixed-rate loans.....	\$1,294,684	42.04%
Variable-rate loans.....	1,784,908	57.96%
	-----	-----
Gross carrying value.....	\$3,079,592	100.00%
	=====	=====

SUMMARY OF PREPAYMENT TERMS

The Company is exposed to risks of prepayment on its loan assets, and generally seeks to protect itself from such risks by structuring its loans with prepayment restrictions and/or penalties.

As of December 31, 2002, the Company's Lending Business portfolio has the following call protection characteristics:

	CURRENT CARRYING VALUE	%
	-----	-----
	(IN THOUSANDS)	OF TOTAL
Fixed prepayment penalties.....	\$1,052,432	34.17%
Substantial lock-out for original term.....	999,668	32.46%
Currently open to prepayment with no penalty.....	567,429	18.43%
Yield maintenance.....	288,069	9.36%
Other.....	171,994	5.58%
	-----	-----
Gross carrying value.....	\$3,079,592	100.00%
	=====	=====

SUMMARY OF LENDING BUSINESS MATURITIES

As of December 31, 2002, the Company's Lending Business portfolio has the following maturity characteristics:

YEAR OF MATURITY	NUMBER OF TRANSACTIONS MATURING	CURRENT CARRYING VALUE	% OF TOTAL
(IN THOUSANDS)			
2003.....	13	\$ 637,354	20.70%
2004.....	16	396,338	12.87%
2005.....	23	846,602	27.49%
2006.....	6	151,833	4.93%
2007.....	8	306,854	9.96%
2008.....	12	107,088	3.48%
2009.....	7	302,444	9.82%
2010.....	--	--	0.00%
2011.....	9	227,109	7.37%
2012.....	--	--	0.00%
2013 and thereafter.....	8	103,970	3.38%
Gross carrying value.....		\$ 3,079,592	100.00%
Weighted average maturity.....		3.6 years	

9

STRUCTURED FINANCE

The Company provides custom-tailored senior and subordinated loans that typically range in size from \$20 million to \$100 million to borrowers holding institutional-quality real estate. These loans may be either fixed or variable rate and are structured to meet the specific financing needs of the borrowers, including the acquisition or refinancing of large, high-quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim facilities. The Company's structured finance transactions have maturities generally ranging from three to ten years.

As of December 31, 2002, the Company's structured finance investments have the following characteristics:

INVESTMENT CLASS	COLLATERAL TYPES	# OF LOANS IN CLASS	CURRENT CARRYING VALUE (1)	CURRENT PRINCIPAL BALANCE OUTSTANDING
First Mortgages.....	Office/Residential/Retail/ Industrial/ Conference Center/Mixed Use/Hotel	24	\$ 992,599	\$ 997,963
Junior First Mortgages(5).....	Office/Residential/Mixed Use/Hotel	9	124,233	132,970
Second Mortgages.....	Office/Mixed Use/Hotel	8	229,646	224,422
Corporate Loans/Other.....	Office/Retail/Mixed Use/Hotel	14	169,848	165,295
Total.....		55	\$1,516,326	\$1,520,650

INVESTMENT CLASS	WEIGHTED AVERAGE STATED PAY RATE (2)	WEIGHTED AVERAGE FIRST DOLLAR CURRENT LOAN-TO- VALUE (3)	WEIGHTED AVERAGE LAST DOLLAR CURRENT LOAN-TO- VALUE (4)
First Mortgages.....	6.13%	0%	67%
Junior First Mortgages(5).....	6.85%	52%	68%
Second Mortgages.....	7.92%	53%	69%
Corporate Loans/Other.....	11.01%	61%	74%
Total.....			

EXPLANATORY NOTES:

- (1) Where Current Carrying Value differs from Current Principal Balance Outstanding, difference represents contractual amortization, partial prepayment of loan principal, or amortization of acquired premiums, discounts or deferred loan fees.

- (2) All variable-rate loans assume a one-month LIBOR rate of 1.38% (the actual one-month LIBOR rate at December 31, 2002). As of December 31, 2002, three loans with a combined carrying value of \$72.4 million have a stated accrual rate that exceeds the stated pay rate.
- (3) Weighted average ratio of first dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation (where no current appraisal available).
- (4) Weighted average ratio of last dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation (where no current appraisal available).
- (5) Junior first mortgages represent promissory notes secured by first mortgages which are junior to other promissory notes secured by the same first mortgage.

PORTFOLIO FINANCE

The Company provides funding to regional and national borrowers who own multiple facilities in geographically diverse portfolios. Loans are cross-collateralized to give the Company the benefit of all available collateral and underwritten to recognize inherent portfolio diversification. Property types include multifamily, suburban office, hotels and other property types where individual property values are less than \$20 million on average. Loan terms are structured to meet the specific requirements of the borrower and typically range in size from \$25 million to \$150 million. The Company's portfolio finance transactions have maturities generally ranging from three to ten years.

10

As of December 31, 2002, the Company's portfolio finance investments have the following characteristics:

INVESTMENT CLASS	COLLATERAL TYPES	# OF LOANS IN CLASS	CURRENT CARRYING VALUE (1)	CURRENT PRINCIPAL BALANCE OUTSTANDING	WEIGHTED AVERAGE STATED PAY RATE (2)	WEIGHTED AVERAGE FIRST DOLLAR CURRENT LOAN-TO-VALUE (3)
First Mortgages.....	Entertainment/Hotel	4	\$152,637	\$152,773	6.91%	0%
Junior First Mortgages(5).....	Hotel	1	49,500	50,000	7.61%	52%
Second Mortgages.....	Hotel	2	71,950	71,093	9.28%	65%
Corporate Loans/Other.....	Office/Entertainment/Hotel	4	123,027	123,122	8.82%	60%
Total.....		11	\$397,114	\$396,988		

INVESTMENT CLASS	WEIGHTED AVERAGE LAST DOLLAR CURRENT LOAN-TO-VALUE (4)
First Mortgages.....	56%
Junior First Mortgages(5).....	65%
Second Mortgages.....	87%
Corporate Loans/Other.....	74%
Total.....	

EXPLANATORY NOTES:

- (1) Where Current Carrying Value differs from Current Principal Balance Outstanding, difference represents contractual amortization, partial prepayment of loan principal, or amortization of acquired premiums, discounts or deferred loan fees.
- (2) All variable-rate loans assume a one-month LIBOR rate of 1.38% (the actual one-month LIBOR rate at December 31, 2002).
- (3) Weighted average ratio of first dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation (where no current appraisal available).
- (4) Weighted average ratio of last dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's

internal valuation (where no current appraisal available).

- (5) Junior first mortgages represent promissory notes secured by first mortgages which are junior to other promissory notes secured by the same first mortgage.

CORPORATE FINANCE

The Company provides senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Financings may be either secured or unsecured and typically range in size from \$20 million to \$150 million. The Company's corporate finance transactions have maturities generally ranging from five to ten years.

As of December 31, 2002, the Company's corporate finance investments have the following characteristics:

INVESTMENT CLASS	COLLATERAL TYPES	# OF LOANS IN CLASS	CURRENT CARRYING VALUE (1)	CURRENT PRINCIPAL BALANCE OUTSTANDING
First Mortgages.....	Mixed Use/Entertainment/Hotel	5	\$181,980	\$197,269
Junior First Mortgages(5).....	Office/Hotel	2	117,047	115,090
Corporate Loans/Other.....	Office/Residential/Retail/Mixed Use/Entertainment	17	384,354	396,959
Total.....		24	\$683,381	\$709,318

INVESTMENT CLASS	WEIGHTED AVERAGE STATED PAY RATE (2)	WEIGHTED AVERAGE FIRST DOLLAR CURRENT LOAN-TO-VALUE (3)	WEIGHTED AVERAGE LAST DOLLAR CURRENT LOAN-TO-VALUE (4)
First Mortgages.....	8.23%	0%	64%
Junior First Mortgages(5).....	4.96%	42%	60%
Corporate Loans/Other.....	9.66%	56%	70%
Total.....			

EXPLANATORY NOTES:

- (1) Where Current Carrying Value differs from Current Principal Balance Outstanding, difference represents contractual amortization, partial prepayment of loan principal, or amortization of acquired premiums, discounts or deferred loan fees.
- (2) All variable-rate loans assume a one-month LIBOR rate of 1.38% (the actual one-month LIBOR rate at December 31, 2002).
- (3) Weighted average ratio of first dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation (where no current appraisal available).
- (4) Weighted average ratio of last dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation (where no current appraisal available).
- (5) Junior first mortgages represent promissory notes secured by first mortgages which are junior to other promissory notes secured by the same first mortgage.

LOAN ACQUISITION

The Company acquires whole loans and loan participations which represent attractive risk-reward opportunities. Loans are generally acquired at a small discount to the principal balance outstanding. Loan acquisitions typically range in size from \$5 million to \$100 million and are collateralized by all major property types. The Company's loan acquisition transactions have maturities generally ranging from three to ten years.

For accounting purposes, these loans are initially reflected at the Company's acquisition cost which represents the outstanding balance net of the

acquisition discount or premium. The Company amortizes

such discounts or premiums as an adjustment to increase or decrease the yield, respectively, realized on these loans using the effective interest method. As such, differences between carrying value and principal balances outstanding do not represent embedded losses or gains as the Company generally plans to hold such loans to maturity.

As of December 31, 2002, the Company's loan acquisition investments have the following characteristics:

INVESTMENT CLASS	COLLATERAL TYPES	# OF LOANS IN CLASS	CURRENT CARRYING VALUE (1)	CURRENT PRINCIPAL BALANCE OUTSTANDING	WEIGHTED AVERAGE STATED PAY RATE (2)
First Mortgages.....	Office/Retail/Hotel	5	\$400,742	\$417,078	6.65 %
Corporate Loans/Other.....	Mixed Use/Hotel	7	82,029	114,839	7.52 %
Total.....		12	\$482,771	\$531,917	

INVESTMENT CLASS	WEIGHTED AVERAGE FIRST DOLLAR CURRENT LOAN-TO- VALUE (3)	WEIGHTED AVERAGE LAST DOLLAR CURRENT LOAN-TO- VALUE (4)
First Mortgages.....	0%	78%
Corporate Loans/Other.....	55%	71%
Total.....		

EXPLANATORY NOTES:

- (1) Where Current Carrying Value differs from Current Principal Balance Outstanding, difference represents contractual amortization, partial prepayment of loan principal, or amortization of acquired premiums, discounts or deferred loan fees.
- (2) All variable-rate loans assume a one-month LIBOR rate of 1.38% (the actual one-month LIBOR rate at December 31, 2002).
- (3) Weighted average ratio of first dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation (where no current appraisal available).
- (4) Weighted average ratio of last dollar current loan carrying value to underlying collateral value using third-party appraisal or the Company's internal valuation (where no current appraisal available).

LOAN SERVICING

Through its iStar Asset Services division, the Company provides rated loan servicing to third-party institutional loan portfolios, as well as to the Company's own assets. iStar Asset Services is currently rated "above average" by Standard & Poor's and "CPS2" as a primary servicer and "CMS2-" as a master servicer by Fitch, Inc. The Company's servicing business focuses on maximizing risk-adjusted investment returns through active, on-going asset management with particular focus on risk management, asset financing strategies and opportunistic responsiveness to changing customer needs.

CORPORATE TENANT LEASING:

The Company, directly and through its Leasing Subsidiary, provides capital to corporations and borrowers who control facilities leased to single creditworthy tenants. The Company's net leased assets are generally mission-critical headquarters or distribution facilities that are subject to long-term leases with rated corporate credit tenants, and which provide for all expenses at the property to be paid by the corporate tenant on a triple net lease basis. Corporate tenant lease ("CTL") transactions have terms generally ranging from ten to 20 years and typically range in size from \$20 million to \$150 million.

The Company pursues the origination of CTL transactions by structuring purchase/leasebacks and by acquiring facilities subject to existing long-term net leases. In a typical purchase/leaseback transaction, the Company purchases a corporation's facility and leases it back to that corporation subject to a long-term net lease. This structure allows the corporate customer to reinvest the proceeds from the sale of its facilities into its core business, while the Company capitalizes on its structured financing expertise.

The Company generally intends to hold its CTL assets for long-term investment. However, subject to certain tax restrictions, the Company may dispose of an asset if it deems the disposition to be in the Company's best interests and may either reinvest the disposition proceeds, use the proceeds to reduce debt, or distribute the proceeds to shareholders.

The Company's CTL investments primarily represent a diversified portfolio of mission-critical headquarters or distribution facilities subject to net lease agreements with creditworthy corporate tenants. The Company generally seeks high-quality, general-purpose real estate with residual values that represent a discount to current market values and replacement costs. 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 Company generally seeks corporate tenants with the following characteristics:

- Established companies with stable core businesses or market leaders in growing industries.
- Investment-grade credit strength or appropriate credit enhancements if corporate credit strength is not sufficient on a stand-alone basis.
- Commitment to the facility as a mission-critical asset to their on-going businesses.

As of December 31, 2002, the Company had 164 corporate customers operating in more than 21 major industry sectors, including aerospace, energy, finance, healthcare, manufacturing, technology and telecommunications. The majority of these customers represent well-recognized national and international companies, such as Federal Express, IBM, Nike, Nokia, the U.S. Government and Verizon.

As of December 31, 2002, the Company's CTL portfolio has the following tenant credit characteristics:

	ANNUALIZED IN-PLACE OPERATING LEASE INCOME (3)	% OF IN-PLACE OPERATING LEASE INCOME
	-----	-----
	(IN THOUSANDS)	
Investment grade(1).....	\$132,548	47.85%
Implied investment grade(2).....	14,545	5.25%
Non-investment grade.....	45,725	16.50%
Unrated.....	84,204	30.40%
	-----	-----
	\$277,022	100.00%
	=====	=====

EXPLANATORY NOTES:

(1) A customer's credit rating is considered "Investment Grade" if it has a published senior unsecured credit rating of Baa3/BBB- or above by one or more of the three national rating agencies. Where a customer's credit is rated investment grade by one agency and non-investment grade by another, the Company only classifies the credit "Investment Grade" if the agency rating the credit investment grade is Standard & Poor's or Moody's Investors Service.

(2) A customer's credit rating is considered "Implied Investment Grade" if it

has no published ratings, but has credit characteristics that the Company believes warrant an investment grade senior unsecured credit rating. Examples at December 31, 2002 include Cisco Systems Inc., Mitsubishi Electronics and Volkswagen of America.

- (3) Reflects annualized GAAP operating lease income for leases in place at December 31, 2002. The operating lease income includes the Company's pro rata share from facilities owned by the Company's joint ventures.

13

RISK MANAGEMENT STRATEGIES. The Company believes that diligent risk management of its CTL assets is an essential component of its long-term strategy. There are several ways to optimize the performance and maximize the value of CTL assets. The Company monitors its portfolio for changes that could affect the performance of the markets, credits and industries in which it has invested. As part of this monitoring, the Company's risk management group reviews market, customer and industry data and frequently inspects its facilities. In addition, the Company attempts to develop strong relationships with its large corporate customers, which provide a source of information concerning the customers' facilities needs. These relationships allow the Company to be proactive in obtaining early lease renewals and in conducting early marketing of assets where the customer has decided not to renew.

As of December 31, 2002, the Company owned 162 office and industrial facilities principally subject to net leases to 163 customers, comprising 25.4 million square feet in 28 states. The Company also has a portfolio of 17 hotels under a long-term master lease with a single customer. Information regarding the Company's CTL assets as of December 31, 2002 is set forth below:

SIC CODE		# OF LEASES	% OF IN-PLACE OPERATING LEASE INCOME (1)	% OF TOTAL REVENUE (2)
73	Business Services	21	13.78%	6.80%
48	Communications	35	12.32%	6.08%
35	Industrial/Commercial Machinery, incl. Computers	21	10.63%	5.25%
37	Transportation Equipment	6	6.43%	3.17%
30	Rubber and Misc. Plastics Products	2	6.31%	3.12%
36	Electronic & Other Elec. Equipment	15	6.09%	3.01%
70	Hotels, Rooming, Housing & Lodging	1	5.41%	2.67%
50	Wholesale Trade--Durable Goods	10	3.23%	1.60%
49	Electric, Gas and Sanitary Services	9	3.15%	1.55%
61	Non-depository Institutions	3	2.66%	1.31%
64	Insurance Agents, Brokers & Service	5	2.63%	1.30%
63	Insurance Carriers	7	2.54%	1.25%
42	Motor Freight Transp. & Warehousing	2	2.18%	1.07%
58	Eating and Drinking Places	13	2.14%	1.06%
91	Executive, Legislative and General Gov't.	3	1.97%	0.97%
87	Engineering, Accounting & Research Services	10	1.82%	0.90%
60	Depository Institutions	3	1.59%	0.79%
38	Measuring & Analyzing Instruments	5	1.50%	0.74%
51	Wholesale Trade--Non-Durable Goods	4	1.31%	0.65%
45	Airports, Flying Fields & Terminal Services	1	1.25%	0.62%
23	Apparel and Other Finished Products	2	1.13%	0.56%
	Various	39	9.93%	4.91%
		---	-----	
	Total	217	100.00%	
		===	=====	

EXPLANATORY NOTES:

- (1) Reflects annualized GAAP operating lease income for leases in place at December 31, 2002. The operating lease income includes the Company's pro rata share from facilities owned by the Company's joint ventures.
- (2) Reflects annualized GAAP operating lease income for leases in place at December 31, 2002 as a percentage of annualized total revenue for the quarter ended December 31, 2002.

14

As of December 31, 2002, lease expirations on the Company's CTL assets, including facilities owned by the Company's joint ventures, are as follows:

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES EXPIRING	ANNUALIZED IN-PLACE OPERATING LEASE INCOME (1)	% OF IN-PLACE OPERATING LEASE INCOME	% OF TOTAL REVENUE (2)
(IN THOUSANDS)				
2003.....	15	\$ 11,873	4.29%	2.12%
2004.....	30	20,719	7.48%	3.69%
2005.....	21	16,909	6.10%	3.01%
2006.....	30	30,335	10.94%	5.40%
2007.....	24	21,124	7.63%	3.76%
2008.....	14	11,731	4.23%	2.09%
2009.....	20	17,748	6.41%	3.16%
2010.....	5	7,718	2.79%	1.38%
2011.....	5	5,175	1.87%	0.92%
2012.....	15	20,427	7.37%	3.64%
2013 and thereafter.....	38	113,263	40.89%	20.18%
Total.....		\$ 277,022	100.00%	
Weighted average remaining lease term.....		9.4 years		

EXPLANATORY NOTES:

- (1) Reflects annualized GAAP operating lease income for leases in place at December 31, 2002. The operating lease income includes the Company's pro rata share from facilities owned by the Company's joint ventures.
- (2) Reflects annualized GAAP operating lease income for leases in place at December 31, 2002 as a percentage of annualized total revenue for the quarter ended December 31, 2002.

POLICIES WITH RESPECT TO OTHER ACTIVITIES

At all times, the Company intends to make investments in a manner consistent with the requirements of the Code for the Company to qualify as a REIT.

INVESTMENT RESTRICTIONS OR LIMITATIONS

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

The Company believes that it is not, and intends to conduct its operations so as not to become, regulated as an investment company under the Investment Company Act. The Investment Company Act generally exempts entities that are "primarily engaged in purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" (collectively, "Qualifying Interests"). The Company intends to rely on current interpretations of the Securities and Exchange Commission in an effort to qualify for this exemption. Based on these interpretations, the Company, among other things, must maintain at least 55.00% of its assets in Qualifying Interests and at least 25.00% of its assets in real estate-related assets (subject to reduction to the extent the Company invests more than 55.00% of its assets in Qualifying Interests). Generally, the Company's senior mortgages, corporate tenant lease assets and certain of its subordinated mortgages constitute Qualifying Interests.

Subject to the limitations on ownership of certain types of assets and the gross income tests imposed by the Code, the Company also may invest in the securities of other REITs, other entities engaged in real estate activities or other issuers, including for the purpose of exercising control over such entities.

COMPETITION

The Company is engaged in a competitive business. In originating and acquiring assets, the Company competes with public and private companies, including other finance companies, mortgage banks, pension funds, savings and loan associations, insurance companies, institutional investors, investment banking firms and other lenders and industry participants, as well as individual investors. Existing industry participants and potential new entrants compete with the Company for the available supply of investments suitable for origination or acquisition, as well as for debt and equity capital. Certain of the Company's competitors are larger than the Company, have longer operating histories, may have access to greater capital and other resources, may have management personnel with more experience than the officers of the Company, and may have other advantages over the Company in conducting certain businesses and providing certain services.

REGULATION

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

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

The Company has elected and expects to continue to make an election to be taxed as a REIT under Section 856 through 860 of the Code. As a REIT, the Company must currently distribute, at a minimum, an amount equal to 90.00% of its taxable income and must distribute 100.00% of its taxable income to avoid paying corporate federal income taxes. REITs are also subject to a number of organizational and operational requirements in order to elect and maintain REIT status. These requirements include specific share ownership tests and assets and gross income composition tests. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to state and local income taxes and to federal income tax and excise tax on its undistributed income.

FACTORS THAT MAY AFFECT THE COMPANY'S BUSINESS STRATEGY

The implementation of the Company's business strategy and investment policies are subject to certain risks, including the effect of economic and other conditions on underlying property performance, the risks of borrower and corporate tenant defaults, risks resulting from delays in enforcing remedies or in gaining control over real estate collateral following a default, risks that the properties collateralizing debt instruments held by the Company or CTL assets owned by the Company will not generate revenues sufficient to meet operating expenses and to pay scheduled debt service, the risk that prepayment restrictions may be insufficient to deter prepayments, the existence of junior mortgages that may affect the Company's rights, liability associated with uninsurable losses and unknown environmental liabilities.

ENVIRONMENTAL MATTERS

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a

property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. Those laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of such hazardous or toxic substances. The costs of investigation, remediation or removal of those substances may be substantial. The owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to asbestos-containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal injuries associated with asbestos-containing materials. Absent succeeding to ownership or control of real property, a secured lender is not likely to be subject to any of these forms of environmental liability. The Company is not currently aware of any environmental issues which could materially affect the Company.

EMPLOYEES

As of March 14, 2003, the Company had 143 employees and believes its relationships with its employees to be good. The Company's employees are not represented by a collective bargaining agreement.

WEBSITE ACCESS TO REPORTS

The Company maintains a website at www.istarfinancial.com. Effective as of January 1, 2003, through the Company's website, the Company makes available free of charge its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those Reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

ITEM 2. PROPERTIES

The Company's principal executive and administrative offices are located at 1114 Avenue of the Americas, New York, NY 10036. Its telephone number, general facsimile number and web address are (212) 930-9400, (212) 930-9494 and www.istarfinancial.com, respectively. The lease for the Company's primary corporate office space expires in February 2010. The Company believes that this office space is suitable for its operations for the foreseeable future. The Company also maintains super-regional offices in Atlanta, Georgia; Hartford, Connecticut; and San Francisco, California, as well as regional offices in Boston, Massachusetts; Dallas, Texas; and Denver, Colorado.

See Item 1--"Corporate Tenant Leasing" for a discussion of corporate tenant lease facilities held by the Company and its Leasing Subsidiary for investment purposes and Item 8--"Schedule III--Corporate Tenant Lease Assets and Accumulated Depreciation" for a detailed listing of such facilities.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material litigation or legal proceedings, or to the best of its knowledge, any threatened litigation or legal proceedings which, in the opinion of management, individually or in the aggregate, would have a material adverse effect on its results of operations or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 2002.

17

PART II

ITEM 5. MARKET FOR REGISTRANT'S EQUITY AND RELATED SHARE MATTERS

The Company's Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol "SFI."

The high and low sales prices per share of Common Stock are set forth below for the periods indicated.

QUARTER ENDED -----	HIGH -----	LOW -----
2001		
March 31, 2001.....	\$ 25.25	\$ 19.19
June 30, 2001.....	\$ 28.20	\$ 22.85
September 30, 2001.....	\$ 28.46	\$ 22.49
December 31, 2001.....	\$ 26.05	\$ 23.01
2002		
March 31, 2002.....	\$ 28.90	\$ 24.59
June 30, 2002.....	\$ 31.45	\$ 28.50
September 30, 2002.....	\$ 29.55	\$ 25.30
December 31, 2002.....	\$ 28.40	\$ 25.90

On March 14, 2003, the closing sale price of the Common Stock as reported by the NYSE was \$28.50. The Company had approximately 2,619 holders of record of Common Stock as of March 14, 2003.

At December 31, 2002, the Company had four series of preferred stock outstanding: Series A Preferred Stock (which currently pays dividends at the rate of 9.50% per annum), 9.375% Series B Preferred Stock, 9.20% Series C Preferred Stock and 8.00% Series D Preferred Stock. Each of the Series B, C and D preferred stock is publicly traded.

DIVIDENDS

The Company's management expects that any taxable income remaining after the distribution of preferred dividends and the regular quarterly or other dividends on its Common Stock will be distributed annually to the holders of the Common Stock on or prior to the date of the first regular quarterly dividend payment date of the following taxable year. The dividend policy with respect to the Common Stock is subject to revision by the Board of Directors. All distributions in excess of dividends on preferred stock or those required for the Company to maintain its REIT status will be made by the Company at the sole discretion of the Board of Directors and will depend on the taxable earnings of the Company, the financial condition of the Company, and such other factors as the Board of Directors deems relevant. The Board of Directors has not established any minimum distribution level. In order to maintain its qualifications as a REIT, the Company intends to make regular quarterly dividends to its shareholders that, on an annual basis, will represent at least 90.00% of its taxable income (which may not necessarily equal net income as calculated in accordance with generally accepted accounting principles), determined without regard to the deduction for dividends paid and excluding any net capital gains.

Holders of Common Stock will be entitled to receive distributions if, as and when the Board of Directors authorizes and declares distributions. However, rights to distributions may be subordinated to the rights of holders of preferred stock, when preferred stock is issued and outstanding. In any liquidation, dissolution or winding up of the Company, each outstanding share of Common Stock will entitle its holder to a proportionate share of the assets that remain after the Company pays its liabilities and any preferential distributions owed to preferred shareholders.

The following table sets forth the dividends paid or declared by the Company on its Common Stock:

QUARTER ENDED -----	SHAREHOLDER RECORD DATE -----	DIVIDEND/ SHARE -----
2001(1)		
March 31, 2001.....	April 16, 2001	\$ 0.6125
June 30, 2001.....	July 16, 2001	\$ 0.6125
September 30, 2001.....	October 15, 2001	\$ 0.6125
December 31, 2001.....	December 17, 2001	\$ 0.6125

2002(2)		
March 31, 2002.....	April 15, 2002	\$ 0.6300
June 30, 2002.....	July 15, 2002	\$ 0.6300
September 30, 2002.....	October 15, 2002	\$ 0.6300
December 31, 2002.....	December 16, 2002	\$ 0.6300

EXPLANATORY NOTES:

- (1) For tax reporting purposes, the 2001 dividends were classified as 90.55% (\$2.2206) ordinary income and 9.45% (\$0.2318) return of capital for those shareholders who held shares of the Company for the entire year.
- (2) For tax reporting purposes, the 2002 dividends were classified as 87.61% (\$2.2078) ordinary income, 1.80% (\$0.0454) 20.00% capital gain and 10.59% (\$0.2668) return of capital for those shareholders who held shares of the Company for the entire year.

The Company declared dividends aggregating \$20.9 million, \$4.7 million, \$3.0 million and \$8.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the year ended December 31, 2002. There are no dividend arrearages on any of the preferred shares currently outstanding.

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

The Company intends to continue to declare quarterly distributions on its Common Stock. No assurance, however, can be given as to the amounts or timing of future distributions, as such distributions are subject to the Company's earnings, financial condition, capital requirements and such other factors as the Company's Board of Directors deems relevant.

DISCLOSURE OF EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	(A)	(B)	(C)
	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (A))
Equity compensation plans approved by security holders--stock options(1).....	4,339,751	\$18.77	1,113,162
Equity compensation plans approved by security holders--restricted stock awards(2).....	1,330,255	N/A	N/A
Equity compensation plans approved by security holders--high performance units(3).....	--	N/A	N/A
Equity compensation plans not approved by security holders....	--	--	--
Total.....	5,670,006	\$18.77	1,113,162

EXPLANATORY NOTES:

- (1) Stock Options--As more fully discussed in Note 10 to the Company's Consolidated Financial Statements, there were 4.3 million stock options outstanding as of December 31, 2002. These 4.3 million options, together with their weighted-average exercise price, have been included in column (a) and (b), above. The 1.1 million figure in column (c) represents the

aggregate amount of stock options or restricted stock awards that could be granted under compensation plans approved by the Company's security holders.

- (2) Restricted Stock--As of December 31, 2002, the Company has issued 787,949 shares of restricted stock. The restrictions on 330,255 of such shares primarily relate to the passage of time for vesting periods which have not lapsed, and are thus not included in the Company's outstanding share balance.

Phantom Shares--As more fully discussed in Note 10 to the Company's Consolidated Financial Statements, the Company has granted 2.0 million unvested phantom shares, each of which represents one share of the Company's Common Stock. As of December 31, 2002, 1.0 million of these shares have contingently vested. These shares, together with their weighted-average exercise price, have been included in column (a) and (b), above. Shares that have contingently vested generally are not expected to become fully vested until March 31, 2004.

- (3) High Performance Unit Program--In May 2002, the Company's shareholders approved the iStar Financial High Performance Unit Program. The Program is more fully described in the Company's proxy statement dated April 8, 2002 and in Note 10 to the Company's Consolidated Financial Statements. The program entitles the employee participants to receive cash distributions in the nature of common stock dividends if the total rate of return on the Company's Common Stock exceeds certain performance levels. The first tranche of the program was completed on December 31, 2002. As a result of the Company's superior performance during the valuation period for the first tranche, the program participants are entitled to share in cash distributions equivalent to dividends payable on 819,254 shares of the Company's Common Stock, in the aggregate, as and when such dividends are paid by the Company. Such dividend payments begin with the first quarter 2003 dividend and will reduce net income allocable to common stockholders when paid. No shares of the Company's Common Stock will be issued in connection with this program and thus no effect has been reflected in the above table.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data on a consolidated historical basis for the Company. However, prior to March 1998, the Company's structured finance operations were conducted by two private investment partnerships which contributed substantially all their structured finance assets to the Company in exchange for cash and shares of the Company.

Further, on November 4, 1999, the Company acquired TriNet, which increased the size of the Company's operations, and also acquired its former external advisor. Operating results for the year ended December 31, 1999 reflect only the effects of these transactions subsequent to their consummation.

Accordingly, the historical balance sheet information as of December 31, 1998, as well as the results of operations for the Company for all periods prior to and including the year ended December 31, 1999, do not reflect the current operations of the Company as a well capitalized, internally-managed finance company operating in the commercial real estate industry. For these reasons, the Company believes that the information should be read in conjunction with the discussions set forth in Item 7--"Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain prior year amounts have been reclassified to conform to the 2002 presentation.

	FOR THE YEAR ENDED DECEMBER 31,				
	2002	2001	2000	1999	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)				
OPERATING DATA:					
Interest income.....	\$ 255,631	\$ 254,119	\$ 268,011	\$ 209,848	\$ 112,914
Operating lease income.....	242,100	185,943	177,581	41,665	12,378
Other income.....	27,993	31,057	17,927	12,900	2,708
Total revenue.....	525,724	471,119	463,519	264,413	128,000
Interest expense.....	185,375	169,974	173,741	91,159	44,697
Operating costs-corporate tenant lease assets.....	13,755	12,782	12,737	2,245	--
Depreciation and amortization.....	47,821	35,411	34,384	10,324	4,287

General and administrative.....	30,449	24,151	25,706	6,269	2,583
General and administrative-stock-based compensation.....	17,998	3,574	2,864	412	5,985
Provision for loan losses.....	8,250	7,000	6,500	4,750	2,750
Advisory fees.....	--	--	--	16,193	7,837
Costs incurred in acquiring former external advisor(1).....	--	--	--	94,476	--
Total costs and expenses.....	303,648	252,892	255,932	225,828	68,139
Income before equity in earnings from joint ventures and unconsolidated subsidiaries, minority interest and other items.....	222,076	218,227	207,587	38,585	59,861
Equity in earnings from joint ventures and unconsolidated subsidiaries.....	1,222	7,361	4,796	235	96
Minority interest in consolidated entities.....	(162)	(218)	(195)	(41)	(54)
Extraordinary loss on early extinguishment of debt...	(12,166)	(1,620)	(705)	--	--
Cumulative effect of change in accounting principle(2).....	--	(282)	--	--	--
Net income before discontinued operations.....	210,970	223,468	211,483	38,779	59,903
Income from discontinued operations.....	3,583	5,299	3,155	107	--
Gain from discontinued operations.....	717	1,145	2,948	--	--
Net income.....	\$ 215,270	\$ 229,912	\$ 217,586	\$ 38,886	\$ 59,903
Preferred dividend requirements.....	(36,908)	(36,908)	(36,908)	(23,843)	(944)
Net income allocable to common shareholders.....	\$ 178,362	\$ 193,004	\$ 180,678	\$ 15,043	\$ 58,959
Basic earnings per common share(3).....	\$ 1.98	\$ 2.24	\$ 2.11	\$ 0.25	\$ 1.40
Diluted earnings per common share.....	\$ 1.93	\$ 2.19	\$ 2.10	\$ 0.25	\$ 1.36
Dividends declared per common share(4).....	\$ 2.52	\$ 2.45	\$ 2.40	\$ 1.86	\$ 1.14
SUPPLEMENTAL DATA:					
Adjusted earnings allocable to common shareholders(5) (7).....	\$ 281,686	\$ 255,132	\$ 230,688	\$ 127,798	\$ 65,949
EBITDA(6) (7).....	\$ 471,444	\$ 430,973	\$ 420,508	\$ 234,779	\$ 116,778
Ratio of EBITDA to interest expense(8).....	2.54x	2.54x	2.42x	2.58x	2.61x
Ratio of EBITDA to combined fixed charges(9).....	2.12x	2.08x	2.00x	2.04x	1.70x
Ratio of earnings to fixed charges(10).....	2.25x	2.34x	2.25x	1.43x	2.33x
Ratio of earnings to fixed charges and preferred stock dividends(10).....	1.88x	1.93x	1.86x	1.13x	2.28x
Weighted average common shares outstanding-basic(11).....	89,886	86,349	85,441	57,749	41,607
Weighted average common shares outstanding-diluted(11).....	92,649	88,234	86,151	60,393	43,460
Cash flows from:					
Operating activities.....	\$ 348,793	\$ 293,260	\$ 219,868	\$ 119,625	\$ 54,915
Investing activities.....	(1,149,070)	(349,525)	(193,805)	(143,911)	(1,271,309)
Financing activities.....	800,541	49,183	(37,719)	48,584	1,226,208
BALANCE SHEET DATA:					
Loans and other lending investments, net.....	\$ 3,050,342	\$ 2,377,763	\$ 2,227,083	\$ 2,003,506	\$ 1,823,761
Corporate tenant lease assets, net.....	2,291,805	1,781,565	1,592,087	1,654,300	189,942
Total assets.....	5,611,697	4,380,640	4,034,775	3,813,552	2,059,616
Debt obligations.....	3,461,590	2,495,369	2,131,967	1,901,204	1,055,719
Minority interest in consolidated entities.....	2,581	2,650	6,224	2,565	--
Shareholders' equity.....	2,025,300	1,787,778	1,787,885	1,801,343	970,728
SUPPLEMENTAL DATA:					
Total debt to shareholders' equity.....	1.7x	1.4x	1.2x	1.1x	1.1x

EXPLANATORY NOTES:

- (1) This amount represents a non-recurring, non-cash charge of approximately \$94.5 million relating to the acquisition of the Company's formal external advisor in November 1999.
- (2) Represents one-time effect of adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" as of January 1, 2001.
- (3) Prior to November 1999, earnings per common share excludes 1.00% of net income allocable to the Company's former class B shares. The former class B shares were exchanged for Common Stock in connection with the acquisition of TriNet and other related transactions on November 4, 1999. As a result, the Company now has a single class of Common Stock outstanding.
- (4) The Company generally declares common and preferred dividends in the month subsequent to the end of the quarter.
- (5) Adjusted earnings represents net income to common shareholders computed in accordance with GAAP, before depreciation, amortization, gain (loss) from discontinued operations, extraordinary items and cumulative effect of change in accounting principle. For the year ended December 31, 2002, adjusted earnings excludes the \$15.0 million non-cash charge related to the performance based vesting of restricted shares granted under the Company's long-term incentive plan. For the year ended December 31, 1999, adjusted

earnings excludes the non-recurring, non-cash cost incurred in acquiring the Company's former external advisor. (See reconciliation in Item 7-- "Management's Discussion and Analysis of Financial Condition and Results of Operations").

- (6) EBITDA is calculated as total revenue plus equity in earnings from joint ventures and unconsolidated subsidiaries minus the sum of general and administrative expenses, general and administrative- stock-based compensation (excluding the non-cash charge related to the performance based vesting of restricted shares granted under the Company's long-term incentive plan for the year ended December 31, 2002), provision for loan losses, operating costs on corporate tenant lease assets and advisory fees.

	FOR THE YEAR ENDED DECEMBER 31,				
	2002	2001	2000	1999	1998
	(IN THOUSANDS)				
Total Revenue.....	\$525,724	\$471,119	\$463,519	\$264,413	\$128,000
Plus: Equity in earnings from joint ventures and unconsolidated subsidiaries.....	1,222	7,361	4,796	235	96
Less: General and administrative.....	(30,449)	(24,151)	(25,706)	(6,269)	(2,583)
Less: General and administrative-stock-based compensation.....	(3,048)	(3,574)	(2,864)	(412)	(5,985)
Less: Provision for loan losses.....	(8,250)	(7,000)	(6,500)	(4,750)	(2,750)
Less: Operating costs-corporate tenant lease assets...	(13,755)	(12,782)	(12,737)	(2,245)	--
Less: Advisory fees.....	--	--	--	(16,193)	--
EBITDA.....	\$471,444	\$430,973	\$420,508	\$234,779	\$116,778

- (7) Each of adjusted earnings and EBITDA should be examined in conjunction with net income as shown in the Consolidated Statements of Operations. Neither adjusted earnings nor EBITDA should be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of the Company's performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is either measure indicative of funds available to fund the Company's cash needs or available for distribution to shareholders. The Company's management believes that adjusted earnings and EBITDA more closely approximate operating cash flow and are useful measures for investors to consider, in conjunction with net income and other GAAP measures, in evaluating the commercial finance company that focuses on real estate lending and corporate tenant leasing; therefore, the Company's net income (determined in accordance with GAAP) reflects significant non-cash depreciation expense on corporate tenant lease assets. It should be noted that the Company's manner of calculating adjusted earnings and EBITDA may differ from the calculations of similarly-titled measures by other companies.
- (8) The 1999 and 1998 EBITDA to interest expense ratios on a pro forma basis would have been 2.83x and 2.84x, respectively.
- (9) Combined fixed charges are comprised of interest expense, capitalized interest, amortization of loan costs and preferred stock dividend requirements. The 1999 and 1998 EBITDA to combined fixed charges ratios on a pro forma basis would have been 2.23x and 2.44x, respectively.
- (10) For the purposes of calculating the ratio of earnings to fixed charges, "earnings" consist of income from continuing operations before income taxes and cumulative effect of changes in accounting principles plus "fixed charges" and certain other adjustments. "Fixed charges" consist of interest incurred on all indebtedness related to continuing operations (including amortization of original issue discount) and the implied interest component of the Company's rent obligations in the years presented. For 1999, these ratios include the effect of a non-recurring, non-cash charge in the amount of approximately \$94.5 million relating to the November 1999 acquisition of the former external advisor to the Company. Excluding the effect of this non-recurring, non-cash charge, the ratio of earnings to fixed charges for that period would have been 2.5x and the Company's ratio of earnings to fixed charges and preferred stock dividends would have been 2.0x.

(11) As adjusted for one-for-six reverse stock split effected by the Company on June 19, 1998.

22

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company began its 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 its markets. In March 1998, the private investment funds contributed their approximately \$1.1 billion of assets to the Company's predecessor in exchange for a controlling interest in that public company. In November 1999, the Company acquired its leasing subsidiary, TriNet Corporate Realty Trust, Inc. ("TriNet" or the "Leasing Subsidiary"), which was then the largest publicly-traded company specializing in corporate sale/leaseback for office and industrial facilities (the "TriNet Acquisition"). Concurrent with the TriNet Acquisition, the Company also acquired its former external advisor in exchange for shares of its Common Stock and converted its organizational form to a Maryland corporation. The Company's Common Stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

INTEREST INCOME--Interest income increased by \$1.5 million to \$255.6 million for the 12 months ended December 31, 2002 from \$254.1 million for the same period in 2001. This increase was primarily due to \$72.5 million of interest income on new originations or additional fundings, net of a \$50.5 million decrease from the repayment of loans and other lending investments. This increase was partially offset by a decrease in interest income on the Company's variable-rate lending investments as the result of lower average one-month LIBOR rates of 1.77% in 2002, compared to 3.88% in 2001.

OPERATING LEASE INCOME--Operating lease income increased by \$56.2 million to \$242.1 million for the 12 months ended December 31, 2002 from \$185.9 million for the same period in 2001. Of this increase, \$59.5 million was attributable to new corporate tenant lease investments. This increase was partially offset by corporate tenant lease dispositions and lower operating lease income on certain corporate tenant lease assets.

OTHER INCOME--Other income generally consists of prepayment penalties and realized gains from the early repayment of loans and other lending investments, financial advisory and asset management fees, lease termination fees, mortgage servicing fees, loan participation payments and dividends on certain investments. During the 12 months ended December 31, 2002, other income included prepayment penalties and realized gains on loan repayments of \$12.6 million, asset management, mortgage servicing and other fees of approximately \$9.0 million, lease termination fees of \$2.9 million, loan participation payments of \$3.3 million, and other miscellaneous income such as dividend payments and insurance claims of \$994,000.

During the 12 months ended December 30, 2001, other income included loan participation payments of \$13.1 million, prepayment penalties and gains on loan repayments of \$13.0 million and financial advisory, lease termination, asset management and mortgage servicing fees of \$5.3 million.

INTEREST EXPENSE--For the 12 months ended December 31, 2002, interest expense increased by \$15.4 million to \$185.4 million from \$170.0 million for the same period in 2001. This increase was primarily due to the higher average borrowings on the Company's debt obligations, term loans and secured notes, and by approximately \$2.7 million due to additional amortization of deferred financing costs on the Company's debt obligations in 2002 compared to the same period in 2001. This increase was partially offset by lower average one-month LIBOR rates on the Company's variable-rate debt of 1.77% in 2002, compared to 3.88% in 2001.

OPERATING COSTS--CORPORATE TENANT LEASE ASSETS--For the 12 months ended December 31, 2002, operating costs increased by \$1.0 million from \$12.8 million to \$13.8 million for the same period in 2001.

This increase is primarily related to new corporate tenant lease investments and higher operating costs on certain corporate tenant lease assets, partially offset by corporate tenant lease dispositions.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization increased by \$12.4 million to \$47.8 million for the 12 months ended December 31, 2002 from \$35.4 million for the same period in 2001. This increase is primarily due to new corporate tenant lease investments.

GENERAL AND ADMINISTRATIVE--For the 12 months ended December 31, 2002, general and administrative expenses increased by \$6.2 million to \$30.4 million, compared to \$24.2 million for the same period in 2001. This increase is primarily the result of an increase in personnel and related costs.

GENERAL AND ADMINISTRATIVE--STOCK-BASED COMPENSATION--General and administrative-stock-based compensation increased by \$14.4 million primarily due to a non-cash charge related to the performance-based vesting of 500,000 restricted shares granted under the Company's long-term incentive plan and tied to overall shareholder performance (see Note 10 to the Company's Consolidated Financial Statements).

PROVISION FOR LOAN LOSSES--The Company's charge for provision for loan losses increased to \$8.3 million for the 12 months ended December 31, 2002 as compared to \$7.0 million for the same period in 2001. As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company has experienced minimal actual losses on its loan investments to date. The Company considers it prudent to reflect provisions for loan losses on a portfolio basis based upon the Company's assessment of general market conditions, the Company's internal risk management policies and credit risk rating system, industry loss experience, the Company's assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Accordingly, since its first full quarter operating its current business as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for loan losses in its operating results.

EQUITY IN EARNINGS FROM JOINT VENTURES AND UNCONSOLIDATED SUBSIDIARIES--During the 12 months ended December 31, 2002, equity in earnings from joint ventures and unconsolidated subsidiaries decreased by approximately \$6.2 million to \$1.2 million from \$7.4 million for the same period in 2001. This decrease is primarily due to the consolidation of one of the Company's corporate tenant lease joint venture investments (see Note 6 to the Company Consolidated Financial Statements).

INCOME FROM DISCONTINUED OPERATIONS--For the 12-month periods ended December 31, 2002 and 2001, operating income earned by the Company on corporate tenant lease assets sold (prior to their sale) and assets held for sale of approximately \$3.6 million and \$5.3 million, respectively, is classified as "Income from discontinued operations," even though such income was earned by the Company prior to the assets' disposition or classification as "Assets held for sale."

GAIN FROM DISCONTINUED OPERATIONS--During 2002, the Company disposed of one corporate tenant lease asset for total proceeds of \$3.7 million and recognized a gain of approximately \$595,000. In addition, one of the Company's customers exercised an option to terminate its lease on 50.00% of the land leased from the Company. In connection with this termination, the Company realized \$17.5 million in cash lease termination payments, offset by a \$17.4 million impairment change in connection with the termination, resulting in a net gain of approximately \$123,000.

During 2001, the Company disposed of four corporate tenant lease assets for total proceeds of \$26.3 million and recognized net gains of \$1.1 million.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT--During the 12 months ended December 31, 2002, the Company fully repaid the then remaining \$446.2 million of bonds outstanding under its STARS Series 2000-1 financing. This prepayment resulted in an extraordinary loss of \$12.2 million, which represented approximately \$8.2 million in unamortized deferred financing costs and approximately \$4.0 million in prepayment penalties.

During the 12 months ended December 31, 2001, the Company repaid a secured

term loan, which had an original maturity date of December 2004. In addition, the Company prepaid an unsecured revolving credit facility, which had an original maturity date of May 2002. In connection with these prepayments, the Company expensed the remaining unamortized deferred financing costs and incurred certain prepayment penalties, which resulted in an extraordinary loss of approximately \$1.6 million.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

INTEREST INCOME--Interest income decreased by \$13.9 million to \$254.1 million for the 12 months ended December 31, 2001 from \$268.0 million for the same period in 2000. Approximately \$12.7 million of this decrease is the result of lower average LIBOR rates on the Company's variable-rate lending investments of 3.88% in 2001, compared to 6.41% in 2000. This decrease was partially offset by \$55.1 million of interest income on new originations or additional fundings, net of \$51.6 million from the repayment of loans and other lending investments, in addition to a decrease of \$1.5 million from income earned on cash and cash equivalents.

OPERATING LEASE INCOME--Operating lease income increased by \$8.3 million to \$185.9 million for the 12 months ended December 31, 2001 from \$177.6 million for the same period in 2000. Of this increase, \$11.8 million was attributable to new corporate tenant lease investments. This increase was partially offset by corporate tenant lease dispositions and lower operating lease income on certain corporate tenant lease assets.

OTHER INCOME--Other income consists primarily of prepayment penalties and gains from the early repayment of loans and other lending investments, financial advisory and asset management fees, lease termination fees, mortgage servicing fees, loan participation payments and dividends on certain investments. During the year ended December 31, 2001, other income included loan participation payments of \$13.1 million, prepayment penalties and gains on loan repayments of \$13.0 million and financial advisory, lease termination, asset management and mortgage servicing fees of \$5.3 million.

During the year ended December 31, 2000, other income included prepayment penalties and gains on loan repayments of \$10.5 million, \$2.1 million in connection with a loan defeasance, loan participation payments of \$1.9 million, financial advisory, asset management and mortgage servicing fees of \$2.6 million and lease termination fees of \$770,000.

INTEREST EXPENSE--For the 12 months ended December 31, 2001, interest expense decreased by \$3.7 million to \$170.0 million from \$173.7 million for the same period in 2000. This decrease was primarily due to the lower average LIBOR rates on the Company's variable-rate debt of 3.88% in 2001, compared to 6.41% in 2000. This decrease was partially offset by the higher average borrowings on the Company's credit facilities, term loans and unsecured notes and \$7.6 million additional amortization of deferred financing costs on the Company's debt obligations in 2001 compared to 2000.

OPERATING COSTS--CORPORATE TENANT LEASE ASSETS--For the 12 months ended December 31, 2001, operating costs were substantially unchanged as compared to the same period in 2000. Such operating costs represent unreimbursed operating expenses associated with corporate tenant lease assets.

DEPRECIATION AND AMORTIZATION--Depreciation and amortization increased by \$1.0 million to \$35.4 million for the 12 months ended December 31, 2001 from \$34.4 million for the same period in 2000. This increase is due to new corporate tenant lease investments and additional facility improvements, partially offset by corporate tenant lease dispositions in 2000.

GENERAL AND ADMINISTRATIVE--For the 12 months ended December 31, 2001, general and administrative expenses decreased by \$1.5 million to \$24.2 million, compared to \$25.7 million for the same period in 2000. This decrease is primarily the result of a reduction in office and related costs and professional fees, partially offset by an increase in personnel and related costs.

25

GENERAL AND ADMINISTRATIVE--STOCK-BASED COMPENSATION EXPENSE--General and administrative--stock-based compensation expense increased by approximately \$710,000 as a result of charges relating to grants of stock options and restricted shares.

PROVISION FOR LOAN LOSSES--The Company's charge for provision for loan

losses increased to \$7.0 million for the 12 months ended December 31, 2001 from \$6.5 million for the same period in 2000 as a result of the continued expansion of the Company's lending operations as well as additional seasoning of its existing lending portfolio. As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company has experienced minimal actual losses on its loan investments to date. The Company considers it prudent to reflect provisions for loan losses on a portfolio basis based upon the Company's assessment of general market conditions, the Company's internal risk management policies and credit risk rating system, industry loss experience, the Company's assessment of the likelihood of delinquencies or defaults, and the values of the collateral underlying its investments. Accordingly, since its first full quarter operating its current business as a public company (the quarter ended June 30, 1998), management has reflected quarterly provisions for loan losses in its operating results.

EQUITY IN EARNINGS FROM JOINT VENTURES AND UNCONSOLIDATED SUBSIDIARIES--During the 12 months ended December 31, 2001, equity in earnings from joint ventures and unconsolidated subsidiaries increased by approximately \$2.6 million to \$7.4 million from \$4.8 million for the same period in 2001. This increase is primarily due to new leases commencing in 2001, in addition to a lease termination payment received at one of the joint ventures (see Note 6 to the Company Consolidated Financial Statements).

INCOME FROM DISCONTINUED OPERATIONS-- For the 12-month periods ended December 31, 2001 and 2000, operating income earned by the Company on corporate tenant lease assets sold (prior to their sale) and assets held for sale of approximately \$5.3 million and \$3.2 million, respectively, is classified as "Income from discontinued operations," even though such income was earned by the Company prior to the assets' disposition or classification as "Assets held for sale."

GAIN FROM DISCONTINUED OPERATIONS--During 2001, the Company disposed of four corporate tenant lease assets for total proceeds of \$26.3 million and recognized net gains of \$1.1 million.

During 2000, the Company disposed of 14 corporate tenant lease assets, including six assets held in joint venture partnerships, for total proceeds of \$256.7 million, and recognized net gains of \$2.9 million.

EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT--During the 12 months ended December 31, 2001 and 2000, the Company or its joint ventures prepaid debt obligations of \$133.0 million and \$24.5 million, respectively. These transactions resulted in an extraordinary loss on early extinguishment of debt from prepayment penalties and the expense associated with remaining unamortized deferred financing costs in the amount of \$1.6 million and \$705,000 for the 12 months ended December 31, 2001 and 2000, respectively.

ADJUSTED EARNINGS

Adjusted earnings represents net income to common shareholders computed in accordance with GAAP, before depreciation, amortization, gain (loss) from discontinued operations, extraordinary items and cumulative effect of change in accounting principle. Adjustments for unconsolidated partnerships and joint ventures reflect the Company's share of adjusted earnings calculated on the same basis.

The Company believes that to facilitate a clear understanding of the historical operating results of the Company, adjusted earnings should be examined in conjunction with net income as shown in the Company's Consolidated Statements of Operations. Adjusted earnings should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of the Company's performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is it indicative of funds available to fund the Company's cash needs or available for distribution to the Company's shareholders. The Company's management believes

that adjusted earnings more closely approximates operating cash flow and is a useful measure for investors to consider, in conjunction with net income and other GAAP measures, in evaluating the Company's financial performance. This is primarily because the Company is a commercial finance company that focuses on real estate lending and corporate tenant leasing; therefore, the Company's net income (determined in accordance with GAAP) reflects significant non-cash

depreciation expense on corporate tenant lease assets. It should be noted that the Company's manner of calculating adjusted earnings may differ from the calculation of similarly-titled measures by other companies.

	FOR THE YEAR ENDED DECEMBER 31,				
	2002	2001	2000	1999	1998
	(UNAUDITED)				
	(IN THOUSANDS)				
Adjusted earnings:					
Net income allocable to common					
shareholders.....	\$178,362	\$193,004	\$180,678	\$ 15,043	\$ 58,959
Add: Joint venture income.....	991	965	937	1,603	--
Add: Depreciation.....	48,041	35,642	34,514	11,016	4,302
Add: Joint venture depreciation and					
amortization.....	4,433	4,044	3,662	365	--
Add: Amortization of deferred financing					
costs.....	23,460	20,720	13,140	6,121	3,354
Less: Gains from discontinued					
operations.....	(717)	(1,145)	(2,948)	--	--
Add: Extraordinary loss--early					
extinguishment of debt.....	12,166	1,620	705	--	--
Add: Cumulative effect of change in					
accounting principle(1).....	--	282	--	--	--
Less: Net income allocable to class B					
shares(2).....	--	--	--	(826)	(666)
Add: Cost incurred in acquiring former					
external advisor.....	--	--	--	94,476	--
Adjusted diluted earnings allocable to					
common shareholders:					
Before non-cash incentive compensation					
charge(3).....	\$281,686	\$255,132	\$230,688	\$127,798	\$ 65,949
After non-cash incentive compensation					
charge.....	\$266,736	\$255,132	\$230,688	\$127,798	\$ 65,949
Weighted average diluted common shares					
outstanding.....	93,020	88,606	86,523	61,750	43,460

EXPLANATORY NOTES:

- (1) Represents one-time effect of adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" as of January 1, 2001.
- (2) Prior to November 1999, adjusted earnings per common share excludes 1.00% of net income allocable to the Company's former class B shares. The former class B shares were exchanged for Common Stock in connection with the acquisition of TriNet and other related transactions on November 4, 1999. As a result, the Company now has a single class of Common Stock outstanding.
- (3) Excludes a \$15.0 million non-cash charge related to performance-based vesting of restricted shares granted under the Company's long-term incentive plan for the 12 months ended December 31, 2002.

RISK MANAGEMENT

FIRST DOLLAR AND LAST DOLLAR EXPOSURE--One component of the Company's risk management assessment is an analysis of the Company's first and last dollar loan-to-value percentage with respect to the properties or companies the Company finances. First dollar loan-to-value represents the average beginning point for the Company's lending exposure in the aggregate capitalization of the underlying properties or companies it finances. Last dollar loan-to-value represents the average ending point for the Company's lending exposure in the aggregate capitalization of the underlying properties or companies it finances.

NON-ACCRUAL LOANS--The Company transfers loans to non-accrual status at such

time as: (1) management believes that the potential risk exists that scheduled debt service payments will not be met within the coming 12 months; (2) the loans become 90 days delinquent; (3) management determines the borrower is incapable of, or ceased efforts toward, curing the cause of an impairment; or (4) the net realizable value of the loan's underlying collateral approximates the Company's carrying value of such loan. Interest income is recognized only upon actual cash receipt for loans on non-accrual status. As of December 31, 2002, the Company had three assets on non-accrual status with an aggregate gross book value of \$11.1 million, or 0.20% of the gross book value of the Company's investments. The Company is currently comfortable that it has adequate collateral to support the book values of the assets.

One of the three non-accrual loans is a \$3.5 million partnership loan on two shopping malls located in the suburbs of Washington, D.C. This investment was part of a larger loan originally made by affiliates of Lazard Freres prior to the Company's acquisition of Lazard's structured finance portfolio in 1998. The loan matures in September 2003 and bears interest at 12.00%. The Company received cash payments equal to the interest due on the loan during the 12 months ended December 31, 2002, and the borrower remains current on its obligations to the Company. However, the Company anticipates that this loan will remain on non-accrual status for the foreseeable future.

The second non-accrual loan is a partnership loan with a balance of \$5.7 million as of December 31, 2002. The loan is presently secured by partnership interests in two partnerships owning facilities in Colorado leased to the U.S. Government. The Company made the loan in anticipation of buying the facilities upon their completion. The loan matures on March 29, 2003 and bears interest at LIBOR + 3.50%, with a LIBOR floor of 3.00%. In February 2003 the borrower breached certain technical provisions of the loan documents, constituting a technical event of default. The borrower remains current on its regular interest obligations to the Company and the Company is currently discussing a possible extension of the loan with the borrower. However, as a result of the technical default and the uncertainty surrounding the extension and the timing of the completion of the facilities for the Company's purchase, the loan has been placed on non-accrual status.

The third non-accrual loan is a \$1.9 million investment in debt securities of a real estate company which trades on the Mexican Stock Exchange. This investment was made by TriNet prior to its acquisition by the Company in 1999. The securities bear interest at 12.00% per annum payable in arrears in December of each year. In January 2003, the Company received cash payments equal to the interest due on the investment through December 31, 2002, and the borrower remains current on its obligations to the Company. However, the Company anticipates that this investment will remain on non-accrual status for the foreseeable future.

WATCH LIST ASSETS--The Company conducts a quarterly comprehensive credit review, resulting in an individual risk rating being assigned to each asset. This review is designed to enable management to evaluate and proactively manage asset-specific credit issues and identify credit trends on a portfolio-wide basis as an "early warning system." As of December 31, 2002, the Company has four loans and two CTL investments that are on its credit watch list.

In addition to the \$5.7 million partnership loan mentioned above, the Company had three other loans on its credit watch list. The second watch list loan is a \$40.8 million first mortgage secured by a hotel

property in New York, New York. This mortgage matures on April 30, 2005 and bears interest at LIBOR + 4.50%. The borrower remains current on all of its debt service payments to the Company, and the Company is currently comfortable that it has adequate collateral to support the book value of the asset. However, due to poor operating performance exacerbated by the decline in the hotel market in the New York metropolitan area, this loan remains on the watch list.

The third watch list loan is a \$12.9 million junior participation in a first mortgage loan secured by a hotel property in New York, New York. This loan bears interest at a fixed rate of 7.91% and matures in June 2006. The borrower remains current on all of its debt service payments to the Company and has continued to invest additional equity to fund on-going capital improvements at the property. The Company is comfortable that it has adequate collateral to support the book value of the asset. However, due to poor operating performance exacerbated by the decline in the hotel market in the New York metropolitan area, this loan remains on the watch list.

The fourth watch list loan is a \$35.8 million junior interest in a \$104.5 million first mortgage loan secured by a retail shopping mall in Chicago, IL. The whole loan bears interest at 8.88% and matures January 1, 2004. The mall's cash flow has been negatively impacted by the departure of one of four anchor tenants. The borrower is currently negotiating with one of the anchor tenants to occupy the vacant space. In addition, the borrower has a significant equity investment in the property (including approximately \$15.0 million of additional equity invested in 2001), and remains current on all of its debt service payments to the Company. The Company is currently comfortable that it has adequate collateral to support the book value of the asset.

The Company also has two CTL investments on its credit watchlist. In January 2002, a customer occupying two office facilities owned by the Company filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. The customer utilizes these facilities as the U.S. headquarters for one of its major business lines. Since its bankruptcy filing, the customer has been consolidating its space needs into the larger of the two facilities, including approximately 150 of its employees from other area locations. The customer has also invested approximately \$3.0 million of its own capital in the facilities. In December 2002, the bankruptcy court approved a plan of reorganization. As part of the reorganization, the customer has attempted to affirm the lease on the larger facility and terminate the lease on the smaller facility. Since the two leases are cross-defaulted, the Company believes the the customer's affirmation of the larger facility lease is also an affirmation of the smaller facility. The customer remains current on the larger facility's lease payment to the Company, but has withheld its March payment on the smaller facility pending a potential negotiated settlement with the Company regarding termination of the lease on the smaller facility. Therefore, the smaller facility (with a net carrying value of \$3.6 million at December 31, 2002) remains on the Company's watch list.

The Company also placed on the watch list its investment in a corporate tenant lease asset held in joint venture due to the financial uncertainty surrounding one of the facility's primary tenants. As of December 31, 2002, the Company's equity investment in the venture was \$12.4 million and the Company's share of income from this equity investment for the year ended December 31, 2002 was \$1.4 million.

OTHER LOANS--As of December 31, 2002, the Company also has a \$15.3 million second mortgage on a Class A office building in Washington, D.C. which has paid debt service two months in arrears since December 2002. The loan matures in October 2005 and, but for a small working capital deficit resulting in the two-month arrearage, continues to otherwise pay as agreed. Inclusive of the senior debt on the property, the Company's last-dollar risk exposure on this asset on a per square foot basis is significantly less than neighboring buildings have sold for. As a result, the Company currently believes that it has adequate collateral to support the book value of the asset.

LIQUIDITY AND CAPITAL RESOURCES

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

The distribution requirements under the REIT provisions of the Code limit the Company's ability to retain earnings and thereby replenish or increase capital committed to its operations. However, the Company believes that its significant capital resources and access to financing will provide it with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements, including expected new lending and corporate tenant leasing transactions.

The Company believes that its existing sources of funds will be adequate for purposes of meeting its short- and long-term liquidity needs. The Company's ability to meet its long-term (i.e., beyond one year) liquidity requirements is subject to obtaining additional debt and equity financing. Any decision by the

Company's lenders and investors to enter into such transactions with the Company will depend upon a number of factors, such as compliance with the terms of its existing credit arrangements, the Company's 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.

The Company's longstanding policy is to limit its book debt-to-equity ratio to approximately 2.0x. As the Company's leverage approaches this level, the Company will consider equity and other alternatives to reduce leverage. The exact timing and nature of any equity issuance would be subject to market conditions.

The following table outlines the contractual obligations related to the Company's long-term debt agreements and operating lease obligations. There are no other long-term liabilities of the Company that would constitute a contractual obligation.

	PRINCIPAL PAYMENTS DUE BY PERIOD(1)					
	TOTAL	LESS THAN 1 YEAR	2 - 3 YEARS	4 - 5 YEARS	6 - 10 YEARS	AFTER 10 YEARS
(IN THOUSANDS)						
LONG-TERM DEBT OBLIGATIONS:						
Secured revolving credit facilities.....	\$1,273,754	--	\$1,273,754	--	--	--
Unsecured revolving credit facilities.....	--	--	--	--	--	--
Secured term loans.....	682,851	--	142,211	245,975	180,292	114,373
iStar Asset Receivables secured notes(2)....	876,368	--	236,694	--	639,674	--
Unsecured notes.....	625,000	--	--	50,000	350,000	225,000
Other debt obligations.....	15,961	15,961	--	--	--	--
Total.....	3,473,934	15,961	1,652,659	295,975	1,169,966	339,373
OPERATING LEASE OBLIGATIONS: (3).....	17,608	2,908	5,467	5,353	3,880	--
Total.....	\$3,491,542	\$ 18,869	\$1,658,126	\$ 301,328	\$1,173,846	\$339,373

EXPLANATORY NOTES:

- (1) Assumes exercise of extensions on the Company's long-term debt obligations to the extent such extensions are at the Company's option.
- (2) Based on expected proceeds from principal payments received on loan assets collateralizing such notes.
- (3) The Company also has a \$1.0 million letter of credit outstanding as security for its primary corporate office lease.

The Company has four LIBOR-based secured revolving credit facilities with an aggregate maximum availability of \$2.4 billion, of which \$1.3 billion was drawn as of December 31, 2002 (see Note 7 to the Company's Consolidated Financial Statements). Availability under these facilities is based on collateral

provided under a borrowing base calculation. At December 31, 2002, the Company also had an unsecured credit facility totaling \$300.0 million which bears interest at LIBOR + 2.125% and matures in July 2004, including a one-year extension at the Company's option. At December 31, 2002, the Company had not drawn any amounts under this facility.

RECENT FINANCING ACTIVITIES--On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, STARS, Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company 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 were utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funded the maturity of the underlying assets financed under the program. Of the assets of the subsidiary secured by this financing, 73.96% (by gross carrying value) consisted of first mortgages and subsequent lien positions and the remaining 26.04% consisted of junior loans. For accounting purposes, this transaction was treated as a secured

financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets and no gain on sale was recognized. On May 28, 2002, the Company fully repaid these bonds.

On January 11, 2001, the Company closed a new \$700.0 million secured revolving credit facility which is led by a major commercial bank. The new facility has a three-year primary term and one-year "term-out" extension option, and bears interest at LIBOR + 1.40% to 2.15%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance assets and has a final maturity of January 2005. Subsequent to December 31, 2002, the Company extended the final maturity on this facility to January 2007.

On February 22, 2001, the Company extended the maturity of its \$350.0 million unsecured revolving credit facility to May 2002. On July 27, 2001, the Company repaid this facility and replaced it with a new \$300.0 million unsecured revolving credit facility.

On May 15, 2001, the Company repaid its \$100.0 million 7.30% unsecured notes. These notes were senior unsecured obligations of the Leasing Subsidiary and ranked equally with the Leasing Subsidiary's other senior unsecured and unsubordinated indebtedness.

On June 14, 2001, the Company closed \$193.0 million of term loan financing secured by 15 corporate tenant lease assets. The variable-rate loan bears interest at LIBOR + 1.85% (not to exceed 10.00% in aggregate) and has two one-year extensions at the Company's option. The Company used these proceeds to repay a \$77.8 million secured term loan maturing in June 2001 and to pay down a portion of its revolving credit facilities. In addition, the Company extended the maturity of its \$500.0 million secured revolving credit facility to August 2003. On March 29, 2002, the Company again extended the final maturity of this facility to August 2005, which includes a one-year "term-out" extension at the Company's option.

On July 6, 2001, the Company financed a \$75.0 million structured finance asset with a \$50.0 million term loan bearing interest at LIBOR + 2.50%. The loan has a maturity of July 2006, including a one-year extension at the Company's option. This investment is a \$75.0 million term preferred investment in a publicly-traded real estate customer. The Company's investment carries an initial current yield of 10.50%, with annual increases of 0.50% in each of the next two years. In addition, the Company's investment is convertible into the customer's common stock at a strike price of \$25.00 per share. The investment is callable by the customer between months 13 and 30 of the term at a yield maintenance premium, and after month 30, at a premium sufficient to generate a 14.62% internal rate of return on the Company's investment. The investment is puttable by the Company to the customer for cash after five years.

On July 27, 2001, the Company completed a \$300.0 million unsecured 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 the Company's option and another one-year extension at the lenders' option. The new facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125%.

31

On August 9, 2001, the Company issued \$350.0 million of 8.75% senior notes due in 2008. The notes are unsecured senior obligations of the Company. The Company used the net proceeds to partially repay outstanding borrowings under its secured credit facilities.

On March 29, 2002, the Company extended the maturity of its \$500.0 million secured facility to August 2005, which includes a one-year "term-out" extension at the Company's option.

On May 28, 2002, the Company repaid the then remaining \$446.2 million of bonds outstanding under its STARs, Series 2000-1 financing. Simultaneously, a wholly-owned subsidiary of the Company issued STARs, Series 2002-1, consisting of \$885.1 million of investment-grade bonds secured by the subsidiary's structured finance and corporate tenant lease assets, which had an aggregate outstanding principal balance of approximately \$1.1 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. The weighted average interest rate on the bonds, on an all-floating rate basis, is

approximately LIBOR + 0.56% at inception. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARs liabilities remained on the Company's Consolidated Balance Sheets, and no gain on sale was recognized.

On July 2, 2002, the Company purchased the remaining interest in the Milpitas joint venture from the former Milpitas external member for \$27.9 million. Upon purchase of the interest, the Milpitas joint venture became fully consolidated for accounting purposes and approximately \$79.1 million of secured term debt is reflected on the Company's Consolidated Balance Sheets.

On September 30, 2002, the Company closed a new \$500.0 million secured revolving credit facility with a leading financial institution. The new facility has a three-year term and bears interest at LIBOR + 1.50% to 2.25%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance and corporate tenant assets and has a final maturity date of September 2005.

On December 11, 2002, the Company closed a \$61.5 million term loan financing with a leading financial institution. The proceeds were used to fund a portion of an \$82.1 million CTL investment. The non-recourse loan is fixed rate and bears interest at 6.412%, has a maturity date of December 2012 and amortizes over a 30-year schedule.

HEDGING ACTIVITIES--The Company has variable-rate lending assets and variable-rate debt obligations. These assets and liabilities create a natural hedge against changes in variable interest rates. This means that as interest rates increase, the Company earns more on its variable-rate lending assets and pays more on its variable-rate debt obligations and, conversely, as interest rates decrease, the Company earns less on its variable-rate lending assets and pays less on its variable-rate debt obligations. When the amount of the Company's variable-rate debt obligations exceeds the amount of its variable-rate lending assets, the Company utilizes derivative instruments to limit the impact of changing interest rates on its net income. The Company does not use derivative instruments to hedge assets or for speculative purposes. The derivatives instruments the Company uses are typically in the form of interest rate swaps and interest rate caps. Interest rate swaps effectively change variable-rate debt obligations to fixed-rate debt obligations. Interest rate caps effectively limit the maximum interest rate on variable-rate debt obligations.

In addition, when appropriate the Company may occasionally enter into interest rate swaps that convert fixed-rate debt to variable rate in order to mitigate the risk of changes in fair value of the fixed-rate debt obligations.

The primary risks from the Company's use of derivative instruments is the risk that a counterparty to a hedging arrangement could default on its obligation and the risk that the Company may have to pay certain costs, such as transaction fees or breakage costs, if a hedging arrangement is terminated by the Company. As a matter of policy, the Company enters into hedging arrangements with counterparties that are large, creditworthy financial institutions typically rated at least "A" by Standard & Poor's ("S&P") and "A2" by Moody's Investors Service ("Moody's"). The Company's hedging strategy is approved and monitored by

the Company's Audit Committee on behalf of its Board of Directors and may be changed by the Board of Directors without stockholder approval.

The Company has entered into the following cash flow and fair value hedges that are outstanding as of December 31, 2002. The net value associated with these hedges is reflected on the Company's Consolidated Balance Sheets (in thousands).

TYPE OF HEDGE	NOTIONAL AMOUNT	STRIKE PRICE OR SWAP RATE	TRADE DATE	MATURITY DATE	ESTIMATED VALUE AT DECEMBER 31, 2002
Pay-Fixed Swap.....	\$125,000	7.058%	6/15/00	6/25/03	\$(3,598)
Pay-Fixed Swap.....	125,000	7.055%	6/15/00	6/25/03	(3,596)
Pay-Fixed Swap.....	75,000	5.580%	11/4/99(1)	12/1/04	(5,743)

Pay-Floating Swap....	100,000	3.878%	11/27/02	8/15/08	2,761
Pay-Floating Swap....	50,000	3.810%	11/27/02	8/15/08	1,203
LIBOR Cap.....	345,000	8.000%	5/22/02	5/28/14	12,088
LIBOR Cap.....	75,000	7.750%	11/4/99(1)	12/1/04	21
LIBOR Cap.....	35,000	7.750%	11/4/99(1)	12/1/04	9
Total Estimated Value.....					\$ 3,145
					=====

EXPLANATORY NOTE:

(1) Acquired in connection with the TriNet Acquisition (see Note 1 to the Company's Consolidated Financial Statements).

Between January 1, 2001 and December 31, 2002, the Company also had outstanding the following cash flow hedges that have expired or been settled (in thousands):

TYPE OF HEDGE	NOTIONAL AMOUNT	STRIKE PRICE OR SWAP RATE	TRADE DATE	MATURITY DATE
LIBOR Cap.....	\$300,000	9.000%	3/16/98	3/16/01
Pay-Fixed Swap.....	92,000	5.714%	8/10/98	3/1/01
LIBOR Cap.....	75,000	7.500%	7/16/98	6/19/01
LIBOR Cap.....	38,336	7.500%	4/30/98	6/1/01

In connection with STARs, Series 2002-1 in May 2002, the Company entered into a LIBOR interest rate cap struck at 8.00% in the notional amount of \$345.0 million. The Company utilizes the provisions of Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities," with respect to such instruments. SFAS No. 133 provides that the up-front fees paid on option-based products such as caps should be expensed into earnings based on the allocation of the premium to the affected periods as if the agreement were a series of "caplets." These allocated premiums are then reflected as a charge to income (as part of interest expense) in the affected period.

On May 28, 2002, in connection with the STARs, Series 2002-1 transaction, the Company paid a premium of \$13.7 million for an interest rate cap. Using the "caplet" methodology discussed above, amortization of the cap premium is dependent upon the actual value of the caplets at inception.

In connection with STARs, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of \$312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments did not change the Company's net interest rate risk exposure, they did not qualify as hedges and changes in their respective values were charged to earnings. As the terms of these arrangements were substantially the same, the effects of a revaluation of these two instruments substantially offset one another. On May 28, 2002, these instruments were settled and are no longer outstanding.

33

In connection with a portion of the Company's fixed-rate corporate bonds, the Company entered into two pay-floating interest rate swaps struck at 3.8775% and 3.81% and in the notional amounts of \$100.0 million and \$50.0 million, respectively. The Company pays one-month LIBOR and receives the stated fixed rate in return. These swaps mitigate the risk of changes in the fair value of \$150.0 million of the Company's fixed-rate corporate bonds attributable to changes in LIBOR. For accounting purposes, the difference between the fixed rate received and the LIBOR rate paid on the notional amount of the swap is recorded as "Interest expense" in the Company's Consolidated Statements of Operations. In addition, the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount on a quarterly basis.

Certain of the Company's CTL joint ventures, have hedging activities which are more fully described in Note 6 to the Company's Consolidated Financial

Statements.

OFF-BALANCE SHEET TRANSACTIONS--The Company is not dependent on the use of any off-balance sheet financing arrangements for liquidity. As of December 31, 2002, the Company had investments in three corporate tenant lease joint ventures accounted for under the equity method, which had total debt obligations outstanding of approximately \$178.7 million. The Company's pro rata share of the ventures' third-party debt was approximately \$77.4 million (see Note 6 to the Company's Consolidated Financial Statements). These ventures were formed for the purpose of operating, acquiring and in certain cases, developing corporate tenant lease facilities. The debt obligations of these joint ventures are non-recourse to the ventures and the Company and mature between fiscal years 2004 and 2011. As of December 31, 2002, the debt obligations consisted of six term loans bearing fixed rates per annum ranging from 7.61% to 8.43% and one variable-rate term loan with a rate of LIBOR + 1.25% per annum.

The Company has certain discretionary and non-discretionary unfunded commitments related to its loans and other lending investments that it may need to, or choose to, fund in the future. Discretionary commitments are those under which the Company has sole discretion with respect to future funding. Non-discretionary commitments are those under which the Company is generally obligated to fund at the request of the borrower or upon the occurrence of events outside of the Company's direct control. As of December 31, 2002, the Company had nine loans with unfunded commitments totaling \$97.7 million, of which \$22.2 million was discretionary and \$75.5 million was non-discretionary.

RATINGS TRIGGERS--On July 27, 2001, the Company completed a \$300.0 million unsecured 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 the Company's option and another one-year extension at the lenders' option. The new facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125% based on the Company's senior unsecured credit ratings of BB+ from S&P, Ba1 from Moody's and BBB- from Fitch Ratings. If the Company achieves a higher rating from either S&P or Moody's, the facility's interest rate will improve to LIBOR + 2.00%. If the Company's credit rating is downgraded by any of the rating agencies (regardless of how far), the facility's interest rate will increase to LIBOR + 2.25%. In the event the Company receives two credit ratings that are not equivalent, the spread over LIBOR shall be determined by the lower of the two such ratings. As of December 31, 2002, no amounts are outstanding on this facility. Accordingly, management does not believe any rating changes would have a material adverse impact on the Company's results of operations. There are no other ratings triggers in any of the Company's debt instruments or other operating or financial agreements.

During the 12 months ended December 31, 2002, the Company's senior unsecured credit rating was upgraded to an investment grade rating of BBB- from BB+ by Fitch Ratings. In addition, Moody's and S&P raised their ratings outlook for the Company's senior unsecured credit rating to "positive."

TRANSACTIONS WITH RELATED PARTIES--The Company has an investment in iStar Operating Inc. ("iStar Operating"), a taxable subsidiary that, through a wholly-owned subsidiary, services the Company's loans and certain loan portfolios owned by third parties. The Company owns all of the non-voting preferred

34

stock and a 95.00% economic interest in iStar Operating. An affiliate of the Company's largest shareholder is the owner of all the voting common stock and a 5.00% economic interest in iStar Operating. As of December 31, 2002, there have never been any distributions to the common shareholder, nor does the Company expect to make any in the future. At any time, the Company has the right to acquire all of the common stock of iStar Operating at fair market value, which the Company believes to be nominal. In addition to the direct general and administrative costs of iStar Operating, the Company allocates a portion of its general overhead expenses to iStar Operating based on the number of employees at iStar Operating as a percentage of the Company's total employees.

In addition, the Company has an investment in TMOC, a taxable noncontrolled subsidiary that has a \$2.0 million investment in a real estate company based in Mexico. The Company owns 95.00% of the outstanding voting and non-voting common stock (representing 1.00% voting power and 95.00% of the economic interest) in TMOC. The other two owners of TMOC stock are executives of the Company, who own a combined 5.00% of the outstanding voting and non-voting common stock

(representing 99.00% voting power and 5.00% economic interest) in TMOC. As of December 31, 2002, there have never been any distributions to the common shareholders, nor does the Company expect to make any in the future. At any time, the Company has the right to acquire all of the common stock of TMOC at fair market value, which the Company believes to be nominal.

Both iStar Operating and TMOC have elected to be treated as taxable REIT subsidiaries for purposes of maintaining compliance with the REIT provisions of the Code and are accounted for under the equity method for financial statement reporting purposes and are presented in "Investments in and advances to joint ventures and unconsolidated subsidiaries" on the Company's Consolidated Balance Sheets. If they were consolidated with the Company for financial statement purposes, they would not have a material impact on the Company's operations. As of December 31, 2002, iStar Operating and TMOC have no debt obligations.

The Company entered into an employment agreement with its Chief Executive Officer as of March 31, 2001. In addition to the salary and bonus provisions of the agreement, the agreement provides for an award of 2.0 million phantom units to the executive, each of which notionally represents one share of the Company's Common Stock. Portions of these phantom units will vest on a contingent basis if the average closing price of the Company's Common Stock achieves certain levels (ranging from \$25.00 to \$37.00 per share) for 60 consecutive calendar days. Contingently vested units will become fully vested, meaning that they are no longer subject to forfeiture, if the executive remains employed through March 30, 2004, or earlier upon certain change of control and termination events. When and if contingently vested phantom units become fully vested units, the Company must deliver to the executive either a number of shares of Common Stock equal to the number of fully vested units or an amount of cash equal to the then fair market value of that number of shares of Common Stock. If shares were unavailable under the Company's then long-term incentive plans, this obligation could require the Company to make a substantial cash payment to the executive.

DRIP PROGRAM--The Company maintains a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, the Company's shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, the Company's shareholders and new investors may purchase shares of Common Stock directly from the Company without payment of brokerage commissions or service charges. All purchases of shares in excess of \$10,000 per month pursuant to the direct purchase component are at the Company's sole discretion. Shares issued under the plan may reflect a discount of up to 3.00% from the prevailing market price of the Company's Common Stock. The Company is authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plan. During the 12-month periods ended December 31, 2002 and 2001, the Company issued a total of 1.6 million and approximately 195,000 shares of its Common Stock, respectively, through the direct stock

35

purchase component of the plan. Net proceeds during the 12-month periods ended December 31, 2002 and 2001 were approximately \$44.4 million and \$4.7 million, respectively.

STOCK REPURCHASE PROGRAM--The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets or loan repayments and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of December 31, 2001, the Company had repurchased a total of approximately 2.3 million shares, at an aggregate cost of approximately \$40.7 million. The Company did not repurchase any shares under the stock repurchase program in 2002.

CRITICAL ACCOUNTING POLICIES

The Company's Consolidated Financial Statements include the accounts of the Company and all majority-owned and controlled subsidiaries. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements. In preparing these financial statements, management has made its best estimates and judgments of

certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe that there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Management has the obligation to ensure that its policies and methodologies are in accordance with GAAP. During 2002, management reviewed and evaluated its critical accounting policies and believes them to be appropriate. The Company's accounting policies are described in Note 3 to the Company's Consolidated Financial Statements. Management believes the more significant of these to be as follows:

REVENUE RECOGNITION--The most significant sources of the Company's revenue come from its lending operations and its corporate tenant lease operations. For its lending operations, the Company reflects income using the effective yield method, which recognizes periodic income over the expected term of the investment on a constant yield basis. For corporate tenant lease assets, the Company recognizes income on the straight-line method, which effectively recognizes contractual lease payments to be received by the Company evenly over the term of the lease. Management believes the Company's revenue recognition policies are appropriate to reflect the substance of the underlying transactions.

PROVISION FOR LOAN LOSSES--The Company's accounting policies require that an allowance for estimated credit losses be reflected in the financial statements based upon an evaluation of known and inherent risks in its private lending assets. While the Company and its private predecessors have experienced minimal actual losses on their lending investments, management considers it prudent to reflect provisions for loan losses on a portfolio basis based upon the Company's assessment of general market conditions, the Company's internal risk management policies and credit risk rating system, industry loss experience, the Company's assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Actual losses, if any, could ultimately differ from these estimates.

IMPAIRMENT OF LONG-LIVED ASSETS--Corporate tenant lease assets represent "long-lived" assets for accounting purposes. The Company periodically reviews long-lived assets to be held and used in its leasing operations for impairment in value whenever any events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In management's opinion, based on this analysis, corporate tenant assets to be held and used are not carried at amounts in excess of their estimated recoverable amounts.

36

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS--The Company has historically utilized derivative financial instruments only as a means to help to manage its interest rate risk exposure on a portion of its variable-rate debt obligations (i.e., as cash flow hedges). The instruments utilized are generally either pay-fixed swaps or LIBOR-based interest rate caps which are widely used in the industry and typically with major financial institutions. The Company's accounting policies generally reflect these instruments at their fair value with unrealized changes in fair value reflected in "Accumulated other comprehensive income" on the Company's Consolidated Balance Sheets. Realized effects on the Company's cash flows are generally recognized currently in income.

However, when appropriate the Company may occasionally enter into interest rate swaps that convert fixed-rate debt to variable rate in order to mitigate the risk of changes in fair value of its fixed-rate debt obligations. The Company reflects these instruments at their fair value and adjusts the carrying amount of the hedged liability by an offsetting amount.

INCOME TAXES--The Company's financial results generally do not reflect provisions for current or deferred income taxes. Management believes that the Company has and intends to continue to operate in a manner that will continue to allow it to be taxed as a REIT and, as a result, does not expect to pay substantial corporate-level taxes. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, the Company would be subject to Federal income tax.

EXECUTIVE COMPENSATION--The Company's accounting policies generally provide cash compensation to be estimated and recognized over the period of service.

With respect to stock-based compensation arrangements, as of July 1, 2002 (with retroactive application to the beginning of the calendar year), the Company has adopted the fair value method allowed under SFAS No. 123, which values options on the date of grant and recognizes an expense equal to the fair value of the option multiplied by the number of options granted over the related service period. Prior to the third quarter 2002, the Company elected to use APB 25 accounting, which measured the compensation charges based on the intrinsic value of such securities when they become fixed and determinable, and recognized such expense over the related service period. These arrangements are often complex and generally structured to align the interests of management with those of the Company's shareholders. See Note 10 to the Company's Consolidated Financial Statements for a detailed discussion of such arrangements and the related accounting effects.

During 2001, the Company entered into new three-year employment agreements with its Chief Executive Officer and its President. In addition, during 2002 the Company entered into a three-year employment agreement with its new Chief Financial Officer. See Note 10 to the Company's Consolidated Financial Statements for a more detailed description of these employment agreements.

The following is a hypothetical illustration of the effects on the Company's net income and adjusted earnings of the full vesting of phantom units under the employment agreement with the Chief Executive Officer. During the 12 months ended December 31, 2002, 1.0 million of the phantom shares awarded to the Chief Executive Officer were contingently vested. Absent an earlier change of control or termination of employment, these 1,000,000 shares will not become fully vested until March 31, 2004. Assuming that the market price of the Common Stock on March 31, 2004 is \$28.05 (which was the market price of the Common Stock on December 31, 2002), the Company would incur a one-time charge to both net income and earnings at that time equal to \$28.0 million (the fair market value of the 1,000,000 shares at \$28.05 per share).

On April 29, 2002, the 500,000 unvested restricted shares awarded to the President became contingently vested as the total shareholder return exceeded 60.00% and became fully vested on September 30, 2002 as all employment contingencies were met. The Company incurred a non-cash charge of approximately \$15.0 million related to these vested shares, recognized ratably over the service period from the date of contingent vesting through September 30, 2002. Accordingly, the non-cash charge recognized for the 12 months ended December 31, 2002 was approximately \$15.0 million.

NEW ACCOUNTING STANDARDS

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) in certain circumstances a hedge of a foreign currency exposure. On January 1, 2001, the Company adopted this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Hedging Activities--an Amendment of FASB No. 133." Because the Company has primarily used derivatives as cash flow hedges of interest rate risk only, the adoption of SFAS No. 133 did not have a material financial impact on the financial position and results of operations of the Company. However, should the Company change its current use of such derivatives, the adoption of SFAS No. 133 could have a more significant effect on the Company prospectively.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." In June 2000, the SEC staff amended SAB 101 to provide registrants with additional time to implement SAB 101. The Company adopted SAB 101, as required, in the fourth quarter of fiscal 2000. The adoption of SAB 101 did not have a material financial impact on the financial position or results of operations of the Company.

In March 2000, the FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation." The Company was required to adopt FIN 44 effective July 1, 2000 with respect to certain provisions applicable to new awards, exchanges of awards in a business combination, modifications to outstanding awards, and changes in grantee status that occur on or after that date. FIN 44 addresses practice issues related to the application of Accounting Practice Bulletin Opinion No. 25, "Accounting for Stock Issued to Employees." The initial adoption of FIN 44 did not have a significant impact on the Company.

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140 ("SFAS No. 140"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement is applicable for transfers of assets and extinguishments of liabilities occurring after June 30, 2001. The Company adopted the provisions of this statement as required for all transactions entered into on or after April 1, 2001. The adoption of SFAS No. 140 did not have a significant impact on the Company.

In July 2001, the SEC released Staff Accounting Bulletin No. 102 ("SAB 102"), "Selected Loan Loss Allowance and Documentation Issues." SAB 102 summarizes certain of the SEC's views on the development, documentation and application of a systematic methodology for determining allowances for loan and lease losses. Adoption of SAB 102 by the Company did not have a significant impact on the Company.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 ("SFAS No. 141"), "Business Combinations" and Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also addresses the initial recognition and measurement of goodwill and other intangible assets acquired in business combinations and requires intangible assets to be recognized apart from goodwill if certain tests are met. SFAS No. 142 requires that goodwill not be amortized but instead be measured for impairment at least annually, or when events indicate that there may be an impairment. The Company adopted the

38

provisions of both statements, as required, on January 1, 2002 and the adoption did not have a significant impact on the Company.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of, and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 requires that current operations prior to the disposition of corporate tenant lease assets and prior period results of such operations be presented in discontinued operations in the Company's Consolidated Statements of Operations. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and must be applied at the beginning of a fiscal year. The Company adopted the provisions of this statement on January 1, 2002, as required, and it did not have a significant financial impact on the Company.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS No. 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds both FASB Statements No. 4 ("SFAS No. 4"), "Reporting Gains and Losses from Extinguishment of Debt," and the amendment to SFAS No. 4, FASB Statement No. 64 ("SFAS No. 64"), "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Through this rescission, SFAS No. 145 eliminates the requirement (in both SFAS No. 4 and SFAS No. 64) that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. An entity is not prohibited from classifying such gains and losses as extraordinary items, so long as they meet the criteria in paragraph 20 of Accounting Principles Board Opinion No. 30 ("APB 30"), "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"; however, due to the nature of the Company's operations, such treatment may not be available to the Company. Any gains or losses on extinguishments of debt that were previously classified as extraordinary items in prior periods presented that do not meet the criteria

in APB 30 for classification as an extraordinary item will be reclassified to income from continuing operations. The provisions of SFAS No. 145 are effective for financial statements issued for fiscal years beginning after May 15, 2002. The Company will adopt the provisions of this statement, as required, on January 1, 2003, at which time (\$12.2) million and (\$1.6) million will be reclassified to continuing operations for 2002 and 2001, respectively.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS No. 146"), "Accounting for Exit or Disposal Activities," to address significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force ("EITF") has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The scope of SFAS No. 146 also includes: (1) costs related to terminating a contract that is not a capital lease; and (2) termination benefits received by employees involuntarily terminated under the terms of a one-time benefit arrangement that is not an on-going benefit arrangement or an individual deferred-compensation contract. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect SFAS No. 146 to have a material effect on the Company's Consolidated Financial Statements.

In September 2002, the FASB issued Statement of Financial Accounting Standards No. 147 ("SFAS No. 147"), "Acquisitions of Certain Financial Institutions," an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9. SFAS No. 147 provides guidance on the accounting for the acquisitions of financial institutions, except those acquisitions between two or more mutual enterprises. SFAS No. 147 removes acquisitions of financial institutions from the scope of both FASB No. 72,

39

"Accounting for Certain Acquisitions of Banking or Thrift Institutions," and FASB Interpretation No. 9, Applying APB Opinions No. 16 and 17, "When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method," and requires that those transactions be accounted for in accordance with SFAS No. 141 and SFAS No. 142. SFAS No. 147 also amends SFAS No. 144 to include in its scope long-term, customer-relationship intangible assets of financial institutions such as depositor-relationship and borrower-relationship intangible assets and credit cardholder intangible assets. The Company adopted the provisions of this statement, as required, on October 1, 2002, and it did not have a significant financial impact on the Company's Consolidated Financial Statements.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of FASB Statement of Financial Accounting Standards No. 5 ("SFAS No. 5"), "Accounting for Contingencies," Statement of Financial Accounting Standards No. 57, "Related Party Disclosures," Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" and rescinds FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others, an Interpretation of SFAS No. 5." It requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee regardless if the Company receives separately identifiable consideration (i.e., a premium). The new disclosure requirements are effective December 31, 2002. The adoption of FIN 45 did not have a material impact on the Company's Consolidated Financial Statements, nor is it expected to have a material impact in the future.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS No. 148"), "Accounting for Stock-Based Compensation--Transition and Disclosure," an amendment of FASB Statement No. 123 ("SFAS No. 123"). This statement provides alternative transition methods for a voluntary change to the fair value basis of accounting for stock-based employee compensation. However, this Statement does not permit the use of the original SFAS No. 123 prospective method of transition for changes to the fair value based method made in fiscal years beginning after December 15, 2003. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation, description of transition method utilized and the effect of the method used on reported results. The transition and annual disclosure provisions of

SFAS No. 148 shall be applied for fiscal years ending after December 15, 2002. The new interim disclosure provisions are effective for the first interim period beginning after December 15, 2002. The Company adopted SFAS No. 148 with retroactive application to January 1, 2002 with no material effect on the Company's Consolidated Financial Statements.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," an interpretation of ARB 51. FIN 46 provides guidance on identifying entities for which control is achieved through means other than through voting rights (a "variable interest entity" or "VIE"), and how to determine when and which business enterprise should consolidate a VIE. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The transitional disclosure requirements will take effect almost immediately and are required for all financial statements initially issued after January 31, 2003. The adoption of FIN 46 is not expected to have a material impact on the Company.

40

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISKS

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. In pursuing its business plan, the primary market risk to which the Company is exposed is interest rate risk. Consistent with its liability management objectives, the Company has implemented an interest rate risk management policy based on match funding, with the objective that variable-rate assets be primarily financed by variable-rate liabilities and fixed-rate assets be primarily financed by fixed-rate liabilities.

The Company's operating results will depend in part on the difference between the interest and related income earned on its assets and the interest expense incurred in connection with its interest-bearing liabilities. Competition from other providers of real estate financing may lead to a decrease in the interest rate earned on the Company's interest-bearing assets, which the Company may not be able to offset by obtaining lower interest costs on its borrowings. Changes in the general level of interest rates prevailing in the financial markets may affect the spread (the difference in the principal amount outstanding) between the Company's interest-earning assets and interest-bearing liabilities. Any significant compression of the spreads between interest-earning assets and interest-bearing liabilities could have a material adverse effect on the Company. In addition, an increase in interest rates could, among other things, reduce the value of the Company's interest-bearing assets and its ability to realize gains from the sale of such assets, and a decrease in interest rates could reduce the average life of the Company's interest-earning assets.

A substantial portion of the Company's loan investments are subject to significant prepayment protection in the form of lock-outs, yield maintenance provisions or other prepayment premiums which provide substantial yield protection to the Company. Those assets generally not subject to prepayment penalties include: (1) variable-rate loans based on LIBOR, originated or acquired at par, which would not result in any gain or loss upon repayment; and (2) discount loans and loan participations acquired at discounts to face values, which would result in gains upon repayment. Further, while the Company generally seeks to enter into loan investments which provide for substantial prepayment protection, in the event of declining interest rates, the Company could receive such prepayments and may not be able to reinvest such proceeds at favorable returns. Such prepayments could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

While the Company has not experienced any significant credit losses, in the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to the Company which adversely affect its liquidity and operating results. Further, such delinquencies or defaults could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the control of the Company. As more fully discussed in Note 9 to the Company's Consolidated Financial Statements, the

Company employs match funding-based hedging strategies to limit the effects of changes in interest rates on its operations, including engaging in interest rate caps, floors, swaps, futures and other interest rate-related derivative contracts. These strategies are specifically designed to reduce the Company's exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of interest rate movements in the market. The Company does not enter into derivative contracts for speculative purposes nor as a hedge against changes in credit risk of its borrowers or of the Company itself.

Each interest rate cap or floor agreement is a legal contract between the Company and a third party (the "counterparty"). When the Company purchases a cap or floor contract, the Company makes an up-front payment to the counterparty and the counterparty agrees to make payments to the Company in

41

the future should the reference rate (typically one- or three-month LIBOR) rise above (cap agreements) or fall below (floor agreements) the "strike" rate specified in the contract. Each contract has a notional face amount. Should the reference rate rise above the contractual strike rate in a cap, the Company will earn cap income. Should the reference rate fall below the contractual strike rate in a floor, the Company will earn floor income. Payments on an annualized basis will equal the contractual notional face amount multiplied by the difference between the actual reference rate and the contracted strike rate. The Company utilizes the provisions of SFAS No. 133 with respect to such instruments. SFAS No. 133 provides that the up-front fees paid on option-based products such as caps should be expensed into earnings based on the allocation of the premium to the affected periods as if the agreement were a series of "caplets." These allocated premiums are then reflected as a charge to income and are included in "Interest expense" on the Company's Consolidated Statements of Operations in the affected period.

Interest rate swaps are agreements in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which swaps are based is not exchanged. In general, the Company's swaps are "pay fixed" swaps involving the exchange of variable-rate interest payments from the counterparty for fixed interest payments from the Company. However, when appropriate the Company may occasionally enter into "pay floating" swaps involving the exchange of fixed-rate interest payments from the counterparty for variable-rate interest payments from the Company, which mitigates the risk of changes in fair value of the Company's fixed-rate debt obligations.

Interest rate futures are contracts, generally settled in cash, in which the seller agrees to deliver on a specified future date the cash equivalent of the difference between the specified price or yield indicated in the contract and the value of the specified instrument (i.e., U.S. Treasury securities) upon settlement. Under these agreements, the Company would generally receive additional cash flow at settlement if interest rates rise and pay cash if interest rates fall. The effects of such receipts or payments would be deferred and amortized over the term of the specific related fixed-rate borrowings. In the event that, in the opinion of management, it is no longer probable that a forecasted transaction will occur under terms substantially equivalent to those projected, the Company would cease recognizing such transactions as hedges and immediately recognize related gains or losses based on actual settlement or estimated settlement value.

While a REIT may freely utilize the types of derivative instruments discussed above to hedge interest rate risk on its liabilities, the use of derivatives for other purposes, including hedging asset-related risks such as credit, prepayment or interest rate exposure on the Company's loan assets, could generate income which is not qualified income for purposes of maintaining REIT status. As a consequence, the Company may only engage in such instruments to hedge such risks on a limited basis.

There can be no assurance that the Company's profitability will not be adversely affected during any period as a result of changing interest rates. In addition, hedging transactions using derivative instruments involve certain additional risks such as counterparty credit risk, legal enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. With regard to loss of basis in a hedging contract, indices upon which contracts are based may be more or less variable than the indices upon which the hedged assets or liabilities are based, thereby making the hedge less effective. The counterparties to these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other

financial relationships. The Company is potentially exposed to credit loss in the event of nonperformance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations. There can be no assurance that the Company will be able to adequately protect against the foregoing risks and that the Company will ultimately realize an economic benefit from any hedging contract it enters into which exceeds the related costs incurred in connection with engaging in such hedges.

42

The following table quantifies the potential changes in net investment income and net fair value of financial instruments should interest rates increase or decrease 100 or 200 basis points, assuming no change in the shape of the yield curve (i.e., relative interest rates). Net investment income is calculated as revenue from loans and other lending investments and operating leases (as of December 31, 2002), less related interest expense and operating costs on corporate tenant lease assets, for the year ended December 31, 2002. Net fair value of financial instruments is calculated as the sum of the value of derivative instruments and the present value of cash in-flows generated from interest-earning assets, less cash out-flows in respect of interest-bearing liabilities as of December 31, 2002. The cash flows associated with the Company's assets are calculated based on management's best estimate of expected payments for each loan based on loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty, term and collateral type. Most of the Company's loans are protected from prepayment as a result of prepayment penalties and contractual terms which prohibit prepayments during specified periods. However, for those loans where prepayments are not currently precluded by contract, declines in interest rates may increase prepayment speeds. The base interest rate scenario assumes the one-month LIBOR rate of 1.38% as of December 31, 2002. Actual results could differ significantly from those estimated in the table.

ESTIMATED PERCENTAGE CHANGE IN

CHANGE IN INTEREST RATES -----	NET INVESTMENT INCOME -----	NET FAIR VALUE OF FINANCIAL INSTRUMENTS (1) -----
-100 Basis Points.....	1.44%	5.00%
-50 Basis Points.....	0.72%	2.38%
Base Interest Rate.....	0.00%	0.00%
+100 Basis Points.....	(1.44)%	(3.23)%
+200 Basis Points.....	(2.88)%	(1.52)%

EXPLANATORY NOTE:

(1) Amounts exclude fair values of non-financial investments, primarily CTL assets and certain forms of corporate finance investments.

43

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Index to Financial Statements

	PAGE -----
Financial Statements:	
Report of Independent Accountants.....	45
Consolidated Balance Sheets at December 31, 2002 and 2001.....	46
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2002.....	47
Consolidated Statements of Changes in Shareholders' Equity for each of the three years in the period ended	

December 31, 2002.....	48
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2002.....	49
Notes to Consolidated Financial Statements.....	50

Financial Statement Schedules:

For the period ended December 31, 2002:

Schedule II--Valuation and Qualifying Accounts and Reserves.....	87
Schedule III--Corporate Tenant Lease Assets and Accumulated Depreciation.....	88
Schedule IV--Loans and Other Lending Investments.....	94

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Financial statements of five owned companies or joint ventures accounted for under the equity method have been omitted because the Company's proportionate share of the income from continuing operations before income taxes is less than 20.00% of the respective consolidated amount and the investments in and advances to each company are less than 20.00% of consolidated total assets.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of iStar Financial Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of iStar Financial Inc. and its subsidiaries (the "Company") at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, NY
February 14, 2003, except for Note 17, which is as of March 11, 2003

ISTAR FINANCIAL INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	AS OF DECEMBER 31,	
	2002	2001*
	-----	-----
ASSETS		
Loans and other lending investments, net.....	\$3,050,342	\$2,377,763
Corporate tenant lease assets, net.....	2,291,805	1,781,565
Investments in and advances to joint ventures and		

unconsolidated subsidiaries.....	30,611	60,794
Assets held for sale.....	28,501	--
Cash and cash equivalents.....	15,934	15,670
Restricted cash.....	40,211	17,852
Accrued interest and operating lease income receivable.....	26,804	31,797
Deferred operating lease income receivable.....	36,739	21,195
Deferred expenses and other assets.....	90,750	74,004
	-----	-----
Total assets.....	\$5,611,697	\$4,380,640
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:		
Accounts payable, accrued expenses and other liabilities....	\$ 117,001	\$ 89,618
Dividends payable.....	5,225	5,225
Debt obligations.....	3,461,590	2,495,369
	-----	-----
Total liabilities.....	3,583,816	2,590,212
	-----	-----
Commitments and contingencies.....		
	--	--
Minority interest in consolidated entities.....	2,581	2,650
Shareholders' equity:		
Series A Preferred Stock, \$0.001 par value, liquidation preference \$50.00 per share, 4,400 shares issued and outstanding at December 31, 2002 and December 31, 2001....	4	4
Series B Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 2,000 shares issued and outstanding at December 31, 2002 and December 31, 2001....	2	2
Series C Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 1,300 shares issued and outstanding at December 31, 2002 and December 31, 2001....	1	1
Series D Preferred Stock, \$0.001 par value, liquidation preference \$25.00 per share, 4,000 shares issued and outstanding at December 31, 2002 and December 31, 2001....	4	4
High Performance Units.....	1,359	--
Common Stock, \$0.001 par value, 200,000 shares authorized, 98,114 and 87,387 shares issued and outstanding at December 31, 2002 and December 31, 2001, respectively.....	98	87
Warrants and options.....	20,322	20,456
Additional paid-in capital.....	2,281,636	1,997,931
Retained earnings (deficit).....	(227,769)	(174,874)
Accumulated other comprehensive income (losses) (See Note 12).....	(2,301)	(15,092)
Treasury stock (at cost).....	(48,056)	(40,741)
	-----	-----
Total shareholders' equity.....	2,025,300	1,787,778
	-----	-----
Total liabilities and shareholders' equity.....	\$5,611,697	\$4,380,640
	=====	=====

* RECLASSIFIED TO CONFORM TO 2002 PRESENTATION.

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

ISTAR FINANCIAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001*	2000*
	-----	-----	-----
REVENUE:			
Interest income.....	\$255,631	\$254,119	\$268,011
Operating lease income.....	242,100	185,943	177,581
Other income.....	27,993	31,057	17,927
	-----	-----	-----
Total revenue.....	525,724	471,119	463,519
	-----	-----	-----
COSTS AND EXPENSES:			

Dividends declared-common.....	--	--	--	--	--	--	--	--
Restricted stock units granted to employees.....	--	--	--	--	--	--	--	19,048
Options granted to employees.....	--	--	--	--	--	--	309	--
High performance units sold to employees.....	--	--	--	--	1,359	--	--	--
Contributions from significant shareholder.....	--	--	--	--	--	--	--	506
Issuance of stock--DRIP plan.....	--	--	--	--	--	1	--	44,426
Purchase of treasury shares.....	--	--	--	--	--	--	--	334
Net income for the period.....	--	--	--	--	--	--	--	--
Change in accumulated other comprehensive income.....	--	--	--	--	--	--	--	--
Balance at December 31, 2002.....	\$ 4	\$ 2	\$ 1	\$ 4	\$1,359	\$ 98	\$20,322	\$2,281,636
	=====	=====	=====	=====	=====	=====	=====	=====

	RETAINED EARNINGS (DEFICIT)	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSSES)	TREASURY STOCK	TOTAL
Balance at January 1, 2000.....	\$ (129,992)	\$ (229)	\$ (40,439)	\$1,801,343
Exercise of options.....	--	--	--	6,097
Dividends declared-preferred.....	(36,906)	--	--	(36,576)
Dividends declared-common.....	(205,477)	--	--	(205,477)
Acquisition of ACRE Partners.....	--	--	--	3,637
Restricted stock units issued to employees in lieu of cash bonuses.....	--	--	--	1,125
Restricted stock units granted to employees.....	--	--	--	212
Issuance of stock--DRIP plan.....	--	--	--	31
Purchase of treasury shares.....	--	--	(302)	(302)
Net income for the period.....	217,586	--	--	217,586
Change in accumulated other comprehensive income.....	--	209	--	209
Balance at December 31, 2000.....	\$ (154,789)	\$ (20)	\$ (40,741)	\$1,787,885
Exercise of options.....	--	--	--	21,717
Dividends declared-preferred.....	(36,908)	--	--	(36,578)
Dividends declared-common.....	(213,089)	--	--	(213,089)
Acquisition of ACRE Partners.....	--	--	--	1,219
Restricted stock units issued to employees in lieu of cash bonuses.....	--	--	--	1,478
Restricted stock units granted to employees.....	--	--	--	1,250
Options granted to employees.....	--	--	--	4,348
Issuance of stock--DRIP plan.....	--	--	--	4,708
Net income for the period.....	229,912	--	--	229,912
Cumulative effect of change in accounting principle.....	--	(9,445)	--	(9,445)
Change in accumulated other comprehensive income.....	--	(5,627)	--	(5,627)
Balance at December 31, 2001.....	\$ (174,874)	\$ (15,092)	\$ (40,741)	\$1,787,778
Exercise of options.....	--	--	--	15,729
Proceeds from equity offering.....	--	--	--	202,899
Dividends declared-preferred.....	(36,908)	--	--	(36,578)
Dividends declared-common.....	(231,257)	--	--	(231,257)
Restricted stock units granted to employees.....	--	--	--	19,048
Options granted to employees.....	--	--	--	309
High performance units sold to employees.....	--	--	--	1,359
Contributions from significant shareholder.....	--	--	--	506
Issuance of stock--DRIP plan.....	--	--	--	44,427
Purchase of treasury shares.....	--	--	(7,315)	(6,981)
Net income for the period.....	215,270	--	--	215,270
Change in accumulated other comprehensive income.....	--	12,791	--	12,791
Balance at December 31, 2002.....	\$ (227,769)	\$ (2,301)	\$ (48,056)	\$2,025,300
	=====	=====	=====	=====

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

48

ISTAR FINANCIAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001*	2000*
Cash flows from operating activities:			
Net income.....	\$ 215,270	\$ 229,912	\$ 217,586
Adjustments to reconcile net income to cash flows provided by operating activities:			
Minority interest in consolidated entities.....	162	218	195
Non-cash expense for stock-based compensation.....	18,059	3,574	2,864

Depreciation and amortization.....	71,287	55,831	47,290
Depreciation and amortization from discontinued operations.....	219	213	112
Amortization of discounts/premiums, deferred interest and costs on lending investments.....	(33,086)	(41,067)	(27,059)
Discounts, loan fees and deferred interest received.....	36,714	28,425	17,153
Equity in earnings from joint ventures and unconsolidated subsidiaries.....	(1,222)	(7,358)	(4,753)
Distributions from operations of joint ventures.....	5,802	4,802	4,511
Deferred operating lease income receivable.....	(15,265)	(10,923)	(9,130)
Realized (gains)/losses on sale of securities.....	--	--	233
Gain from discontinued operations.....	(717)	(1,145)	(2,948)
Extraordinary loss on early extinguishment of debt.....	12,166	1,620	705
Cumulative effect of change in accounting principle.....	--	282	--
Provision for loan losses.....	8,250	7,000	6,500
Change in investments in and advances to joint ventures and unconsolidated subsidiaries.....	(6,598)	(2,568)	(447)
Changes in assets and liabilities:			
Decrease (increase) in accrued interest and operating lease income receivable.....	3,809	5,083	(5,401)
Decrease (increase) in deferred expenses and other assets.....	1,758	(204)	(25,841)
Increase (decrease) in accounts payable, accrued expenses and other liabilities.....	32,185	19,565	(1,702)
	-----	-----	-----
Cash flows provided by operating activities.....	348,793	293,260	219,868
	-----	-----	-----
Cash flows from investing activities:			
New investment originations.....	(1,812,993)	(924,455)	(850,144)
Add-on fundings under existing loan commitments.....	(21,619)	(99,626)	(56,039)
Net proceeds from sale of corporate tenant lease assets...	3,702	26,306	146,265
Net proceeds from lease termination payments.....	17,500	--	--
Proceeds from sale of investment securities.....	--	--	30
Repayments of and principal collections on loans and other lending investments.....	671,965	650,970	571,846
Investments in and advances to joint ventures and unconsolidated subsidiaries.....	(127)	(1,601)	(27,490)
Distributions from unconsolidated joint ventures.....	--	24,265	34,759
Capital improvements for build-to-suit projects.....	(1,064)	(14,266)	(5,022)
Capital improvement projects on corporate tenant lease assets.....	(2,277)	(6,629)	(6,831)
Other capital expenditures on corporate tenant lease assets.....	(4,157)	(4,489)	(1,179)
	-----	-----	-----
Cash flows used in investing activities.....	(1,149,070)	(349,525)	(193,805)
	-----	-----	-----
Cash flows from financing activities:			
Borrowings under revolving credit facilities.....	2,496,200	2,420,638	2,304,099
Repayments under revolving credit facilities.....	(2,122,994)	(2,285,892)	(2,487,936)
Borrowings under term loans.....	115,099	277,664	90,000
Repayments under term loans.....	(18,279)	(120,333)	(300,799)
Borrowings under secured bond offerings.....	885,079	--	863,254
Repayments under secured bond offerings.....	(475,679)	(125,962)	(274,919)
Borrowings under unsecured bond offerings.....	--	350,000	--
Repayments under unsecured notes.....	--	(100,000)	--
Borrowings under other debt obligations.....	1,094	279	65,067
Repayments under other debt obligations.....	(1,668)	(56,008)	(31,564)
(Increase) decrease in restricted cash held in connection with debt obligations.....	(22,359)	2,590	(10,246)
Payments on early extinguishment of debt.....	(3,950)	(1,037)	(317)
Payments for deferred financing costs.....	(45,702)	(30,382)	(21,048)
Distributions to minority interest in consolidated entities.....	(231)	(3,794)	(164)
Common dividends paid(1).....	(231,257)	(264,527)	(202,397)
Preferred dividends paid.....	(36,578)	(36,578)	(36,576)
Proceeds from equity offering.....	202,899	--	--
Purchase of treasury stock.....	(6,981)	--	(302)
Contribution from significant shareholder.....	506	--	--
Proceeds from exercise of options and issuance of DRIP shares.....	63,983	22,525	6,129
Proceeds from high performance units issued to employees.....	1,359	--	--
	-----	-----	-----
Cash flows provided by (used in) financing activities...	800,541	49,183	(37,719)
	-----	-----	-----
Increase (decrease) in cash and cash equivalents.....	264	(7,082)	(11,656)
Cash and cash equivalents at beginning of period.....	15,670	22,752	34,408
	-----	-----	-----
Cash and cash equivalents at end of period.....	\$ 15,934	\$ 15,670	\$ 22,752
	=====	=====	=====

Supplemental disclosure of cash flow information:

Cash paid during the period for interest, net of amount capitalized.....	\$ 157,618	\$ 141,271	\$ 141,632
	=====	=====	=====

* RECLASSIFIED TO CONFORM TO 2002 PRESENTATION.

EXPLANATORY NOTE:

(1) For the year ended December 31, 2001, the \$264.5 million of common dividends shown in the table represents five quarters of dividends, of which \$51.4 million relates to the fourth quarter 2000 dividend (paid in January 2001).

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

49

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--BUSINESS AND ORGANIZATION.

BUSINESS--iStar Financial Inc. (the "Company") is the leading publicly-traded finance company focused on the commercial real estate industry. The Company provides structured financing to private and corporate owners of real estate nationwide, including senior and junior mortgage debt, corporate mezzanine and subordinated capital, and corporate net lease financing. The Company, which is taxed as a real estate investment trust ("REIT"), seeks to deliver strong dividends and superior risk-adjusted returns on equity to shareholders by providing innovative and value-added financing solutions to its customers.

The Company's primary product lines include:

- STRUCTURED FINANCE. The Company provides senior and subordinated loans that typically range in size from \$20 million to \$100 million to borrowers holding high-quality real estate. These loans may be either fixed or variable rate and are structured to meet the specific financing needs of the borrowers, including the acquisition or financing of large, high-quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership loans, participating debt and interim facilities. The Company's structured finance transactions have maturities generally ranging from three to ten years. As of December 31, 2002, based on gross carrying values, the Company's structured finance assets represented 27.02% of its assets.
- PORTFOLIO FINANCE. The Company provides funding to regional and national borrowers who own multiple facilities in geographically diverse portfolios. Loans are cross-collateralized to give the Company the benefit of all available collateral and underwritten to recognize inherent portfolio diversification. Property types include multifamily, suburban office, hotels and other property types where individual property values are less than \$20 million on average. Loan terms are structured to meet the specific requirements of the borrower and typically range in size from \$25 million to \$150 million. The Company's portfolio finance transactions have maturities generally ranging from three to ten years. As of December 31, 2002, based on gross carrying values, the Company's portfolio finance assets represented 7.08% of its assets.
- CORPORATE FINANCE. The Company provides senior and subordinated capital to corporations engaged in real estate or real estate-related businesses. Financings may be either secured or unsecured and typically range in size from \$20 million to \$150 million. The Company's corporate finance transactions have maturities generally ranging from five to ten years. As of December 31, 2002, based on gross carrying values, the Company's corporate finance assets represented 12.18% of its assets.
- LOAN ACQUISITION. The Company acquires whole loans and loan participations which present attractive risk-reward opportunities. Loans are generally acquired at a small discount to the principal balance outstanding. Loan acquisitions typically range in size from \$5 million to \$100 million and

are collateralized by all major property types. The Company's loan acquisition transactions have maturities generally ranging from three to ten years. As of December 31, 2002, based on gross carrying values, the Company's loan acquisition assets represented 8.60% of its assets.

- CORPORATE TENANT LEASING. The Company provides capital to corporations and borrowers who control facilities leased to single creditworthy tenants. The Company's net leased assets are generally mission-critical headquarters or distribution facilities that are subject to long-term leases with rated corporate credit tenants, and which provide for all expenses at the property to be paid by

50

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1--BUSINESS AND ORGANIZATION. (CONTINUED)

the corporate tenant on a triple net lease basis. Corporate tenant lease transactions have terms generally ranging from ten to 20 years and typically range in size from \$20 million to \$150 million. As of December 31, 2002, based on gross carrying values, the Company's corporate tenant lease assets represented 43.64% of its assets.

- SERVICING. Through its iStar Asset Services division, the Company provides rated loan servicing to third-party institutional loan portfolios, as well as to the Company's own assets. The servicing business did not represent a meaningful percentage of the gross carrying value of the Company's assets as of December 31, 2002.

The Company's investment strategy targets specific sectors of the real estate credit markets in which it believes it can deliver value-added, flexible financial solutions to its customers, thereby differentiating its financial products from those offered by other capital providers.

The Company has implemented its investment strategy by:

- Focusing on the origination of large, structured mortgage, corporate and lease financings where customers require flexible financial solutions.
- Avoiding commodity businesses in which there is significant direct competition from other providers of capital such as conduit lending and investment in commercial or residential mortgage-backed securities.
- Developing direct relationships with borrowers and corporate customers as opposed to sourcing transactions solely through intermediaries.
- Adding value beyond simply providing capital by offering borrowers and corporate customers specific lending expertise, flexibility, certainty and continuing relationships beyond the closing of a particular financing transaction.
- Taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate customers' underlying credit obligations.

ORGANIZATION--The Company began its business in 1993 through private investment funds formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their approximately \$1.1 billion of assets to the Company's predecessor in exchange for a controlling interest in that company. Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions.

Specifically, in September 1998, the Company acquired the loan origination and servicing business of a major insurance company, and in December 1998, the Company acquired the mortgage and mezzanine loan portfolio of its largest private competitor. Additionally, in November 1999, the Company acquired TriNet Corporate Realty Trust, Inc. ("TriNet" or the "Leasing Subsidiary"), then the largest publicly-traded company specializing in corporate sale/leaseback transactions for office and industrial facilities (the "TriNet Acquisition"). The TriNet Acquisition was structured as a stock-for-stock merger of TriNet with a subsidiary of the Company.

Concurrent with the TriNet Acquisition, the Company also acquired its former external advisor in exchange for shares of the Company's common stock ("Common Stock") and converted its organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, the Company

51

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1--BUSINESS AND ORGANIZATION. (CONTINUED)

replaced its former dual class common share structure with a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange on November 4, 1999. Prior to this date, the Company's common shares were traded on the American Stock Exchange.

NOTE 2--BASIS OF PRESENTATION

The accompanying audited Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, and its majority-owned and controlled partnerships.

Certain other investments in partnerships or joint ventures which the Company does not control are also accounted for under the equity method (see Note 5 and 6). All significant intercompany balances and transactions have been eliminated in consolidation.

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LOANS AND OTHER LENDING INVESTMENTS, NET--As described in Note 4, "Loans and Other Lending Investments" includes the following investments: senior mortgages, subordinate mortgages, corporate/ partnership loans, other lending investments-loans and other lending investments-securities. Management considers nearly all of its loan and other lending investments to be held-to-maturity, although a small number of investments may be classified as available-for-sale. Items classified as held-to-maturity are reflected at amortized historical cost, while items classified as available-for-sale are reported at fair values. Unrealized gains and losses on available-for-sale investments are included in "Accumulated other comprehensive income" on the Company's Consolidated Balance Sheets, and are not included in the Company's net income.

CORPORATE TENANT LEASE ASSETS AND DEPRECIATION--Corporate tenant lease assets are generally recorded at cost less accumulated depreciation. Certain improvements and replacements are capitalized when they extend the useful life, increase capacity or improve the efficiency of the asset. Repairs and maintenance items are expensed as incurred. Depreciation is computed using the straight-line method of cost recovery over estimated useful lives of 40.0 years for facilities, five years for furniture and equipment, the shorter of the remaining lease term or expected life for tenant improvements and the remaining life of the facility for facility improvements.

Corporate tenant lease assets to be disposed of are reported at the lower of their carrying amount or fair value less costs to sell. The Company also periodically reviews long-lived assets to be held and used for an impairment in value whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In management's opinion, corporate tenant lease assets to be held and used are not carried at amounts in excess of their estimated recoverable amounts.

CAPITALIZED INTEREST--The Company capitalizes interest costs incurred during the construction period on qualified build-to-suit projects for corporate tenants, including investments in joint ventures accounted for under the equity method. Interest capitalized was approximately \$70,000 and \$1.0 million during the 12-month periods ended December 31, 2002 and 2001, respectively.

CASH AND CASH EQUIVALENTS--Cash and cash equivalents include cash held in banks or invested in money market funds with original maturity terms of less than 90 days.

52

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESTRICTED CASH--Restricted cash represents amounts required to be maintained in escrow under certain of the Company's debt obligations and leasing transactions.

REVENUE RECOGNITION--The Company's revenue recognition policies are as follows:

LOANS AND OTHER LENDING INVESTMENTS: Management considers nearly all of its loans and other lending investments to be held-to-maturity, although a small number of investments may be classified as available-for-sale. The Company reflects held-to-maturity investments at amortized cost less allowance for loan losses, acquisition premiums or discounts, deferred loan fees and undisbursed loan funds. Unrealized gains and losses on available-for-sale investments are included in "Accumulated other comprehensive income" on the Company's Consolidated Balance Sheets and are not included in the Company's net income. On occasion, the Company may acquire loans at small premiums or discounts based on the credit characteristics of such loans. These premiums or discounts are recognized as yield adjustments over the lives of the related loans. If loans that were acquired at a premium or discount are prepaid, the Company immediately recognizes the unamortized premium or discount as a decrease or increase, respectively, in the prepayment gain or loss. Loan origination or exit fees, as well as direct loan origination costs, are also deferred and recognized over the lives of the related loans as a yield adjustment. Interest income is recognized using the effective interest method applied on a loan-by-loan basis.

A small number of the Company's loans provide for accrual of interest at specified rates which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management's determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the borrower.

Prepayment penalties or yield maintenance payments from borrowers are recognized as additional income when received. Certain of the Company's loan investments provide for additional interest based on the borrower's operating cash flow or appreciation of the underlying collateral. Such amounts are considered contingent interest and are reflected as income only upon certainty of collection.

LEASING INVESTMENTS: Operating lease revenue is recognized on the straight-line method of accounting from the later of the date of the origination of the lease or the date of acquisition of the facility subject to existing leases. Accordingly, contractual lease payment increases are recognized evenly over the term of the lease. The cumulative difference between lease revenue recognized under this method and contractual lease payment terms is recorded as "Deferred operating lease income receivable" on the Company's Consolidated Balance Sheets.

PROVISION FOR LOAN LOSSES--The Company's accounting policies require that an allowance for estimated loan losses be maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for loan losses. In establishing loan loss provisions, management periodically evaluates and analyzes the Company's assets, historical and industry loss experience, economic conditions and trends, collateral values and quality, and other relevant factors. Specific valuation allowances are established for impaired loans in the amount by which the carrying value, before allowance for estimated losses, exceeds the fair value of collateral less disposition costs on an individual loan basis. Management considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. Management measures these impaired loans at the fair value of the loans' underlying collateral less estimated disposition costs. Impaired loans may be left on accrual status during the period the Company is pursuing repayment of the

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

loan; however, these loans are placed on non-accrual status at such time as: (1) management believes that the potential risk exists that scheduled debt service payments will not be met within the coming 12 months; (2) the loans become 90 days delinquent; (3) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment; or (4) the net realizable value of the loan's underlying collateral approximates the Company's carrying value of such loan. While on non-accrual status, interest income is recognized only upon actual receipt. Impairment losses are recognized as direct write-downs of the related loan with a corresponding charge to the provision for loan losses. Charge-offs occur when loans, or a portion thereof, are considered uncollectible and of such little value that further pursuit of collection is not warranted. Management also provides a loan portfolio reserve based upon its periodic evaluation and analysis of the portfolio, historical and industry loss experience, economic conditions and trends, collateral values and quality, and other relevant factors.

The Company's loans are generally secured by real estate assets or are corporate lending arrangements to entities with significant rental real estate operations (i.e., an unsecured loan to a company which operates residential apartments or retail, industrial or office facilities as rental real estate). While the underlying real estate assets for the corporate lending instruments may not serve as collateral for the Company's investments in all cases, the Company evaluates the underlying real estate assets when estimating loan loss exposure because the Company's loans generally have preclusions as to how much senior and/or secured debt the customer may borrow ahead of the Company's position.

INCOME TAXES--The Company is subject to federal income taxation at corporate rates on its "REIT taxable income"; however, the Company is allowed a deduction for the amount of dividends paid to its shareholders, thereby subjecting the distributed net income of the Company to taxation at the shareholder level only. In addition, the Company is allowed several other deductions in computing its "REIT taxable income," including non-cash items such as depreciation expense. These deductions allow the Company to shelter a portion of its operating cash flow from its dividend payout requirement under federal tax laws. The Company intends to operate in a manner consistent with and to elect to be treated as a REIT for tax purposes. iStar Operating Inc. ("iStar Operating") and TriNet Management Operating Company, Inc. ("TMOC"), the Company's REIT taxable subsidiaries, are not consolidated for federal income tax purposes and are taxed as corporations. For financial reporting purposes, current and deferred taxes are provided for in the portion of earnings recognized by the Company with respect to its interest in iStar Operating and TMOC. Accordingly, except for the Company's taxable subsidiaries, no current or deferred taxes are provided for in the Consolidated Financial Statements. See Note 6 for a detailed discussion on the ownership structure and operations of iStar Operating and TMOC.

EARNINGS (LOSS) PER COMMON SHARE--In accordance with the Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), the Company presents both basic and diluted earnings per share ("EPS"). Basic earnings per share ("Basic EPS") excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding for the period. Diluted earnings per share ("Diluted EPS") reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower earnings per share amount.

RECLASSIFICATIONS--Certain prior year amounts have been reclassified in the Consolidated Financial Statements and the related notes to conform to the 2002 presentation.

USE OF ESTIMATES--The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

CHANGE IN ACCOUNTING PRINCIPLE--In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (2) a hedge of the exposure to variable cash flows of a forecasted transaction; or (3) in certain circumstances, a hedge of a foreign currency exposure. On January 1, 2001, the Company adopted this pronouncement, as amended by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities--an Amendment of FASB Statement No. 133." Because the Company has primarily used derivatives as cash flow hedges of interest rate risk only, the adoption of SFAS No. 133 did not have a material financial impact on the financial position and results of operations of the Company. However, should the Company change its current use of such derivatives, the adoption of SFAS No. 133 could have a more significant effect on the Company prospectively.

Upon adoption, the Company recognized a charge to net income of approximately \$282,000 and an additional charge of \$9.4 million to "Accumulated other comprehensive income," representing the cumulative effect of the change in accounting principle.

OTHER NEW ACCOUNTING STANDARDS--In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." In June 2000, the SEC staff amended SAB 101 to provide registrants with additional time to implement SAB 101. The Company adopted SAB 101, as required, in the fourth quarter of fiscal 2000. The adoption of SAB 101 did not have a material financial impact on the financial position or the results of operations of the Company.

In March 2000, the FASB issued FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation." The Company was required to adopt FIN 44 effective July 1, 2000 with respect to certain provisions applicable to new awards, exchanges of awards in a business combination, modifications to outstanding awards, and changes in grantee status that occur on or after that date. FIN 44 addresses practice issues related to the application of Accounting Practice Bulletin Opinion No. 25, "Accounting for Stock Issued to Employees." The initial adoption of FIN 44 by the Company did not have a significant impact on the Company.

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140 ("SFAS No. 140"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement is applicable for transfers of assets and extinguishments of liabilities occurring after June 30, 2001. The Company adopted the provisions of this statement as required for all transactions entered into on or after April 1, 2001. The adoption of SFAS No. 140 did not have a significant impact on the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In July 2001, the SEC released Staff Accounting Bulletin No. 102 ("SAB 102"), "Selected Loan Loss Allowance and Documentation Issues." SAB 102 summarizes certain of the SEC's views on the development, documentation and application of a systematic methodology for determining allowances for loan and lease losses. Adoption of SAB 102 by the Company did not have a significant impact on the Company.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 ("SFAS No. 141"), "Business Combinations" and Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also addresses the initial recognition and measurement of goodwill and other

intangible assets acquired in business combinations and requires intangible assets to be recognized apart from goodwill if certain tests are met. SFAS No. 142 requires that goodwill not be amortized but instead be measured for impairment at least annually, or when events indicate that there may be an impairment. The Company adopted the provisions of both statements on January 1, 2002, as required, and the adoption did not have a significant impact on the Company.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of, and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 requires that current operations prior to the disposition of corporate tenant lease assets and prior period results of such operations be presented in discontinued operations in the Company's Consolidated Statements of Operations. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and must be applied at the beginning of a fiscal year. The Company adopted the provisions of this statement on January 1, 2002, as required, and it did not have a significant financial impact on the Company.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS No. 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds both FASB Statements No. 4 ("SFAS No. 4"), "Reporting Gains and Losses from Extinguishment of Debt," and the amendment to SFAS No. 4, FASB Statement No. 64 ("SFAS No. 64"), "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Through this rescission, SFAS No. 145 eliminates the requirement (in both SFAS No. 4 and SFAS No. 64) that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. An entity is not prohibited from classifying such gains and losses as extraordinary items, so long as they meet the criteria in paragraph 20 of Accounting Principles Board Opinion No. 30 ("APB 30"), "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"; however, due to the nature of the Company's operations, such treatment may not be available to the Company. Any gains or losses on extinguishments of debt that were previously classified as extraordinary items in prior periods presented that do not meet the criteria in APB 30 for classification as an extraordinary item will be reclassified to income from continuing operations. The provisions of SFAS No. 145 are effective for financial statements issued for fiscal years beginning after May 15, 2002. The Company will adopt the provisions of this statement, as required, on January 1, 2003, at

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

which time (\$12.2) million and (\$1.6) million will be reclassified to continuing operations for 2002 and 2001, respectively.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS No. 146"), "Accounting for Exit or Disposal Activities," to address significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force ("EITF") has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The scope of SFAS No. 146 also includes: (1) costs related to terminating a contract that is not a capital lease; and (2) termination benefits received by employees involuntarily terminated under the terms of a one-time benefit arrangement that is not an on-going benefit arrangement or an individual deferred-compensation contract. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect SFAS No. 146 to have a material effect on the Company's Consolidated Financial Statements.

In September 2002, the FASB issued Statement of Financial Accounting

Standards No. 147 ("SFAS No. 147"), "Acquisitions of Certain Financial Institutions," an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9. SFAS No. 147 provides guidance on the accounting for the acquisitions of financial institutions, except those acquisitions between two or more mutual enterprises. SFAS No. 147 removes acquisitions of financial institutions from the scope of both FASB No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," and FASB Interpretation No. 9, Applying APB Opinions No. 16 and 17, "When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method," and requires that those transactions be accounted for in accordance with SFAS No. 141 and SFAS No. 142. SFAS No. 147 also amends SFAS No. 144 to include in its scope long-term, customer-relationship intangible assets of financial institutions such as depositor-relationship and borrower-relationship intangible assets and credit cardholder intangible assets. The Company adopted the provisions of this statement, as required, on October 1, 2002, and it did not have a significant financial impact on the Company's Consolidated Financial Statements.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of FASB Statement of Financial Accounting Standards No. 5 ("SFAS No. 5"), "Accounting for Contingencies," Statement of Financial Accounting Standards No. 57, "Related Party Disclosures," Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" and rescinds FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others, an Interpretation of SFAS No. 5." It requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee regardless if the Company receives separately identifiable consideration (i.e., a premium). The new disclosure requirements are effective December 31, 2002. The adoption of FIN 45 did not have a material impact on the Company's Consolidated Financial Statements, nor is it expected to have a material impact in the future.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS No. 148"), "Accounting for Stock-Based Compensation--Transition and Disclosure," an amendment of FASB Statement No. 123 ("SFAS No. 123"). This statement provides alternative transition methods for a voluntary change to the fair value basis of accounting for stock-based employee compensation. However,

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

this Statement does not permit the use of the original SFAS No. 123 prospective method of transition for changes to the fair value based method made in fiscal years beginning after December 15, 2003. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation, description of transition method utilized and the effect of the method used on reported results. The transition and annual disclosure provisions of SFAS No. 148 shall be applied for fiscal years ending after December 15, 2002. The new interim disclosure provisions are effective for the first interim period beginning after December 15, 2002. The Company adopted SFAS No. 148 with retroactive application to January 1, 2002 with no material effect on the Company's Consolidated Financial Statements.

SFAS No. 148 disclosure requirements, including the effect on net income and earnings per share if the fair value-based method had been applied to all outstanding and unvested stock awards in each period, are presented below (in thousands except per share amounts):

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	BASIC EPS	BASIC EPS	BASIC EPS
	-----	-----	-----
Net income allocable to common shareholders, as reported....	\$178,362	\$193,004	\$180,678

Total stock-based compensation expense determined under fair value-based method for all awards, net of related tax effects.....	(565)	(705)	(275)
Pro forma net income.....	\$177,797	\$192,299	\$180,403
Earnings per share:			
Basic--as reported.....	\$ 1.98	\$ 2.24	\$ 2.11
Basic--pro forma.....	1.98	2.23	2.11
Diluted--as reported.....	\$ 1.93	\$ 2.19	\$ 2.10
Diluted--pro forma.....	1.92	2.18	2.09

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," an interpretation of ARB 51. FIN 46 provides guidance on identifying entities for which control is achieved through means other than through voting rights (a "variable interest entity" or "VIE"), and how to determine when and which business enterprise should consolidate a VIE. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The transitional disclosure requirements will take effect almost immediately and are required for all financial statements initially issued after January 31, 2003. The adoption of FIN 46 is not expected to have a material impact on the Company.

ISTAR FINANCIAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4--LOANS AND OTHER LENDING INVESTMENTS

The following is a summary description of the Company's loans and other lending investments (in thousands) (1):

TYPE OF INVESTMENT	UNDERLYING PROPERTY TYPE	# OF BORROWERS IN CLASS	PRINCIPAL BALANCES OUTSTANDING	CARRYING VALUE AS OF		EFFECTIVE MATURITY DATES
				DECEMBER 31, 2002	DECEMBER 31, 2001	
Senior Mortgages.....	Office/Residential/Retail/Industrial/Conference Center/Mixed Use/Hotel/Entertainment	29	\$1,712,967	\$1,675,797	\$1,158,669	2003 to 2019
Subordinate Mortgages(4).....	Office/Residential/Retail/Mixed Use/Hotel	22	630,683	629,486	585,698	2003 to 2011
Corporate/Partnership Loans.....	Office/Residential/Retail/Mixed Use/Hotel/Entertainment	20	463,507	441,028	395,083	2003 to 2011
Other Lending Investments--Loans(6)...	Office/Mixed Use	4	29,411	23,167	10,818	2006 to 2008
Other Lending Investments--Securities(7) ..	Office/Residential/Retail/Industrial/ Mixed Use/Entertainment	10	322,305	310,114	248,495	2003 to 2013
Gross Carrying Value....				\$3,079,592	\$2,398,763	
Provision for Loan Losses.....				(29,250)	(21,000)	
Total, Net.....				\$3,050,342	\$2,377,763	

TYPE OF INVESTMENT	CONTRACTUAL INTEREST PAYMENT RATES (2)	CONTRACTUAL INTEREST ACCRUAL RATES (2)	PRINCIPAL AMORTIZATION	PARTICIPATION FEATURES
Senior Mortgages.....	Fixed: 7.03% to 15.00% Variable: LIBOR + 1.50% to 6.50%	Fixed: 7.03% to 15.00% Variable: LIBOR + 1.50% to 6.50%	Yes (3)	No
Subordinate Mortgages(4).....	Fixed: 7.00% to 15.00% Variable: LIBOR + 1.79% to 5.80%	Fixed: 7.32% to 17.00% Variable: LIBOR + 1.79% to 5.80%	Yes (3)	No

Corporate/Partnership Loans.....	Fixed: 7.33% to 15.00% Variable: LIBOR + 3.50% to 6.50%	Fixed: 7.33% to 17.50% Variable: LIBOR + 3.50% to 6.50%	Yes (3)	Yes (5)
Other Lending Investments--Loans (6)...	Fixed: 10.00% Variable: LIBOR + 4.75%	Fixed: 10.00% Variable: LIBOR + 4.75%	No	Yes (5)
Other Lending Investments--Securities (6)...	Fixed: 6.75% to 12.50% Variable: LIBOR + 5.00%	Fixed: 6.75% to 12.50% Variable: LIBOR + 5.00%	Yes (3)	No
Gross Carrying Value....				
Provision for Loan Losses.....				
Total, Net.....				

EXPLANATORY NOTES:

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- (1) Amounts and details are for loans outstanding as of December 31, 2002.
 - (2) Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR on December 31, 2002 was 1.38%. As of December 31, 2002, three loans with a combined carrying value of \$72.4 million have a stated accrual rate that exceeds the stated pay rate.
 - (3) The loans require fixed payments of principal and interest resulting in partial principal amortization over the term of the loan with the remaining principal due at maturity.
 - (4) Includes a participation interest in a second mortgage and a subordinate interest in a private REMIC whose sole asset is a single first mortgage loan.
 - (5) Under some of these loans, the lender receives additional payments representing additional interest from participation in available cash flow from operations of the property.
 - (6) Includes one unsecured loan with a carrying value of \$403 as of December 31, 2001 which was subsequently repaid in October 2002.
 - (7) Generally consists of term preferred stock or debt interests that are specifically originated or structured to meet customer financing requirements and the Company's investment criteria. These investments do not typically consist of securities purchased in the open market or as part of broadly-distributed offerings. In addition, one of these securities is classified as available-for-sale and is reflected at fair value with a corresponding entry to "Accumulated other comprehensive income" on the Company's Consolidated Balance Sheets.

59

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4--LOANS AND OTHER LENDING INVESTMENTS (CONTINUED)

During the 12-month periods ended December 31, 2002 and 2001, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately \$1,403.8 million and \$700.6 million in loans and other lending investments, funded \$21.6 million and \$99.6 million under existing loan commitments, and received principal repayments of \$672.0 million and \$651.0 million.

As of December 31, 2002, the Company had nine loans with unfunded commitments. The total unfunded commitment amount was approximately \$97.7 million, of which \$22.2 million was discretionary and \$75.5 million was non-discretionary.

The Company's loans and other lending investments are predominantly pledged as collateral under either the iStar Asset Receivables secured notes, the secured revolving credit facilities or secured term loans (see Note 7).

The Company has reflected provisions for loan losses of approximately \$8.3 million, \$7.0 million and \$6.5 million during the years ended December 31, 2002, 2001 and 2000, respectively. These provisions represent loan portfolio reserves based on management's evaluation of general market conditions, the Company's internal risk management policies and credit risk ratings system,

industry loss experience, the likelihood of delinquencies or defaults, and the credit quality of the underlying collateral. No direct impairment reserves on specific loans were considered necessary.

NOTE 5--CORPORATE TENANT LEASE ASSETS

During the 12-month periods ended December 31, 2002 and 2001, respectively, the Company acquired an aggregate of approximately \$409.1 million and \$223.9 million in corporate tenant lease assets and disposed of corporate tenant lease assets for net proceeds of approximately \$3.7 million and \$26.3 million.

The Company's investments in corporate tenant lease assets, at cost, were as follows (in thousands):

	DECEMBER 31, 2002	DECEMBER 31, 2001
	-----	-----
Facilities and improvements.....	\$1,959,309	\$1,504,956
Land and land improvements.....	428,365	356,830
Direct financing lease.....	32,640	--
Less: accumulated depreciation.....	(128,509)	(80,221)
	-----	-----
Corporate tenant lease assets, net.....	\$2,291,805	\$1,781,565
	=====	=====

The Company's CTL assets are leased to customers with initial term expiration dates from 2003 to 2023. Future operating lease payments under non-cancelable leases, excluding customer reimbursements of expenses, in effect at December 31, 2002, are approximately as follows (in thousands):

YEAR	AMOUNT
----	-----
2003.....	\$ 245,462
2004.....	231,605
2005.....	218,209
2006.....	200,433
2007.....	177,352
Thereafter.....	1,481,235

Under certain leases, the Company receives additional participating lease payments to the extent gross revenues of the corporate tenant exceed a base amount. The Company earned \$0, \$0.4 million and \$0.6 million of such additional participating lease payments in the years ended December 31, 2002, 2001

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5--CORPORATE TENANT LEASE ASSETS (CONTINUED)

and 2000, respectively. In addition, the Company also receives reimbursements from customers for certain facility operating expenses including common area costs, insurance and real estate taxes. Customer expense reimbursements for the 12 months ended December 31, 2002, 2001 and 2000 were approximately \$30.3 million, \$25.8 million and \$25.3 million, respectively, and are included as a reduction of "Operating costs--corporate tenant lease assets" on the Company's Consolidated Statements of Operations.

The Company is subject to expansion option agreements with two existing customers which could require the Company to fund and to construct up to 161,000 square feet of additional adjacent space on which the Company would receive additional operating lease income under the terms of the option agreements. In addition, upon exercise of such expansion option agreements, the corporate tenants would be required to simultaneously extend their existing lease terms for additional periods ranging from six to ten years.

On September 30, 2002, one of the Company's customers exercised an option to terminate its lease on 50.00% of the land leased from the Company. In connection with this termination, the Company realized \$17.5 million in cash lease termination payments, offset by a \$17.4 million impairment charge in connection with the termination, resulting in net gain of approximately \$123,000. In the fourth quarter of 2002, the customer completed a recapitalization transaction that significantly enhanced its credit. In connection with this recapitalization, the Company agreed to amend the customer's lease, effective October 1, 2002. In the lease amendment, the Company received \$12.5 million in cash as prepaid lease payments and the customer agreed to fixed minimum increases on future lease payments. In exchange, the Company agreed to reduce the customer's lease obligations for a period not to exceed nine quarters. Following the reduction period, the customer is required to make additional lease payments over a 10-year period sufficient to reimburse the Company for a portion of the temporary reduction in lease payments.

In addition, on May 30, 2002, the Company sold one tenant lease asset for net proceeds of \$3.7 million, and realized a gain of approximately \$595,000. As of December 31, 2002, there were two corporate tenant lease assets with a combined book value of \$28.5 million classified as "Assets held for sale" on the Company's Consolidated Balance Sheets. The results of operations from corporate tenant lease assets sold or held for sale in the current period are classified as "Income from discontinued operations" even though such income was actually received by the Company prior to the asset sale. Gains on sale from corporate tenant lease assets are also classified as "Gain from discontinued operations" on the Company's Consolidated Statements of Operations.

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6--JOINT VENTURES AND UNCONSOLIDATED SUBSIDIARIES

The Company's ownership percentages, its investments in and advances to unconsolidated joint ventures and subsidiaries, its respective income (loss) and the Company's pro rata share of its ventures' third-party, non-recourse debt as of December 31, 2002 are presented below (in thousands):

UNCONSOLIDATED JOINT VENTURES AND SUBSIDIARIES	OWNERSHIP %	EQUITY INVESTMENT	JV INCOME	PRO RATA	THIRD-PARTY DEBT	
			(LOSS) FOR THE YEAR ENDED DECEMBER 31, 2002	SHARE OF THIRD-PARTY NON-RECOURSE DEBT (1)	INTEREST RATE	SCHEDULED MATURITY DATE
UNCONSOLIDATED JOINT VENTURES:						
Sunnyvale.....	44.70%	\$12,323	\$2,144	\$10,728	LIBOR + 1.25%	November 2004 (2)
CTC I.....	50.00%	12,407	1,429	60,115	7.66% - 7.87%	Various through 2011
ACRE Simon.....	20.00%	5,147	32	6,511	7.61% - 8.43%	Various through 2011
Milpitas.....	N/A	N/A	1,512	N/A	N/A	N/A
Sierra.....	N/A	N/A	(36)	N/A	N/A	N/A
UNCONSOLIDATED SUBSIDIARIES:						
iStar Operating..	95.00%	599	(3,859)	--	N/A	N/A
TMOC.....	95.00%	135	--	--	N/A	N/A
Total.....		\$30,611	\$1,222	\$77,354		

EXPLANATORY NOTES:

- (1) The Company reflects its pro rata share of third-party, non-recourse debt, rather than the total amount of the joint venture debt, because the third-party, non-recourse debt held by the joint ventures is not guaranteed by the Company nor does the Company have any additional commitments to fund such debt obligations.
- (2) Maturity date reflects a one-year extension at the venture's option.

INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED JOINT VENTURES: At December 31, 2002, the Company had investments in three joint ventures: (1) TriNet Sunnyvale Partners L.P. ("Sunnyvale"), whose external partners are John D. O'Donnell, Trustee, John W. Hopkins, and Donald S. Grant, Trustee;

(2) Corporate Technology Centre Associates, LLC ("CTC I"), whose external member is Corporate Technology Centre Partners, LLC; and (3) ACRE Simon, LLC ("ACRE"), whose external partner is William E. Simon & Sons Realty Investments, LLC. These ventures were formed for the purpose of operating, acquiring and, in certain cases, developing corporate tenant lease facilities.

At December 31, 2002, the ventures comprised 12 net leased facilities. The Company's combined investment in these joint ventures at December 31, 2002 was \$30.6 million. The joint ventures' carrying value for the 12 facilities owned at December 31, 2002 was \$196.2 million. In aggregate, the joint ventures had total assets of \$236.2 million and total liabilities of \$186.4 million as of December 31, 2002, and net income of \$7.0 million for the 12 months ended December 31, 2002. The Company accounts for these investments under the equity method because the Company's joint venture partners have certain participating rights giving them shared control over the ventures.

Effective September 29, 2000, iStar Sunnyvale Partners, LP, which is wholly owned by Sunnyvale, entered into an interest rate cap agreement limiting the venture's exposure to interest rate movements on its \$24.0 million LIBOR-based mortgage loan to an interest rate of 9.00% through November 9, 2003. Currently, the limited partners of Sunnyvale have the option to convert their partnership interest into cash; however, the Company may elect to deliver 297,728 shares of Common Stock in lieu of cash.

62

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6--JOINT VENTURES AND UNCONSOLIDATED SUBSIDIARIES (CONTINUED)

On April 1, 2002, the former Sierra Land Ventures ("Sierra") joint venture partner assigned its 50.00% ownership interest in Sierra to a wholly owned subsidiary of the Company. There was no cash or shares exchanged in this transaction. As of April 1, 2002, the Company owns 100.00% of the corporate tenant lease asset previously held by Sierra and therefore consolidates this asset for accounting purposes.

On July 2, 2002, the Company paid approximately \$27.9 million in cash to the former member of TriNet Milpitas Associates ("Milpitas") joint venture in exchange for its 50.00% ownership interest. Pursuant to the terms of the joint venture agreement, the former external member had the right to convert its interest into 984,476 shares of Common Stock of the Company at any time during the period February 1, 2002 through January 31, 2003. On May 2, 2002, the former Milpitas external member exercised this right. Upon the external member's exercise of its conversion right, the Company had the option to acquire the partner's interest for cash, instead of shares, for a payment equal to the value of 984,476 shares of Common Stock multiplied by the ten-day average closing stock price as of the transaction date. The Company made such election and, as of July 2, 2002, owns 100.00% of Milpitas, and therefore consolidates these assets for accounting purposes. The Company accounted for the acquisition of the external interest using the purchase method.

Income generated from the Company's joint venture investments and unconsolidated subsidiaries is included in "Equity in earnings from joint ventures and unconsolidated subsidiaries" on the Company's Consolidated Statements of Operations.

INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES: The Company has an investment in iStar Operating, a taxable subsidiary that, through a wholly-owned subsidiary, services the Company's loans and certain loan portfolios owned by third parties. The Company owns all of the non-voting preferred stock and a 95.00% economic interest in iStar Operating. An affiliate of the Company's largest shareholder is the owner of all the voting common stock and a 5.00% economic interest in iStar Operating. As of December 31, 2002, there have never been any distributions to the common shareholder, nor does the Company expect to make any in the future. At any time, the Company has the right to acquire all of the common stock of iStar Operating at fair market value, which the Company believes to be nominal. In addition to the direct general and administrative costs of iStar Operating, the Company allocates a portion of its general overhead expenses to iStar Operating based on the number of employees at iStar Operating as a percentage of the Company's total employees.

In addition, the Company has an investment in TMOC, a taxable noncontrolled subsidiary that has a \$2.0 million investment in a real estate company based in

Mexico. The Company owns 95.00% of the outstanding voting and non-voting common stock (representing 1.00% voting power and 95.00% of the economic interest) in TMOC. The other two owners of TMOC stock are executives of the Company, who own a combined 5.00% of the outstanding voting and non-voting common stock (representing 99.00% voting power and 5.00% economic interest) in TMOC. As of December 31, 2002, there have never been any distributions to the common shareholders, nor does the Company expect to make any in the future. At any time, the Company has the right to acquire all of the common stock of TMOC at fair market value, which the Company believes to be nominal.

Both iStar Operating and TMOC have elected to be treated as taxable REIT subsidiaries for purposes of maintaining compliance with the REIT provisions of the Code and are accounted for under the equity method for financial statement reporting purposes and are presented in "Investments in and advances to joint ventures and unconsolidated subsidiaries" on the Company's Consolidated Balance Sheets. If they were consolidated with the Company for financial statement purposes, they would not have a material impact on the Company's operations. As of December 31, 2002, iStar Operating and TMOC have no debt obligations.

NOTE 7--DEBT OBLIGATIONS

As of December 31, 2002 and 2001, the Company has debt obligations under various arrangements with financial institutions as follows (in thousands):

	MAXIMUM AMOUNT AVAILABLE	CARRYING VALUE AS OF		STATED INTEREST RATES (1)	SCHEDULED MATURITY DATE
		DECEMBER 31, 2002	DECEMBER 31, 2001		
SECURED REVOLVING CREDIT FACILITIES:					
Line of credit.....	\$ 700,000	\$ 412,550	\$ 312,300	LIBOR + 1.75% -- 2.25%	March 2005 (2)
Line of credit.....	700,000	462,920	439,309	LIBOR + 1.40% -- 2.15%	January 2005 (2)
Line of credit.....	500,000	283,884	148,937	LIBOR + 1.50% -- 1.75%	August 2005 (2)
Line of credit.....	500,000	114,400	--	LIBOR + 1.50% -- 2.25%	September 2005
UNSECURED REVOLVING CREDIT FACILITIES:					
Line of credit.....	300,000	--	--	LIBOR + 2.125%	July 2004 (3)
Total revolving credit facilities.....	\$2,700,000	\$1,273,754	900,546		
SECURED TERM LOANS:					
Secured by corporate tenant lease assets.....		193,000	193,000	LIBOR + 1.85%	July 2006 (4)
Secured by corporate tenant lease assets.....		144,114	147,520	7.44%	March 2009
Secured by corporate tenant lease assets.....		95,074	55,819	6.00% -- 11.38%	Various through 2022
Secured by corporate lending investments.....		79,126	--	6.55%	November 2005
Secured by corporate lending investments.....		61,537	--	6.41%	December 2012
Secured by corporate lending investments.....		60,000	60,000	LIBOR + 2.50%	June 2004 (3)
Secured by corporate lending investments.....		50,000	50,000	LIBOR + 2.50%	July 2006 (3)
Total term loans.....		682,851	506,339		
Less: debt (discount) premium.....		(236)	274		
Total secured term loans.....		682,615	506,613		
ISTAR ASSET RECEIVABLES SECURED NOTES:					
STARs Series 2000-1:					
Class A.....	--	--	81,152	LIBOR + 0.30%	August 2003
Class B.....	--	--	94,055	LIBOR + 0.50%	October 2003
Class C.....	--	--	105,813	LIBOR + 1.00%	January 2004
Class D.....	--	--	52,906	LIBOR + 1.45%	June 2004
Class E.....	--	--	123,447	LIBOR + 2.75%	January 2005
Class F.....	--	--	5,000	LIBOR + 3.15%	January 2005
STARs Series 2002-1:					
Class A1.....	236,694	--	--	LIBOR + 0.26%	June 2004 (5)
Class A2.....	381,296	--	--	LIBOR + 0.38%	December 2009 (5)
Class B.....	39,955	--	--	LIBOR + 0.65%	April 2011 (5)
Class C.....	26,637	--	--	LIBOR + 0.75%	May 2011 (5)
Class D.....	21,310	--	--	LIBOR + 0.85%	January 2012 (5)
Class E.....	42,619	--	--	LIBOR + 1.235%	January 2012 (5)
Class F.....	26,637	--	--	LIBOR + 1.335%	January 2012 (5)
Class G.....	21,309	--	--	LIBOR + 1.435%	January 2012 (5)
Class H.....	26,637	--	--	6.35%	January 2012 (5)
Class J.....	26,637	--	--	6.35%	May 2012 (5)
Class K.....	26,637	--	--	6.35%	May 2012 (5)
Total iStar Asset Receivables secured notes.....		876,368	462,373		
Less: debt discount.....		(4,425)	--		
Total iStar Asset Receivables secured notes.....		871,943	462,373		
UNSECURED NOTES:					

6.75% Dealer Remarketable Securities	125,000	125,000	6.75%	March 2013
(6) (7) (8).....				
7.70% Notes (6) (8).....	100,000	100,000	7.70%	July 2017
7.95% Notes (6) (8).....	50,000	50,000	7.95%	May 2006
8.75% Notes.....	350,000	350,000	8.75%	August 2008
	-----	-----		
Total unsecured notes.....	625,000	625,000		
Less: debt discount.....	(11,603)	(15,698)		
Plus: impact of pay-floating swap agreements (9).....	3,920	--		
	-----	-----		
Total unsecured notes.....	617,317	609,302		
OTHER DEBT OBLIGATIONS.....	15,961	16,535	Various	Various
	-----	-----		
TOTAL DEBT OBLIGATIONS.....	\$3,461,590	\$2,495,369		
	=====	=====		

64

EXPLANATORY NOTES:

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- (1) Substantially all variable-rate debt obligations are based on 30-day LIBOR and reprice monthly. The 30-day LIBOR rate on December 31, 2002 was 1.38%.
 - (2) Maturity date reflects a one-year "term-out" extension at the Company's option. Subsequent to December 31, 2002, the Company extended the final maturity date on the \$700.0 million facility maturing January 2005 to January 2007.
 - (3) Maturity date reflects a one-year extension at the Company's option.
 - (4) Maturity date reflects two one-year extensions at the Company's option.
 - (5) Principal payments on these bonds are a function of the principal repayments on loan or corporate tenant lease 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 class A1 is May 28, 2017 and the final maturity date for classes A2, B, C, D, E, F, G, H, J and K is May 28, 2020.
 - (6) The notes are callable by the Company 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 the Company. 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 to then-prevailing market rates upon remarketing. Subsequent to December 31, 2002, the Company modified the terms of these notes (see Note 17).
 - (8) These obligations were assumed as part of the acquisition of TriNet. 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 the Leasing Subsidiary could issue new debt obligations and, accordingly, the Company ascribed a market discount to each obligation. Such discounts are 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.
 - (9) On November 27, 2002, the Company entered into two pay-floating interest rate swaps struck at 3.8775% and 3.81% and in the notional amounts of \$100.0 million and \$50.0 million, respectively. These swaps mitigate the risk of changes in the fair value of \$150.0 million of the Company's 8.75% Notes attributable to changes in LIBOR. For accounting purposes, quarterly the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount.

65

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7--DEBT OBLIGATIONS (CONTINUED)

Availability of amounts under the secured revolving credit facilities are based on percentage borrowing base calculations. In addition, certain of the Company's debt obligations contain covenants. These covenants are both financial and non-financial in nature. Significant financial covenants include limitations on the Company's ability to incur indebtedness beyond specified levels, restrictions on the Company's ability to incur liens on assets and limitations on the amount and type of restricted payments, such as repurchases of its own equity securities, that the Company makes. Significant non-financial covenants include a requirement in its publicly-held debt securities that the Company offer to repurchase those securities at a premium if the Company undergoes a change of control. As of December 31, 2002, the Company believes it is in compliance with both financial and non-financial covenants on its debt obligations.

On May 17, 2000, the Company closed the inaugural offering under its proprietary matched funding program, STARS, Series 2000-1. In the initial transaction, a wholly-owned subsidiary of the Company 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 were utilized to repay the most senior class of the bonds then outstanding. The maturity of the bonds match funded the maturity of the underlying assets financed under the program. Of the assets of the subsidiary secured by this financing, 73.96% (by gross carrying value) consisted of first mortgages and subsequent lien positions and the remaining 26.04% consisted of junior loans. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARS liabilities remained on the Company's Consolidated Balance Sheets and no gain on sale was recognized. On May 28, 2002, the Company fully repaid these bonds.

On January 11, 2001, the Company closed a new \$700.0 million secured revolving credit facility which is led by a major commercial bank. The new facility has a three-year primary term and one-year "term-out" extension option, and bears interest at LIBOR + 1.40% to 2.15%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance assets and has a final maturity of January 2005. Subsequent to December 31, 2002, the Company extended the final maturity on this facility to January 2007.

On February 22, 2001, the Company extended the maturity of its \$350.0 million unsecured revolving credit facility to May 2002. On July 27, 2001, the Company repaid this facility and replaced it with a new \$300.0 million unsecured revolving credit facility.

On May 15, 2001, the Company repaid its \$100.0 million 7.30% unsecured notes. These notes were senior unsecured obligations of the Leasing Subsidiary and ranked equally with the Leasing Subsidiary's other senior unsecured and unsubordinated indebtedness.

On June 14, 2001, the Company closed \$193.0 million of term loan financing secured by 15 corporate tenant lease assets. The variable-rate loan bears interest at LIBOR + 1.85% (not to exceed 10.00% in aggregate) and has two one-year extensions at the Company's option. The Company used these proceeds to repay a \$77.8 million secured term loan maturing in June 2001 and to pay down a portion of its revolving credit facilities. In addition, the Company extended the maturity of its \$500.0 million secured revolving credit facility to August 2003. On March 29, 2002, the Company again extended the final maturity of this facility to August 2005, which includes a one-year "term-out" extension at the Company's option.

On July 6, 2001, the Company financed a \$75.0 million structured finance asset with a \$50.0 million term loan bearing interest at LIBOR + 2.50%. The loan has a maturity of July 2006, including a one-year

NOTE 7--DEBT OBLIGATIONS (CONTINUED)

extension at the Company's option. This investment is a \$75.0 million term preferred investment in a publicly-traded real estate customer. The Company's investment carries an initial current yield of 10.50%, with annual increases of

0.50% in each of the next two years. In addition, the Company's investment is convertible into the customer's common stock at a strike price of \$25.00 per share. The investment is callable by the customer between months 13 and 30 of the term at a yield maintenance premium, and after month 30, at a premium sufficient to generate a 14.62% internal rate of return on the Company's investment. The investment is putable by the Company to the customer for cash after five years.

On July 27, 2001, the Company completed a \$300.0 million unsecured 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 the Company's option and another one-year extension at the lenders' option. The new facility replaces two prior credit facilities maturing in 2002 and 2003, and bears interest at LIBOR + 2.125%.

On August 9, 2001, the Company issued \$350.0 million of 8.75% senior notes due in 2008. The notes are unsecured senior obligations of the Company. The Company used the net proceeds to repay outstanding borrowings under its secured credit facilities.

On March 29, 2002, the Company extended the maturity of its \$500.0 million secured facility to August 2005, which includes a one-year "term-out" extension at the Company's option.

On May 28, 2002, the Company fully repaid the then remaining \$446.2 million of bonds outstanding under its STARS, Series 2000-1 financing. Simultaneously, a wholly-owned subsidiary of the Company issued STARS, Series 2002-1, consisting of \$885.1 million of investment-grade bonds secured by the subsidiary's structured finance and corporate tenant lease assets, which had an aggregate outstanding principal balance of approximately \$1.1 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. The weighted average interest rate on the bonds, on an all-floating rate basis, was approximately LIBOR + 0.56% at inception. For accounting purposes, this transaction was treated as a secured financing: the underlying assets and STARS liabilities remained on the Company's Consolidated Balance Sheets, and no gain on sale was recognized.

On July 2, 2002, the Company purchased the remaining interest in the Milpitas joint venture from the former Milpitas external member for \$27.9 million. Upon purchase of the interest, the Milpitas joint venture became fully consolidated for accounting purposes and approximately \$79.1 million of secured term debt is reflected on the Company's Consolidated Balance Sheets.

On September 30, 2002, the Company closed a new \$500.0 million secured revolving credit facility with a leading financial institution. The new facility has a three-year term and bears interest at LIBOR + 1.50% to 2.25%, depending upon the collateral contributed to the borrowing base. The new facility accepts a broad range of structured finance and corporate tenant assets and has a final maturity date of September 2005.

On December 11, 2002, the Company closed a \$61.5 million term loan financing with a leading financial institution. The proceeds were used to fund a portion of an \$82.1 million CTL investment. The non-recourse loan is fixed rate and bears interest at 6.412%, has a maturity date of December 2012 and amortizes over a 30-year schedule.

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7--DEBT OBLIGATIONS (CONTINUED)

During the years ended December 31, 2002 and 2001, the Company incurred an extraordinary loss of approximately \$12.2 million and \$1.6 million, respectively, as a result of the early retirement of certain debt obligations.

Subsequent to December 31, 2002, the Company modified the terms of the 6.75% Dealer Remarketable Securities (see Note 17).

As of December 31, 2002, future expected/scheduled maturities of outstanding long-term debt obligations are as follows (in thousands) (1):

2003.....	\$ 15,961
2004.....	296,694
2005.....	1,355,965
2006.....	293,000
2007.....	2,975
Thereafter.....	1,509,339

Total principal maturities.....	3,473,934
Net unamortized debt discounts.....	(16,264)
Impact of pay-floating swap agreement.....	3,920

Total debt obligations.....	\$3,461,590
	=====

EXPLANATORY NOTE:

(1) Assumes exercise of extensions to the extent such extensions are at the Company's option.

NOTE 8--SHAREHOLDERS' EQUITY

The Company's charter provides for the issuance of up to 200.0 million shares of Common Stock, par value \$0.001 per share, and 30.0 million shares of preferred stock. The Company has 4.4 million shares of 9.50% Series A Cumulative Redeemable Preferred Stock, 2.3 million shares of 9.375% Series B Cumulative Redeemable Preferred Stock, 1.5 million shares of 9.20% Series C Cumulative Redeemable Preferred Stock, and 4.6 million shares of 8.00% Series D Cumulative Redeemable Preferred Stock. The Series A, B, C and D Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on December 15, 2003, June 15, 2001, August 15, 2001 and October 8, 2002, respectively.

On December 15, 1998, the Company issued warrants to acquire 6.1 million shares of Common Stock, as adjusted for dilution, at \$34.35 per share. The warrants are exercisable on or after December 15, 1999 at a price of \$34.35 per share and expire on December 15, 2005.

CONCENTRATION OF SHAREHOLDER OWNERSHIP--On October 30, 2001, SOF IV SMT Holdings, L.P. ("SOF IV") and certain of its affiliates sold 18.975 million shares of Common Stock owned by them (including the subsequently-exercised 2.475 million share over-allotment option granted to the underwriters). In addition, on May 15, 2002, SOF IV sold 10.808 million shares of Common Stock owned by them (including the subsequently-exercised 808,200 share over-allotment option granted to the underwriters). Further, on November 14, 2002, SOF IV sold 3.5 million shares of Common Stock owned by them (including the subsequently-exercised 1.5 million over-allotment option granted to the underwriters). The Company did not sell any shares in the first two offerings. In the November 2002 offering, the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8--SHAREHOLDERS' EQUITY (CONTINUED)

Company sold 8.0 million primary shares and received net proceeds of approximately \$202.9 million. As a result of the secondary offerings, SOF IV currently owns approximately 19.84% of the Company's Common Stock (based on the diluted sharecount as of December 31, 2002).

DRIP PROGRAM--The Company maintains a dividend reinvestment and direct stock purchase plan. Under the dividend reinvestment component of the plan, the Company's shareholders may purchase additional shares of Common Stock without payment of brokerage commissions or service charges by automatically reinvesting all or a portion of their Common Stock cash dividends. Under the direct stock purchase component of the plan, the Company's shareholders and new investors may purchase shares of Common Stock directly from the Company without payment of brokerage commissions or service charges. All purchases of shares in excess of

\$10,000 per month pursuant to the direct purchase component are at the Company's sole discretion. Shares issued under the plan may reflect a discount of up to 3.00% from the prevailing market price of the Company's Common Stock. The Company is authorized to issue up to 8.0 million shares of Common Stock pursuant to the dividend reinvestment and direct stock purchase plan. During the 12-month periods ended December 31, 2002 and 2001, the Company issued a total of 1.6 million and approximately 195,000 shares of its Common Stock, respectively, through the direct stock purchase component of the plan. Net proceeds during the 12-month periods ended December 31, 2002 and 2001 were approximately \$44.4 million and \$4.7 million, respectively.

STOCK REPURCHASE PROGRAM--The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets or loan repayments and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of December 31, 2001, the Company had repurchased a total of approximately 2.3 million shares at an aggregate cost of approximately \$40.7 million. The Company did not repurchase any shares under the stock repurchase program in 2002.

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

RISK MANAGEMENT--In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's lending investments that results from a property's, borrower's or corporate tenant's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans due to changes in interest rates or other market factors, including the rate of prepayments of principal and the value of the collateral underlying loans and the valuation of corporate tenant lease facilities held by the Company.

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

USE OF DERIVATIVE FINANCIAL INSTRUMENTS--The Company's use of derivative financial instruments is primarily limited to the utilization of interest rate agreements or other instruments to manage interest rate risk exposure. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure as well as to hedge specific anticipated transactions. The counterparties to these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of nonperformance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations.

The Company has entered into the following cash flow and fair value hedges that are outstanding as of December 31, 2002. The net value associated with these hedges is reflected on the Company's Consolidated Balance Sheets (in thousands).

TYPE OF HEDGE	NOTIONAL AMOUNT	STRIKE PRICE OR SWAP RATE	TRADE DATE	MATURITY DATE	ESTIMATED VALUE AT DECEMBER 31, 2002
Pay-Fixed Swap.....	\$125,000	7.058%	6/15/00	6/25/03	\$(3,598)
Pay-Fixed Swap.....	125,000	7.055%	6/15/00	6/25/03	(3,596)
Pay-Fixed Swap.....	75,000	5.580%	11/4/99(1)	12/1/04	(5,743)
Pay-Floating Swap....	100,000	3.878%	11/27/02	8/15/08	2,761
Pay-Floating Swap....	50,000	3.810%	11/27/02	8/15/08	1,203

LIBOR Cap.....	345,000	8.000%	5/22/02	5/28/14	12,088
LIBOR Cap.....	75,000	7.750%	11/4/99(1)	12/1/04	21
LIBOR Cap.....	35,000	7.750%	11/4/99(1)	12/1/04	9

Total Estimated Value.....					\$ 3,145
					=====

EXPLANATORY NOTE:

(1) Acquired in connection with the TriNet Acquisition (see Note 1 to the Company's Consolidated Financial Statements).

Between January 1, 2001 and December 31, 2002, the Company also had outstanding the following cash flow hedges that have expired or been settled (in thousands):

TYPE OF HEDGE	NOTIONAL AMOUNT	STRIKE PRICE OR SWAP RATE	TRADE DATE	MATURITY DATE
-----	-----	-----	-----	-----
LIBOR Cap.....	\$300,000	9.000%	3/16/98	3/16/01
Pay-Fixed Swap.....	92,000	5.714%	8/10/98	3/1/01
LIBOR Cap.....	75,000	7.500%	7/16/98	6/19/01
LIBOR Cap.....	38,336	7.500%	4/30/98	6/1/01

In connection with STARs, Series 2002-1 in May 2002, the Company entered into a LIBOR interest rate cap struck at 8.00% in the notional amount of \$345.0 million. The Company utilizes the provisions of SFAS No. 133 with respect to such instruments. SFAS No. 133 provides that the up-front fees paid on option-based products such as caps should be expensed into earnings based on the allocation of the premium to the affected periods as if the agreement were a series of "caplets." These allocated premiums are then reflected as a charge to income (as part of interest expense) in the affected period.

On May 28, 2002, in connection with the STARs, Series 2002-1 transaction, the Company paid a premium of \$13.7 million for an interest rate cap. Using the "caplet" methodology discussed above, amortization of the cap premium is dependent upon the actual value of the caplets at inception.

70

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

In connection with STARs, Series 2000-1 in May 2000, the Company entered into a LIBOR interest rate cap struck at 10.00% in the notional amount of \$312.0 million, and simultaneously sold a LIBOR interest rate cap with the same terms. Since these instruments did not change the Company's net interest rate risk exposure, they did not qualify as hedges and changes in their respective values were charged to earnings. As the terms of these arrangements were substantially the same, the effects of a revaluation of these two instruments substantially offset one another. On May 28, 2002, these instruments were settled and are no longer outstanding.

In connection with the Company's \$350.0 million of fixed-rate corporate bonds, the Company entered into two pay-floating interest rate swaps struck at 3.8775% and 3.81% and in the notional amounts of \$100.0 million and \$50.0 million, respectively. The Company pays one-month LIBOR and receives the fixed rate in return. These swaps mitigate the risk of changes in the fair value of \$150.0 million of the Company's fixed-rate corporate bonds attributable to changes in LIBOR. For accounting purposes, the difference between the fixed rate received and the LIBOR rate paid on the notional amount of the swap is recorded as "Interest expense" in the Company's Consolidated Statements of Operations. In addition, quarterly the Company adjusts the value of the swap to its fair value and adjusts the carrying amount of the hedged liability by an offsetting amount.

During the year ended December 31, 1999, the Company settled an aggregate

notional amount of approximately \$63.0 million that was outstanding under certain hedging agreements which the Company had entered into in order to hedge the potential effects of interest rate movements on anticipated fixed-rate borrowings. The settlement of such agreements resulted in a receipt of approximately \$0.6 million which had been deferred pending completion of the planned fixed-rate financing transaction. Subsequently, the transaction was modified and was actually consummated as a variable-rate financing transaction. As a result, the previously deferred receipt no longer qualified for hedge accounting treatment and the \$0.6 million was recognized as a gain included in "Other income" in the Company's Consolidated Statements of Operations for the year ended December 31, 2000 in connection with the closing of STARS, Series 2000-1 in May 2000.

During the year ended December 31, 1999, the Company refinanced its \$125.0 million term loan maturing March 15, 1999 with a \$155.4 million term loan maturing March 5, 2009. The new term loan bears interest at 7.44% per annum, payable monthly, and amortizes over an approximately 22-year schedule. The new term loan represented forecasted transactions for which the Company had previously entered into U.S. Treasury-based hedging transactions. The net \$3.4 million cost of the settlement of such hedges has been deferred and is being amortized as an increase to the effective financing cost of the new term loan over its effective ten-year term.

CREDIT RISK CONCENTRATIONS--Concentrations of credit risks arise when a number of borrowers or customers related to the Company's investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of credit risks. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risks.

Substantially all of the Company's corporate tenant lease assets (including those held by joint ventures) and loans and other lending investments are collateralized by facilities located in the United States, with significant concentrations (i.e., greater than 10.00%) as of December 31, 2002 in California

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)
(22.72%) and Texas (10.32%). As of December 31, 2002, the Company's investments also contain greater than 10.00% concentrations in the following asset types: office-CTL (27.42%), office-lending (19.67%), industrial (15.00%) and hotel-lending (11.99%).

The Company underwrites the credit of prospective borrowers and customers and often requires them to provide some form of credit support such as corporate guarantees, letters of credit and/or cash security deposits. Although the Company's loans and other lending investments and corporate customer lease assets are geographically diverse and the borrowers and customers operate in a variety of industries, to the extent the Company has a significant concentration of interest or operating lease revenues from any single borrower or customer, the inability of that borrower or customer to make its payment could have an adverse effect on the Company. As of December 31, 2002, the Company's five largest borrowers or corporate tenants collectively accounted for approximately 15.67% of the Company's aggregate annualized interest and operating lease revenue.

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS

The Company's 1996 Long-Term Incentive Plan (the "Plan") is designed to provide incentive compensation for officers, other key employees and directors of the Company. The Plan provides for awards of stock options and shares of restricted stock and other performance awards. The maximum number of shares of Common Stock available for awards under the Plan is 9.00% of the outstanding shares of Common Stock, calculated on a fully diluted basis, from time to time; provided that the number of shares of Common Stock reserved for grants of options designated as incentive stock options is 5.0 million, subject to certain antidilution provisions in the Plan. All awards under the Plan, other than automatic awards to non-employee directors, are at the discretion of the Board

or a committee of the Board. At December 31, 2002, a total of approximately 9.1 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 4.3 million shares of Common Stock were outstanding and approximately 330,000 shares of restricted stock were outstanding.

In March 1998, the Company issued approximately 2.5 million (as adjusted) fully vested and immediately exercisable options to purchase shares of Common Stock at \$14.72 per share (as adjusted) to its former advisor with a term of ten years. The former advisor granted a portion of these options to its employees and the remainder was allocated to an affiliate. Upon the Company's acquisition of its former advisor, these individuals became employees of the Company. In general, the grants to these employees provided for scheduled vesting over a predefined service period of three to five years and, under certain conditions, provide for accelerated vesting. These options expire on March 15, 2008.

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

Changes in options outstanding during each of fiscal 2000, 2001 and 2002 are as follows:

	NUMBER OF SHARES			AVERAGE STRIKE PRICE
	EMPLOYEES	NON-EMPLOYEE DIRECTORS	OTHER	
OPTIONS OUTSTANDING, DECEMBER 31, 1999.....	2,778,252	146,379	881,163	\$19.03
Granted in 2000.....	1,852,059	80,000	80,000	\$17.34
Exercised in 2000.....	(412,734)	--	--	\$15.67
Forfeited in 2000.....	(682,005)	--	--	\$25.47
OPTIONS OUTSTANDING, DECEMBER 31, 2000.....	3,535,572	226,379	961,163	\$18.97
Granted in 2001.....	1,618,400	90,000	100,000	\$20.31
Exercised in 2001.....	(1,262,811)	(20,000)	(25,000)	\$16.48
Forfeited in 2001.....	(107,939)	--	--	\$27.27
OPTIONS OUTSTANDING, DECEMBER 31, 2001.....	3,783,222	296,379	1,036,163	\$18.98
Granted in 2002.....	--	90,000	--	\$27.83
Exercised in 2002.....	(488,674)	(190,650)	(164,683)	\$18.63
Forfeited in 2002.....	(17,406)	(4,600)	--	\$24.87
OPTIONS OUTSTANDING, DECEMBER 31, 2002.....	3,277,142	191,129	871,480	

The following table summarizes information concerning outstanding and exercisable options as of December 31, 2002:

EXERCISE PRICE RANGE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	CURRENTLY EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$14.72--\$15.00(1)	1,000,213	5.62	\$14.72	751,618	\$14.72
\$16.69--\$16.88	716,207	7.02	\$16.86	350,586	\$16.87
\$17.38--\$17.56	422,490	7.22	\$17.39	256,658	\$17.40
\$19.63--\$19.69	1,536,584	8.08	\$19.69	426,763	\$19.69
\$20.00--\$21.44	138,466	7.28	\$20.91	82,984	\$20.92
\$22.44	13,333	7.75	\$22.44	6,667	\$22.44
\$23.32--\$23.64	43,901	1.37	\$23.53	31,316	\$23.52
\$24.13--\$24.94	183,700	5.05	\$24.54	183,034	\$24.54
\$25.10--\$26.09	14,800	3.74	\$26.02	14,134	\$26.06

\$26.30--\$26.97	77,900	1.60	\$26.80	76,567	\$26.80
\$27.00	25,000	8.48	\$27.00	8,334	\$27.00
\$28.54--\$29.82	90,188	8.94	\$29.68	90,188	\$29.68
\$30.33	67,275	0.40	\$30.33	67,275	\$30.33
\$33.70	4,600	0.01	\$33.70	4,600	\$33.70
\$55.39	5,094	6.42	\$55.39	5,094	\$55.39
	-----	-----	-----	-----	-----
	4,339,751	6.79	\$18.77	2,355,818	\$19.00
	=====	=====	=====	=====	=====

EXPLANATORY NOTE:

(1) Includes approximately 764,000 options which were granted, on a fully exercisable basis, in March 1998, and which are now held by an affiliate of SOF IV. Beneficial interests in these options were subsequently regranted by that affiliate to employees of it and its affiliates, subject to vesting requirements. In the event that these employees forfeit such options, they revert to an affiliate of SOF IV, which may regrant them at its discretion. As of December 31, 2002, approximately 468,000 of these options have become exercisable by the beneficial owners. Of this total, approximately 288,000 have been exercised as of December 31, 2002.

73

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

In the third quarter 2002 (with retroactive application to the beginning of the calendar year), the Company adopted the fair value method for accounting for options issued to employees or directors, as allowed under Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation." Accordingly, the Company recognizes a charge equal to the fair value of these options at the date of grant multiplied by the number of options issued. This charge will be amortized over the related remaining vesting terms to individual employees as additional compensation. The impact for options issued since January 1, 2002 is approximately \$110,000, which is reflected under "General and administrative--stock-based compensation" on the Company's Consolidated Statements of Operations.

Prior to the third quarter 2002, the Company had elected to use the intrinsic method for accounting for options issued to employees or directors, as allowed under SFAS No. 123 and, accordingly, recognized no expense in connection with these options to the extent that the options' exercise prices equaled or exceeded the quoted prices of the Company's shares of Common Stock on the grant or investment dates. However, in connection with the acquisition of the Company's former external advisor, the Company recognized a deferred stock-based compensation charge of approximately \$5.1 million. This deferred charge represents the difference between the Company's closing stock price on the date it acquired its former external advisor (which was \$20.25), and the strike price of \$14.72 per share (as adjusted) for the unvested portion of the options granted to the former external advisor's employees, who are now employees of the Company. This deferred charge is being amortized over the related remaining vesting terms to the individual employees as an additional expense under "General and administrative--stock-based compensation" on the Company's Consolidated Statements of Operations.

If the Company's compensation costs had been determined using the fair value method of accounting for stock options issued under the Plan to employees and directors prescribed by SFAS No. 123 prior to 2002, the Company's net income for the fiscal years ended December 31, 2002, 2001 and 2000 would have been reduced on a pro forma basis by approximately \$565,000, \$705,000 and \$275,000 respectively. This would not have significantly impacted the Company's earnings per share.

The fair value of each significant option grant is estimated on the date of grant (May 29, 2002 for the 2002 options) using the Black-Scholes model. For the above SFAS No. 123 calculation, the following assumptions were used for the Company's fair value calculations of stock options:

	2002	2001	2000
	-----	-----	-----
Expected life (in years).....	5	5	5
Risk-free interest rate.....	4.38%	4.96%	5.30%
Volatility.....	16.23%	20.83%	26.80%
Dividend yield.....	8.45%	12.00%	13.50%
Weighted average grant date fair value.....	\$ 1.38	\$ 0.76	\$ 0.46

Future charges may be taken to the extent of additional option grants, which are at the discretion of the Board of Directors.

During the 12 months ended December 31, 2002, the Company granted 194,558 restricted shares to employees. Of these shares, 39,558 will vest proportionately over three years on the anniversary date of the initial grant. The balance of 155,000 restricted shares will vest on March 31, 2004 if: (1) the employee remains employed until that date; and (2) the 60-day average closing price of the Company's Common Stock equals or exceeds a set floor price as of such date. Dividends will be paid on the restricted shares as dividends are paid on shares of the Company's Common Stock. Assuming the shares become fully vested

74

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS (CONTINUED)
on March 31, 2004 and the market price of the stock is \$28.05 (which was the market price of the Common Stock on December 31, 2002), the Company would incur a one-time charge to both net income and earnings at that time equal to \$4.3 million (the fair market value of the 155,000 shares at \$28.05 per share). During the 12 months ended December 31, 2002, the Company also granted 208,980 restricted shares to its Chief Financial Officer (see detailed information below).

During the year ended December 31, 2001, the Company granted 94,943 restricted shares to employees in lieu of cash bonuses for the year ended December 31, 2000 at the employees' election. These restricted shares were immediately vested on the date of grant and were not transferable for a period of one year following vesting.

During the year ended December 31, 2000, the Company granted 140,402 restricted shares to employees. Of this total, 71,752 restricted shares were granted in lieu of cash bonuses at the employees' election, were immediately vested on the date of grant, and were not transferable for a period of one year following vesting. An additional 68,650 of such restricted shares vest over periods ranging from one to three years following the date of grant and are transferable upon vesting.

For accounting purposes, the Company measures compensation costs for these shares, not including the contingently issuable shares, as of the date of the grant and expenses such amounts against earnings, either at the grant date (if no vesting period exists) or ratably over the respective vesting period. Such amounts appear on the Company's Consolidated Statements of Operations under "General and administrative--stock-based compensation expense."

During the year ended December 31, 2002, the Company entered into a three-year employment agreement with its new Chief Financial Officer. Under the agreement, the Chief Financial Officer receives an annual base salary of \$225,000. She may also receive a bonus, which is targeted to be \$325,000, subject to an annual review for upward or downward adjustment. In addition, the Company granted the Chief Financial Officer 108,980 contingently vested restricted stock awards. These awards become vested on December 31, 2005 if the executive's employment with the Company has not terminated before such date. Dividends will be paid on the restricted shares as dividends are paid on shares of the Company's Common Stock. For accounting purposes, the Company will take a total charge of approximately \$3.0 million related to the restricted stock awards, which will be amortized over the period from November 6, 2002 through December 31, 2005. This charge is reflected on the Company's Consolidated Statements of Operations under "General and administrative--stock-based compensation."

Further, the Company granted the Chief Financial Officer 100,000 restricted

shares which vest in whole or in part if the Company's shareholders realize total rates of shareholder return (dividends plus share price appreciation) of between 0.00% and 20.00%, achieved by the Company between January 2, 2003 and January 31, 2004. Vested shares would be subject to forfeiture if the executive's employment with the Company terminated under certain circumstances. Assuming the shares became fully vested on January 31, 2004 and the market price of the stock is \$28.05 (which was the market price of the Common Stock on December 31, 2002), the Company would incur a one-time charge to both net income and earnings at that time equal to \$2.8 million (the fair market value of the 100,000 shares at \$28.05 per share). For accounting purposes, the employment arrangement described above is treated as a contingent, variable plan until January 31, 2004.

During the year ended December 31, 2001, the Company entered into a new three-year employment agreement with its Chief Executive Officer. Under the agreement, the Chief Executive Officer receives an annual base salary of \$1.0 million. He may also receive a bonus, which is targeted to be an amount equal to

75

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

his base salary, if the Company achieves certain performance targets set by the Compensation Committee. The bonus award may be increased or reduced from the target depending upon the degree to which the performance goals are exceeded or are not met, and may not exceed 200.00% of his base salary. The bonus is reduced by the amount of any dividends paid to the Chief Executive Officer in respect of phantom shares (described below) which are awarded to him and have contingently vested. The Chief Executive Officer received approximately \$2.1 million in such dividends in 2002. As such, no additional bonus was paid. As part of this agreement, the Company confirmed a prior grant of 750,000 stock options made to the executive on March 2, 2001 with an exercise price of \$19.69, which represented the market price at the date of the original contingent grant. However, because the grant required further approval by the Compensation Committee and the Board of Directors, no measurement date occurred for accounting purposes until such approvals were made, at which point the market price of the Company's Common Stock was \$24.90. Accordingly, an aggregate charge of approximately \$3.9 million is being recognized with respect to these options over the term of this agreement and is reflected on the Company's Consolidated Statements of Operations under "General and administrative--stock-based compensation." These options will vest in three equal installments of 250,000 shares in each January beginning in January 2002.

The Company also granted the executive 2.0 million unvested phantom shares, each of which represents one share of the Company's Common Stock. These shares will vest in installments of 350,000 shares, 650,000 shares, 600,000 shares and 400,000 shares on a contingent basis if the 60-day average closing price of the Company's Common Stock achieves thresholds of \$25.00, \$30.00, \$34.00 and \$37.00, respectively. As of December 31, 2002, the \$25.00 and \$30.00 thresholds have been attained, and a total of 1.0 million of these shares have contingently vested. Assuming that the market price of the Common Stock on March 31, 2004) is \$28.05 (which was the market price of the Common Stock on December 31, 2002), the Company would incur a one-time charge to both net income and earnings at that time equal to \$28.0 million (the fair market value of the 1.0 million shares at \$28.05 per share). Shares that have contingently vested generally will not become fully vested until the end of the three-year term of the agreement, except upon certain termination or change of control events. Further, if the average stock price drops below certain specified levels for a 60-day period prior to such date, such phantom shares would not fully vest and would be forfeited. If the Company is not authorized to issue shares to the executive upon full vesting of the phantom shares, then the vesting will be settled through a cash payment based upon the market price of the Common Stock during a recent trading period. The executive will receive dividends on shares that have contingently or fully vested and have not been forfeited under the terms of the agreement, if and when the Company declares and pays dividends on its Common Stock. Because no shares have been issued, dividends received on these phantom shares, if any, will be reflected as compensation expense by the Company. For accounting purposes, this arrangement will be treated as a contingent, variable plan and no additional compensation expense will be recognized until the shares, in whole or in part, become irrevocably vested, whereupon the Company will reflect a charge equal to the then fair value of the

phantom shares irrevocably vested.

In addition, during the year ended December 31, 2001, the Company entered into a three-year employment agreement with its former President. Under the agreement, in lieu of salary and bonus, the Company granted the executive 500,000 restricted shares. These shares became fully-vested on September 30, 2002 as a result of the Company achieving a 60.00% total shareholder rate of return (dividends plus share price appreciation) since January 1, 2001. Upon the restricted shares becoming fully vested, the Company withheld 250,000 of such shares from the executive to cover the tax obligations associated with the vesting of such shares. These shares are reflected as "Treasury stock" on the Company's Consolidated Statements of Changes in Shareholders' Equity. For accounting purposes, the

76

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

employment arrangement described above was treated as a contingent, variable plan until the April 29, 2002 contingent vesting date. The Company incurred a total non-cash charge of approximately \$15.0 million related to the vesting of the shares, recognized ratably over the period from April 29, 2002 through September 30, 2002. Accordingly, the non-cash charge recognized for the 12 months ended December 31, 2002 was approximately \$15.0 million.

The executive received dividends on the share grant from the date of the agreement as and when the Company declared and paid dividends on its Common Stock. For financial statement purposes, such dividends were accounted for in a manner consistent with the Company's normal Common Stock dividends as a reduction to retained earnings.

Certain affiliates of SOF IV and the Company's Chief Executive Officer have agreed to reimburse the Company for the value of restricted shares awarded to the President in excess of 350,000 shares, net of tax benefits realized by the Company or its shareholders on account of compensation expense deductions. The reimbursement obligation arose once the restricted share award became fully vested on September 30, 2002. In the case of the SOF IV affiliates, the reimbursement payment must be made through the delivery of approximately \$2.4 million in cash or 131,250 shares of Common Stock. As of December 31, 2002, the SOF IV affiliates have paid approximately \$506,000 in cash, which is reflected as "Additional paid-in capital" on the Company's Consolidated Balance Sheets. In the case of the Chief Executive Officer, the reimbursement payment was made through the delivery of 12,343 vested shares of Common Stock as of December 31, 2002. These reimbursement payments are reflected as "Additional paid-in capital" on the Company's Consolidated Balance Sheets, and not as an offset to the non-cash charge referenced above.

On July 28, 2000, the Company granted to its employees profits interests in a wholly-owned subsidiary of the Company called iStar Venture Direct Holdings, LLC. At December 31, 2002, iStar Venture Direct Holdings, LLC had a net investment of approximately \$606,000 in the preferred stock of a real estate-related software company. The profits interests have three-year vesting schedules, and are subject to forfeiture in the event of termination of employment for cause or a voluntary resignation. The Company currently estimates that the profits interests have minimal or no value.

HIGH PERFORMANCE UNIT PROGRAM

In May 2002, the Company's shareholders approved the iStar Financial High Performance Unit Program. The program, as more fully described in the Company's annual proxy statement dated April 8, 2002, is a performance-based employee compensation plan that only has material value to the participants if the Company provides superior returns to its shareholders. The program entitles the employee participants to receive cash distributions in the nature of common stock dividends if the total rate of return on the Company's Common Stock (share price appreciation plus dividends) exceeds certain performance levels.

Initially, there were three plans within the program: the 2002 plan, the 2003 plan, and the 2004 plan. Each plan has 5,000 shares of High Performance Common Stock associated with it. Each share of High Performance Common Stock carries 0.25 votes per share.

For these three plans, the Company's performance is measured over a one-, two-, or three-year valuation period, beginning on January 1, 2002 and ending on December 31, 2002, December 31, 2003 and December 31, 2004, respectively. The end of the valuation period (i.e., the "valuation date") will be accelerated if there is a change in control of the Company. The High Performance Common Stock has a nominal value unless the total rate of shareholder return for the relevant valuation period exceeds the greater of: (1) 10.00%, 20.00%, or 30.00% for the 2002 plan, the 2003 plan and the 2004 plan, respectively;

77

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS (CONTINUED) and (2) a weighted industry index total rate of return consisting of equal weightings of the Russell 1000 Financial Index and the Morgan Stanley REIT Index for the relevant period.

If the total rate of return on the Company's Common Stock exceeds the threshold performance levels for a particular plan, then distributions will be paid on the shares of High Performance Common Stock related to that plan in the same amounts and at the same times as distributions are paid on a number of shares of the Company's Common Stock equal to the following: 7.50% of the Company's excess total rate of return (over the higher of the two threshold performance levels) multiplied by the weighted average market value of the Company's common equity capitalization during the measurement period, all as divided by the average closing price of a share of the Company's Common Stock for the 20 trading days immediately preceding the applicable valuation date.

If the total rate of return on the Company's Common Stock does not exceed the threshold performance levels for a particular plan, then the shares of High Performance Common Stock related to that plan will have only nominal value. In this event, each of the 5,000 shares will be entitled to dividends equal to 0.01 times the dividend paid on a share of Common Stock, if and when dividends are declared on the common stock.

Regardless of how much the Company's total rate of return exceeds the threshold performance levels, the dilutive impact to the Company's shareholders resulting from distributions on High Performance Common Stock in each plan is limited to 1.00% of the number of shares of the Company's Common Stock outstanding, on a fully diluted basis, on the valuation date for each plan.

The employee participants have purchased their interests in High Performance Common Stock through a limited liability company at purchase prices approved by the Company's Board of Directors. The Company's Board has established the prices of the High Performance Common Stock based upon, among other things, an independent valuation from a major securities firm. The aggregate initial purchase prices were set on June 25, 2002 and were approximately \$2.8 million, \$1.8 million and \$1.3 million for the 2002, 2003 and 2004 plans, respectively. No employee is permitted to exchange his or her interest in the LLC for shares of High Performance Common Stock prior to the applicable valuation date.

The total shareholder return for the valuation period under the 2002 plan was 21.94%, which exceeded both the fixed performance threshold of 10.00% and the industry index return of (5.83%). As a result of this superior performance, the participants in the 2002 plan are entitled to receive cash distributions equivalent to the amount of cash dividends payable on 819,254 shares of the Company's Common Stock, as and when such dividends are paid. Such dividend payments begin with the first quarter 2003 dividend and will reduce net income allocable to common shareholders when paid. The Company will pay dividends on the 2002 plan shares in the same amount per share and on the same distribution dates that shares of the Company's Common Stock are paid. The Company has the right, but not the obligation, to repurchase at cost 50.00% of the interests earned by an employee in the 2002 plan if the employee breaches certain non-competition, non-solicitation and confidentiality covenants through January 1, 2005.

A new 2005 plan has been established with a three-year valuation period ending December 31, 2005. Awards under the 2005 plan were approved on January 14, 2003. The 2005 plan has 5,000 shares of High Performance Common Stock with an aggregate initial purchase price of \$573,000. The provisions of the 2005 plan are substantially the same as the prior plans.

The additional equity from the issuance of the High Performance Common Stock is recorded as a separate class of stock and included within shareholders' equity. Future distributions, if any, will be deducted from net income available for common shareholders.

78

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10--STOCK-BASED COMPENSATION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

401(K) PLAN

Effective November 4, 1999, the Company implemented a savings and retirement plan (the "401(k) Plan"), which is a voluntary, defined contribution plan. All employees are eligible to participate in the 401(k) Plan following completion of three months of continuous service with the Company. Each participant may contribute on a pretax basis between 2.00% and 15.00% of such participant's compensation. At the discretion of the Board of Directors, the Company may make matching contributions on the participant's behalf of up to 50.00% of the first 10.00% of the participant's annual compensation. The Company made gross contributions of approximately \$356,000, \$319,000 and \$320,000 to the 401(k) Plan for the years ended December 31, 2002, 2001 and 2000, respectively.

79

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11--EARNINGS PER SHARE

The following table presents a reconciliation of the numerators and denominators of the basic and diluted EPS calculations for the years ended December 31, 2002, 2001 and 2000, respectively (in thousands, except per share data):

	2002	2001	2000
	-----	-----	-----
Numerator:			
Net income before income from discontinued operations, gain from discontinued operations, extraordinary loss and cumulative effect of change in accounting principle.....	\$223,136	\$225,370	\$212,188
Preferred dividend requirements.....	(36,908)	(36,908)	(36,908)
	-----	-----	-----
Net income allocable to common shareholders before income from discontinued operations, gain from discontinued operations, extraordinary loss and cumulative effect of change in accounting principle.....	186,228	188,462	175,280
Income from discontinued operations.....	3,583	5,299	3,155
Gain from discontinued operations.....	717	1,145	2,948
Extraordinary loss on early extinguishment of debt.....	(12,166)	(1,620)	(705)
Cumulative effect of change in accounting principle.....	--	(282)	--
	-----	-----	-----
Net income allocable to common shareholders.....	\$178,362	\$193,004	\$180,678
	=====	=====	=====
Denominator:			
Weighted average common shares outstanding for basic earnings per common share.....	89,886	86,349	85,441
Add: effect of assumed shares issued under treasury stock method for stock options and restricted shares.....	1,645	1,680	710
Add: effect of contingent shares.....	1,118	205	--
	-----	-----	-----
Weighted average common shares outstanding for diluted earnings per common share.....	92,649	88,234	86,151
	=====	=====	=====
Basic earnings per common share:			
Net income allocable to common shareholders before income from discontinued operations, gain from discontinued operations, extraordinary loss and cumulative effect of change in accounting principle.....	\$ 2.07	\$ 2.18	\$ 2.05
Income from discontinued operations.....	0.04	0.06	0.04

Gain from discontinued operations.....	0.01	0.02	0.03
Extraordinary loss on early extinguishment of debt.....	(0.14)	(0.02)	(0.01)
Cumulative effect of change in accounting principle.....	--	(0.00)	--
	-----	-----	-----
Net income allocable to common shareholders.....	\$ 1.98	\$ 2.24	\$ 2.11
	=====	=====	=====
Diluted earnings per common share:			
Net income allocable to common shareholders before income from discontinued operations, gain from discontinued operations, extraordinary loss and cumulative effect of change in accounting principle.....	\$ 2.01	\$ 2.14	\$ 2.04
Income from discontinued operations.....	0.04	0.06	0.04
Gain from discontinued operations.....	0.01	0.01	0.03
Extraordinary loss on early extinguishment of debt.....	(0.13)	(0.02)	(0.01)
Cumulative effect of change in accounting principle.....	--	(0.00)	--
	-----	-----	-----
Net income allocable to common shareholders.....	\$ 1.93	\$ 2.19	\$ 2.10
	=====	=====	=====

80

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11--EARNINGS PER SHARE (CONTINUED)

In addition, there were approximately 167,000, 261,000 and 632,000 stock options, 6.1 million, 6.1 million and 6.1 million warrants and 371,000, 373,000 and 373,000 joint venture shares that were antidilutive for the 12-month periods ended December 31, 2002, 2001 and 2000, respectively.

NOTE 12--COMPREHENSIVE INCOME

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130 ("SFAS No. 130"), "Reporting Comprehensive Income" effective for fiscal years beginning after December 15, 1997. The statement changes the reporting of certain items currently reported as changes in the shareholders' equity section of the balance sheet and establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. SFAS No. 130 requires that all components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. Furthermore, a total amount for comprehensive income shall be displayed in the financial statements. The Company has adopted this standard effective January 1, 1998. Total comprehensive income was \$228.1 million, \$214.8 million and \$217.8 million for the years ended December 31, 2002, 2001 and 2000, respectively. The primary components of comprehensive income other than net income consist of amounts attributable to the adoption and continued application of SFAS No. 133 to the Company's cash flow hedges and changes in the fair value of the Company's available-for-sale investments.

For the years ended December 31, 2002 and 2001, the change in fair market value of the Company's cash flow hedges and fair value hedges was an increase of \$5.2 million and a decrease of \$11.3 million, respectively, and was recorded as an adjustment to other comprehensive income. The reconciliation to other comprehensive income is as follows (in thousands):

	FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	-----	-----	-----
Net income.....	\$215,270	\$229,912	\$217,586
Other comprehensive income:			
Unrealized gains on available-for-sale investments.....	7,601	5,709	209
Cumulative effect of change in accounting principle (SFAS No. 133) on other comprehensive income.....	--	(9,445)	--
Unrealized gains (losses) on cash flow and fair value hedges.....	5,190	(11,336)	--
	-----	-----	-----
Comprehensive income.....	\$228,061	\$214,840	\$217,795
	=====	=====	=====

Unrealized gains on available-for-sale investments are recorded as

adjustments to shareholders' equity (through "Accumulated other comprehensive income" on the Company's Consolidated Balance Sheets), and are not included in adjusted earnings or net income unless realized.

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12--COMPREHENSIVE INCOME (CONTINUED)

As of December 31, 2002 and 2001, accumulated other comprehensive income reflected in the Company's shareholders' equity is comprised of the following (in thousands):

	AS OF DECEMBER 31,	
	2002	2001
	-----	-----
Unrealized gains on available-for-sale investments.....	\$ 13,290	\$ 5,689
Unrealized losses on cash flow and fair value hedges.....	(15,591)	(20,781)
	-----	-----
Accumulated other comprehensive income (loss).....	\$ (2,301)	\$ (15,092)
	=====	=====

NOTE 13--DIVIDENDS

In order to maintain its election to qualify as a REIT, the Company must currently distribute, at a minimum, an amount equal to 90.00% of its taxable income and must distribute 100.00% of its taxable income to avoid paying corporate federal income taxes. The Company anticipates it will distribute all of its taxable income to its shareholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses (such as depreciation), in certain circumstances, the Company may generate operating cash flow in excess of its dividends or, alternatively, may be required to borrow to make sufficient dividend payments.

For the year ended December 31, 2002, total dividends declared by the Company aggregated \$231.3 million, or \$2.52 per common share, consisting of quarterly dividends of \$0.63 per share which were declared on April 1, 2002, July 1, 2002, October 1, 2002 and December 2, 2002. The Company also declared dividends aggregating \$20.9 million, \$4.7 million, \$3.0 million and \$8.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the year ended December 31, 2002. There are no divided arrearages on any of the preferred shares currently outstanding.

The Series A preferred stock has a liquidation preference of \$50.00 per share and carries an initial dividend yield of 9.50% per annum. The dividend rate on the preferred shares will increase to 9.75% on December 15, 2005, to 10.00% on December 15, 2006 and to 10.25% on December 15, 2007 and thereafter. Dividends on the Series A preferred shares are payable quarterly in arrears and are cumulative.

Holder of shares of the Series B preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.375% per annum of the \$25.00 liquidation preference, equivalent to a fixed annual rate of \$2.34 per share. Dividends are cumulative from the date of original issue and are payable quarterly in arrears on or before the 15th day of each March, June, September and December or, if not a business day, the next succeeding business day. Any dividend payable on the Series B preferred stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as of the close of business on the first day of the calendar month in which the applicable dividend payment date falls or on another date designated by the Board of Directors of the Company for the payment of dividends that is not more than 30 nor less than ten days prior to the dividend payment date.

Holder of shares of the Series C preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available

for the payment of dividends, cumulative preferential cash dividends at the rate of 9.20% per annum of the \$25.00 liquidation preference, equivalent to a fixed

82

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13--DIVIDENDS (CONTINUED)

annual rate of \$2.30 per share. The remaining terms relating to dividends of the Series C preferred stock are substantially identical to the terms of the Series B preferred stock described above.

Holders of shares of the Series D preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 8.00% per annum of the \$25.00 liquidation preference, equivalent to a fixed annual rate of \$2.00 per share. The remaining terms relating to dividends of the Series D preferred stock are substantially identical to the terms of the Series B preferred stock described above.

The 2002 High Performance Common Stock plan reached its valuation date on December 31, 2002 and shares of High Performance Common Stock, equivalent to 819,254 shares of Common Stock became vested. The Company will pay dividends on these units in the same amount per share and on the same distribution dates as shares of the Company's Common Stock. Such dividends payments begin with the first quarter 2003 dividend and will reduce net income allocable to common shareholders when paid.

The exact amount of future quarterly dividends to common shareholders will be determined by the Board of Directors based on the Company's actual and expected operations for the fiscal year and the Company's overall liquidity position.

NOTE 14--FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" ("SFAS No. 107"), requires the disclosure of the estimated fair values of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments. Because no quoted market prices exist for a significant part of the Company's financial instruments, the fair values of such instruments have been derived based on management's assumptions, the amount and timing of future cash flows and estimated discount rates. The estimation methods for individual classifications of financial instruments are described more fully below. Different assumptions could significantly affect these estimates. Accordingly, the net realizable values could be materially different from the estimates presented below. The provisions of SFAS No. 107 do not require the disclosure of the fair value of non-financial instruments, including intangible assets or the Company's corporate tenant lease assets.

In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Company as an operating business.

SHORT-TERM FINANCIAL INSTRUMENTS--The carrying values of short-term financial instruments including cash and cash equivalents and short-term investments approximate the fair values of these instruments. These financial instruments generally expose the Company to limited credit risk and have no stated maturities, or have an average maturity of less than 90 days and carry interest rates which approximate market.

LOANS AND OTHER LENDING INVESTMENTS--For the Company's interests in loans and other lending investments, the fair values were estimated by discounting the future contractual cash flows (excluding participation interests in the sale or refinancing proceeds of the underlying collateral) using estimated current market rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities.

83

ISTAR FINANCIAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 14--FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

MARKETABLE SECURITIES--Securities held for investment, securities available for sale, loans held for sale, trading account instruments, long-term debt and trust preferred securities traded actively in the secondary market have been valued using quoted market prices.

OTHER FINANCIAL INSTRUMENTS--The carrying value of other financial instruments including, restricted cash, accrued interest receivable, accounts payable, accrued expenses and other liabilities approximate the fair values of the instruments.

DEBT OBLIGATIONS--A substantial portion of the Company's existing debt obligations bear interest at fixed margins over LIBOR. Such margins may be higher or lower than those at which the Company could currently replace the related financing arrangements. Other obligations of the Company bear interest at fixed rates, which may differ from prevailing market interest rates. As a result, the fair values of the Company's debt obligations were estimated by discounting current debt balances from December 31, 2002 and 2001 to maturity using estimated current market rates at which the Company could enter into similar financing arrangements.

INTEREST RATE PROTECTION AGREEMENTS--The fair value of interest rate protection agreements such as interest rate caps, floors, collars and swaps used for hedging purposes (see Note 9) is the estimated amount the Company would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates and current creditworthiness of the respective counterparties.

The book and fair values of financial instruments as of December 31, 2002 and 2001 were (in thousands):

	2002		2001	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
FINANCIAL ASSETS:				
Loans and other lending investments.....	\$3,079,592	\$3,301,452	\$2,398,763	\$2,508,119
Marketable securities.....	35	35	285	285
Provision for loan losses.....	(29,250)	(29,250)	(21,000)	(21,000)
FINANCIAL LIABILITIES:				
Debt obligations.....	3,461,590	\$3,500,927	2,495,369	2,506,046
Interest rate protection agreements.....	3,145	3,145	(18,925)	(18,925)

NOTE 15--SEGMENT REPORTING

Statement of Financial Accounting Standard No. 131 ("SFAS No. 131") establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected financial information about operating segments in interim financial reports issued to shareholders.

The Company has two reportable segments: Real Estate Lending and Corporate Tenant Leasing. The Company does not have substantial foreign operations. The accounting policies of the segments are the same as those described in Note 3. The Company has no single customer that accounts for more than 4.03% of revenues (see Note 9 for other information regarding concentrations of credit risk).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15--SEGMENT REPORTING (CONTINUED)

The Company evaluates performance based on the following financial measures for each segment:

	REAL ESTATE LENDING	CORPORATE TENANT LEASING	CORPORATE/ OTHER (1)	COMPANY TOTAL
	(IN THOUSANDS)			
2002:				
Total revenues(2):.....	\$ 279,158	\$ 246,890	\$ (324)	\$ 525,724
Equity in earnings from joint ventures and unconsolidated subsidiaries:.....	--	5,081	(3,859)	1,222
Total operating and interest expense(3):.....	94,274	105,607	103,767	303,648
Net operating income before minority interests(4):.....	184,884	146,364	(107,950)	223,298
Total long-lived assets(5):.....	3,050,342	2,291,805	N/A	5,342,147
Total assets:.....	3,126,219	2,442,087	43,391	5,611,697
2001:				
Total revenues(2):.....	\$ 282,802	\$ 188,688	\$ (371)	\$ 471,119
Equity in earnings from joint ventures and unconsolidated subsidiaries:.....	--	9,617	(2,256)	7,361
Total operating and interest expense(3):.....	109,568	77,481	65,843	252,892
Net operating income before minority interests(4):.....	173,234	120,824	(68,470)	225,588
Total long-lived assets(5):.....	2,377,763	1,781,565	N/A	4,159,328
Total assets:.....	2,448,493	1,889,879	42,268	4,380,640
2000:				
Total revenues(2):.....	\$ 280,474	\$ 179,412	\$ 3,633	\$ 463,519
Equity in earnings from joint ventures and unconsolidated subsidiaries:.....	--	5,058	(262)	4,796
Total operating and interest expense(3):.....	115,906	79,662	60,364	255,932
Net operating income before minority interests(4):.....	164,568	104,808	(56,993)	212,383
Total long-lived assets(5):.....	2,227,083	1,592,087	N/A	3,819,170
Total assets:.....	2,285,506	1,706,949	42,320	4,034,775

EXPLANATORY NOTES:

-
- (1) Corporate and Other represents all corporate level items, including general and administrative expenses and any intercompany eliminations necessary to reconcile to the consolidated Company totals. This caption also includes the Company's servicing business, which is not considered a material separate segment.
 - (2) Total revenues represents all revenues earned during the period from the assets in each segment. Revenue from the Real Estate Lending business primarily represents interest income and revenue from the Corporate Tenant Leasing business primarily represents operating lease income.
 - (3) Total operating and interest expense represents provision for loan losses for the Real Estate Lending business and operating costs on corporate tenant lease assets for the Corporate Tenant Leasing business, as well as interest expense specifically related to each segment. Interest expense on unsecured notes, general and administrative expense and general and administrative-stock-based compensation is included in Corporate and Other for all periods. Depreciation and amortization of \$47,821, \$35,411 and \$34,384 in 2002, 2001 and 2000, respectively, are included in the amounts presented above.
 - (4) Net operating income represents net operating income before minority interest, income from discontinued operations, gain (loss) from discontinued operations, extraordinary loss on early extinguishment of debt and cumulative effect of change in accounting principle. Net operating income excludes income from discontinued operations of \$3,583, \$5,299 and \$3,155 for the years ended December 31, 2002, 2001 and 2000, respectively.
 - (5) Total long-lived assets is comprised of Loans and Other Lending Investments, net and Corporate Tenant Lease Assets, net, for each respective segment.

NOTE 16--QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth the selected quarterly financial data for the Company (in thousands, except per share amounts).

	QUARTER ENDED			
	DECEMBER 31,	SEPTEMBER 30,	JUNE 30,	MARCH 31,
2002:				
Revenue.....	\$140,321	\$135,035	\$130,790	\$119,578
Net income.....	62,976	52,670	42,513	57,111
Net income allocable to common shares.....	53,749	43,443	33,286	47,884
Net income per common share--basic.....	\$ 0.57	\$ 0.49	\$ 0.38	\$ 0.55
Weighted average common shares outstanding--basic.....	93,671	89,431	88,656	87,724
2001:				
Revenue.....	\$116,757	\$117,430	\$118,497	\$118,435
Net income.....	58,755	57,553	58,960	54,644
Net income allocable to common shares.....	49,528	48,326	49,733	45,417
Net income per common share--basic.....	\$ 0.57	\$ 0.56	\$ 0.58	\$ 0.53
Weighted average common shares outstanding--basic.....	86,969	86,470	86,081	85,833

NOTE 17--SUBSEQUENT EVENTS

Subsequent to December 31, 2002, the Company modified the terms of the 6.75% Dealer Remarketable Securities, increased the principal amount and sold additional notes in an amount totaling \$150.0 million. The notes were modified to become obligations of the Company (as opposed to the Leasing Subsidiary), the covenants were modified to reflect the covenants contained in the Company's other unsecured notes, and the maturity date was modified to be March 2008. The new interest rate on the modified notes is set at 7.00%.

86

ISTAR FINANCIAL INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	ADDITIONS CHARGES TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
FOR THE YEAR ENDED DECEMBER 31, 2000					
Provision for loan losses(1).....	\$ 7,500	\$6,500	\$ --	\$ --	\$14,000
FOR THE YEAR ENDED DECEMBER 31, 2001					
Provision for loan losses(1).....	\$14,000	\$7,000	\$ --	\$ --	\$21,000
FOR THE YEAR ENDED DECEMBER 31, 2002					
Provision for loan losses(1).....	\$21,000	\$8,250	\$ --	\$ --	\$29,250

EXPLANATORY NOTE:

(1) See Note 4 to the Company's Consolidated Financial Statements.

87

ISTAR FINANCIAL INC.
SCHEDULE III--CORPORATE TENANT LEASE ASSETS AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 2002
(DOLLARS IN THOUSANDS)

LOCATION	STATE	ENCUMBRANCES	INITIAL COST TO COMPANY		COST CAPITALIZED SUBSEQUENT TO ACQUISITION
			LAND	BUILDING AND IMPROVEMENTS	
OFFICE FACILITIES:					
Tempe.....	AZ	\$ --	\$ 1,512	\$ 9,731	\$ --
Tempe.....	AZ	--	1,033	6,652	--
Tempe.....	AZ	--	1,033	6,652	56
Tempe.....	AZ	--	1,033	6,652	--
Tempe.....	AZ	3,534	701	4,339	--
Anaheim.....	CA	--	2,227	8,519	--
Anaheim.....	CA	12,879	3,512	13,379	46
Commerce.....	CA	9,936	3,454	12,915	--
Cupertino.....	CA	17,093	7,994	19,037	--
Dublin.....	CA	49,954	17,040	84,549	--
Fremont.....	CA	--	880	4,846	--
Milpitas.....	CA	8,646	9,526	11,655	785
Milpitas.....	CA	5,500	4,139	5,064	529
Milpitas.....	CA	20,243	9,802	12,116	115
Mountain View.....	CA	--	12,834	28,158	--
Mountain View.....	CA	--	5,798	12,720	--
Palo Alto.....	CA	--	--	19,168	37
Redondo Beach.....	CA	8,331	2,598	9,212	--
San Diego.....	CA	3,662	1,530	3,060	--
Thousand Oaks.....	CA	17,418	4,563	24,911	--
Aurora.....	CO	3,025	580	3,677	--
Englewood.....	CO	--	1,757	16,930	412
Englewood.....	CO	--	2,967	15,008	--
Englewood.....	CO	--	8,536	27,428	7,596
Ft. Collins.....	CO	12,765	--	16,752	--
Westminster.....	CO	--	307	3,524	--
Westminster.....	CO	--	616	7,290	--
Jacksonville.....	FL	--	1,384	3,911	--
Jacksonville.....	FL	--	877	2,237	39
Jacksonville.....	FL	--	2,366	6,072	--
Tampa.....	FL	11,653	1,920	18,435	--
Alpharetta.....	GA	--	905	6,744	18
Atlanta.....	GA	37,153	5,709	49,091	6,771
Duluth.....	GA	7,803	1,655	14,484	48
Lisle.....	IL	--	6,153	14,993	--
Vernon Hills.....	IL	8,999	1,400	12,597	--

LOCATION	GROSS AMOUNT CARRIED AT CLOSE OF PERIOD			ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
	LAND	BUILDING AND IMPROVEMENTS	TOTAL			
OFFICE FACILITIES:						
Tempe.....	\$ 1,512	\$ 9,731	\$ 11,243	\$ 770	1999	40.0
Tempe.....	1,033	6,652	7,685	527	1999	40.0
Tempe.....	1,033	6,708	7,741	527	1999	40.0
Tempe.....	1,033	6,652	7,685	527	1999	40.0
Tempe.....	701	4,339	5,040	343	1999	40.0
Anaheim.....	2,227	8,519	10,746	674	1999	40.0
Anaheim.....	3,512	13,425	16,937	1,063	1999	40.0
Commerce.....	3,454	12,915	16,369	1,022	1999	40.0
Cupertino.....	7,994	19,037	27,031	1,507	1999	40.0
Dublin.....	17,040	84,549	101,589	1,868	2002	40.0
Fremont.....	880	4,846	5,726	384	1999	40.0
Milpitas.....	9,526	12,440	21,966	465	2002	40.0
Milpitas.....	4,139	5,593	9,732	308	2002	40.0
Milpitas.....	9,802	12,231	22,033	541	2002	40.0
Mountain View.....	12,834	28,158	40,992	2,229	1999	40.0
Mountain View.....	5,798	12,720	18,518	1,007	1999	40.0
Palo Alto.....	--	19,205	19,205	1,519	1999	40.0
Redondo Beach.....	2,598	9,212	11,810	729	1999	40.0
San Diego.....	1,530	3,060	4,590	242	1999	40.0
Thousand Oaks.....	4,563	24,911	29,474	1,972	1999	40.0
Aurora.....	580	3,677	4,257	92	2001	40.0
Englewood.....	1,757	17,342	19,099	1,389	1999	40.0
Englewood.....	2,967	15,008	17,975	1,188	1999	40.0
Englewood.....	8,536	35,024	43,560	2,346	1999	40.0
Ft. Collins.....	--	16,752	16,752	319	2002	40.0
Westminster.....	307	3,524	3,831	279	1999	40.0
Westminster.....	616	7,290	7,906	577	1999	40.0
Jacksonville.....	1,384	3,911	5,295	310	1999	40.0
Jacksonville.....	877	2,276	3,153	180	1999	40.0
Jacksonville.....	2,366	6,072	8,438	481	1999	40.0
Tampa.....	1,920	18,435	20,355	448	2002	40.0
Alpharetta.....	905	6,762	7,667	535	1999	40.0
Atlanta.....	5,709	55,862	61,571	4,510	1999	40.0
Duluth.....	1,655	14,532	16,187	1,150	1999	40.0
Lisle.....	6,153	14,993	21,146	1,187	1999	40.0
Vernon Hills.....	1,400	12,597	13,997	997	1999	40.0

(DOLLARS IN THOUSANDS)

LOCATION	STATE	ENCUMBRANCES	INITIAL COST TO COMPANY		COST CAPITALIZED SUBSEQUENT TO ACQUISITION
			LAND	BUILDING AND IMPROVEMENTS	
OFFICE FACILITIES (CONTINUED):					
New Orleans.....	LA	--	1,427	24,252	1,846
New Orleans.....	LA	52,439	1,665	16,653	1,253
Andover.....	MA	--	639	7,176	10
Andover.....	MA	--	1,787	8,486	--
Braintree.....	MA	--	792	4,929	44
Braintree.....	MA	--	2,225	7,403	91
Canton.....	MA	--	742	3,155	103
Canton.....	MA	--	1,409	3,890	41
Canton.....	MA	--	1,077	2,746	81
Chelmsford.....	MA	20,864	1,600	21,947	--
Concord.....	MA	11,296	1,656	--	8,475
Concord.....	MA	8,425	1,852	10,839	138
Concord.....	MA	5,975	1,302	7,864	183
Concord.....	MA	8,185	1,834	10,483	146
Concord.....	MA	--	1,928	8,218	551
Foxborough.....	MA	2,975	1,218	3,756	--
Mansfield.....	MA	823	584	1,443	42
Norwell.....	MA	--	1,140	1,658	32
Norwell.....	MA	1,953	506	2,277	522
Norwell.....	MA	--	1,357	5,429	635
Norwell.....	MA	--	973	3,805	29
Quincy.....	MA	13,447	3,562	23,420	290
Rockland.....	MA	--	2,011	11,761	83
Westborough.....	MA	7,265	1,651	10,758	--
Lanham.....	MD	10,435	2,486	12,047	164
Largo.....	MD	19,207	1,800	18,706	--
Arden Hills.....	MN	--	719	6,541	--
Roseville.....	MN	3,533	1,113	4,452	--
Mt. Laurel.....	NJ	61,538	7,726	74,429	--
Las Vegas (1).....	NV	20,100	--	32,640	--
Columbus.....	OH	8,645	1,275	10,326	13
Harrisburg.....	PA	17,430	690	26,098	--
Spartanburg.....	SC	7,245	800	11,192	5
Memphis.....	TN	17,387	2,702	25,129	--
Dallas.....	TX	4,579	1,918	4,632	--

LOCATION	GROSS AMOUNT CARRIED AT CLOSE OF PERIOD			ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
	LAND	BUILDING AND IMPROVEMENTS	TOTAL			
OFFICE FACILITIES (CONTINUED):						
New Orleans.....	1,427	26,098	27,525	2,185	1999	40.0
New Orleans.....	1,665	17,906	19,571	1,514	1999	40.0
Andover.....	639	7,186	7,825	568	1999	40.0
Andover.....	1,787	8,486	10,273	672	1999	40.0
Braintree.....	792	4,973	5,765	393	1999	40.0
Braintree.....	2,225	7,494	9,719	589	1999	40.0
Canton.....	742	3,258	4,000	255	1999	40.0
Canton.....	1,409	3,931	5,340	310	1999	40.0
Canton.....	1,077	2,827	3,904	225	1999	40.0
Chelmsford.....	1,600	21,947	23,547	417	2002	40.0
Concord.....	1,656	8,475	10,131	453	1999	40.0
Concord.....	1,874	10,955	12,829	864	1999	40.0
Concord.....	1,302	8,047	9,349	633	1999	40.0
Concord.....	1,834	10,629	12,463	837	1999	40.0
Concord.....	1,928	8,769	10,697	683	1999	40.0
Foxborough.....	1,218	3,756	4,974	297	1999	40.0
Mansfield.....	584	1,485	2,069	116	1999	40.0
Norwell.....	1,140	1,690	2,830	133	1999	40.0
Norwell.....	506	2,799	3,305	244	1999	40.0
Norwell.....	1,357	6,064	7,421	469	1999	40.0
Norwell.....	973	3,834	4,807	303	1999	40.0
Quincy.....	3,562	23,710	27,272	1,867	1999	40.0
Rockland.....	2,011	11,844	13,855	933	1999	40.0
Westborough.....	1,651	10,758	12,409	852	1999	40.0
Lanham.....	2,486	12,211	14,697	965	1999	40.0
Largo.....	1,800	18,706	20,506	274	2002	40.0
Arden Hills.....	719	6,541	7,260	518	1999	40.0
Roseville.....	1,113	4,452	5,565	352	1999	40.0
Mt. Laurel.....	7,726	74,429	82,155	115	2002	40.0
Las Vegas (1).....	--	32,640	32,640	--	2002	
Columbus.....	1,275	10,339	11,614	325	2001	40.0
Harrisburg.....	690	26,098	26,788	837	2001	40.0
Spartanburg.....	800	11,197	11,997	293	2001	40.0
Memphis.....	2,702	25,129	27,831	1,989	1999	40.0
Dallas.....	1,918	4,632	6,550	367	1999	40.0

AS OF DECEMBER 31, 2002
(DOLLARS IN THOUSANDS)

LOCATION	STATE	ENCUMBRANCES	INITIAL COST TO COMPANY		COST CAPITALIZED SUBSEQUENT TO ACQUISITION
			LAND	BUILDING AND IMPROVEMENTS	
OFFICE FACILITIES (CONTINUED):					
Houston.....	TX	20,064	2,500	25,743	--
Irving.....	TX	--	6,083	42,016	--
Irving.....	TX	--	1,364	10,628	--
Irving.....	TX	--	1,804	5,815	323
Irving.....	TX	17,307	3,363	21,376	--
Richardson.....	TX	--	1,233	15,160	--
Richardson.....	TX	--	2,932	31,235	--
Richardson.....	TX	--	1,230	5,660	238
Salt Lake City.....	UT	--	1,179	12,861	--
McLean.....	VA	66,191	20,110	125,516	--
Reston.....	VA	--	4,436	22,362	101
Milwaukee.....	WI	10,833	1,875	13,914	--
Subtotal.....		656,735	232,616	1,283,334	31,891

INDUSTRIAL FACILITIES:					
Phoenix.....	AZ	--	1,000	1,997	--
Burlingame.....	CA	--	1,219	3,470	--
City of Industry.....	CA	--	5,002	11,766	--
East Los Angeles.....	CA	--	9,334	12,501	--
Millbrae.....	CA	--	741	2,107	--
Fremont.....	CA	--	1,086	7,964	--
Fremont.....	CA	--	654	4,591	--
Milpitas.....	CA	6,637	5,051	6,170	329
Milpitas.....	CA	8,703	6,856	8,378	--
Milpitas.....	CA	2,247	2,633	3,219	280
Milpitas.....	CA	3,733	4,119	5,034	--
Milpitas.....	CA	2,704	3,044	3,716	590
Milpitas.....	CA	9,227	4,095	8,323	566
Milpitas.....	CA	9,965	5,617	6,877	477
Milpitas.....	CA	--	4,880	12,367	1,498
Milpitas.....	CA	7,645	4,600	5,627	165
Milpitas.....	CA	3,104	3,000	3,669	--
San Jose.....	CA	--	9,677	23,288	--
Walnut Creek.....	CA	8,380	808	8,306	552
Walnut Creek.....	CA	--	571	5,874	--
Jacksonville.....	FL	--	2,310	5,435	--
Miami.....	FL	--	3,048	8,676	--

LOCATION	GROSS AMOUNT CARRIED AT CLOSE OF PERIOD			ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
	LAND	BUILDING AND IMPROVEMENTS	TOTAL			
OFFICE FACILITIES (CONTINUED):						
Houston.....	2,500	25,743	28,243	644	2001	40.0
Irving.....	6,083	42,016	48,099	3,326	1999	40.0
Irving.....	1,364	10,628	11,992	841	1999	40.0
Irving.....	1,804	6,138	7,942	477	1999	40.0
Irving.....	3,363	21,376	24,739	1,692	1999	40.0
Richardson.....	1,233	15,160	16,393	916	1999	40.0
Richardson.....	2,932	31,235	34,167	2,473	1999	40.0
Richardson.....	1,230	5,898	7,128	450	1999	40.0
Salt Lake City.....	1,179	12,861	14,040	1,018	1999	40.0
McLean.....	20,110	125,516	145,626	1,982	2002	40.0
Reston.....	4,436	22,463	26,899	1,775	1999	40.0
Milwaukee.....	1,875	13,914	15,789	1,102	1999	40.0
Subtotal.....	232,638	1,315,203	1,547,841	72,755		

INDUSTRIAL FACILITIES:						
Phoenix.....	1,000	1,997	2,997	158	1999	40.0
Burlingame.....	1,219	3,470	4,689	275	1999	40.0
City of Industry.....	5,002	11,766	16,768	931	1999	40.0
East Los Angeles.....	9,334	12,501	21,835	990	1999	40.0
Millbrae.....	741	2,107	2,848	167	1999	40.0
Fremont.....	1,086	7,964	9,050	630	1999	40.0
Fremont.....	654	4,591	5,245	363	1999	40.0
Milpitas.....	5,051	6,499	11,550	289	2002	40.0
Milpitas.....	6,856	8,378	15,234	371	2002	40.0
Milpitas.....	2,633	3,499	6,132	155	2002	40.0
Milpitas.....	4,119	5,034	9,153	221	2002	40.0
Milpitas.....	3,044	4,306	7,350	324	2002	40.0
Milpitas.....	4,095	8,889	12,984	666	1999	40.0
Milpitas.....	5,617	7,354	12,971	375	2002	40.0
Milpitas.....	4,880	13,865	18,745	1,439	1999	40.0
Milpitas.....	4,600	5,792	10,392	294	2002	40.0
Milpitas.....	3,000	3,669	6,669	165	2002	40.0
San Jose.....	9,677	23,288	32,965	1,844	1999	40.0
Walnut Creek.....	808	8,858	9,666	691	1999	40.0
Walnut Creek.....	571	5,874	6,445	465	1999	40.0
Jacksonville.....	2,310	5,435	7,745	430	1999	40.0
Miami.....	3,048	8,676	11,724	687	1999	40.0

ISTAR FINANCIAL INC.
 SCHEDULE III--CORPORATE TENANT LEASE ASSETS AND ACCUMULATED DEPRECIATION
 (CONTINUED)
 AS OF DECEMBER 31, 2002
 (DOLLARS IN THOUSANDS)

LOCATION	STATE	ENCUMBRANCES	INITIAL COST TO COMPANY		COST CAPITALIZED SUBSEQUENT TO ACQUISITION
			LAND	BUILDING AND IMPROVEMENTS	
INDUSTRIAL FACILITIES (CONTINUED):					
Miami.....	FL	--	1,394	3,967	--
Miami.....	FL	--	1,612	4,586	--
Orlando.....	FL	--	1,475	4,198	--
St. Petersburg.....	FL	--	723	3,061	--
St. Petersburg.....	FL	--	634	2,685	224
McDonough.....	GA	12,362	1,900	14,318	--
Stockbridge.....	GA	15,050	1,350	18,393	--
DeKalb.....	IL	22,575	1,600	28,015	--
Lincolnshire.....	IL	--	3,192	7,508	--
Marion.....	IN	--	131	4,254	--
Seymour.....	IN	16,626	550	22,240	121
South Bend.....	IN	--	140	4,640	--
Wichita.....	KS	--	213	3,189	--
Campbellsville.....	KY	12,575	400	17,219	--
Lakeville.....	MA	--	1,012	4,048	--
Randolph.....	MA	2,432	615	3,471	--
Baltimore.....	MD	5,884	1,535	9,324	123
Bloomington.....	MN	--	403	1,147	--
O'Fallon.....	MO	--	1,388	12,700	--
Reno.....	NV	--	248	707	--
Astoria.....	NY	--	897	2,555	--
Astoria.....	NY	--	1,796	5,109	--
Lockbourne.....	OH	14,727	2,000	17,320	--
Columbus.....	OH	--	375	7,191	--
Richfield.....	OH	12,071	2,327	--	12,210
York.....	PA	25,584	2,850	30,713	--
Philadelphia.....	PA	--	620	1,765	--
Spartanburg.....	SC	--	943	16,836	--
Memphis.....	TN	15,884	1,486	23,279	--
Allen.....	TX	--	1,238	9,224	--
Farmers Branch.....	TX	6,935	1,314	8,903	--
Richardson.....	TX	6,803	858	8,556	--
Terrell.....	TX	17,200	400	22,163	--
Seattle.....	WA	--	828	2,355	--
Subtotal.....		249,053	117,792	484,994	17,135

LOCATION	GROSS AMOUNT CARRIED AT CLOSE OF PERIOD			ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
	LAND	BUILDING AND IMPROVEMENTS	TOTAL			
INDUSTRIAL FACILITIES (CONTINUED):						
Miami.....	1,394	3,967	5,361	314	1999	40.0
Miami.....	1,612	4,586	6,198	363	1999	40.0
Orlando.....	1,475	4,198	5,673	332	1999	40.0
St. Petersburg.....	723	3,061	3,784	242	1999	40.0
St. Petersburg.....	634	2,909	3,543	214	1999	40.0
McDonough.....	1,900	14,318	16,218	366	2001	40.0
Stockbridge.....	1,350	18,393	19,743	470	2001	40.0
DeKalb.....	1,600	28,015	29,615	715	2001	40.0
Lincolnshire.....	3,192	7,508	10,700	594	1999	40.0
Marion.....	131	4,254	4,385	337	1999	40.0
Seymour.....	550	22,361	22,911	1,121	2000	40.0
South Bend.....	140	4,640	4,780	367	1999	40.0
Wichita.....	213	3,189	3,402	252	1999	40.0
Campbellsville.....	400	17,219	17,619	47	2002	40.0
Lakeville.....	1,012	4,048	5,060	320	1999	40.0
Randolph.....	615	3,471	4,086	275	1999	40.0
Baltimore.....	1,535	9,447	10,982	742	1999	40.0
Bloomington.....	403	1,147	1,550	91	1999	40.0
O'Fallon.....	1,388	12,700	14,088	1,005	1999	40.0
Reno.....	248	707	955	56	1999	40.0
Astoria.....	897	2,555	3,452	202	1999	40.0
Astoria.....	1,796	5,109	6,905	404	1999	40.0
Lockbourne.....	2,000	17,320	19,320	442	2001	40.0
Columbus.....	375	7,191	7,566	569	1999	40.0
Richfield.....	2,327	12,210	14,537	372	2000	40.0
York.....	2,850	30,713	33,563	784	2001	40.0
Philadelphia.....	620	1,765	2,385	140	1999	40.0
Spartanburg.....	943	16,836	17,779	1,333	1999	40.0
Memphis.....	1,486	23,279	24,765	1,843	1999	40.0
Allen.....	1,238	9,224	10,462	730	1999	40.0
Farmers Branch.....	1,314	8,903	10,217	705	1999	40.0
Richardson.....	858	8,556	9,414	677	1999	40.0

Terrell.....	400	22,163	22,563	566	2001	40.0
Seattle.....	828	2,355	3,183	186	1999	40.0
Subtotal.....	117,792	502,129	619,921	29,106		

ISTAR FINANCIAL INC.
 SCHEDULE III--CORPORATE TENANT LEASE ASSETS AND ACCUMULATED DEPRECIATION
 (CONTINUED)
 AS OF DECEMBER 31, 2002
 (DOLLARS IN THOUSANDS)

LOCATION	STATE	ENCUMBRANCES	INITIAL COST TO COMPANY		COST CAPITALIZED SUBSEQUENT TO ACQUISITION
			LAND	BUILDING AND IMPROVEMENTS	
GROUND LEASE:					
San Jose.....	CA	--	41,106	--	--
LAND:					
Concord.....	MA	--	1,267	--	--
Irving.....	TX	--	5,243	--	--
Subtotal.....		--	6,510	--	--
PARKING GARAGE:					
New Orleans.....	LA	--	4,241	6,462	4
HOTEL:					
Sacramento.....	CA	144,114	1,281	9,809	--
San Diego.....	CA	--	4,394	27,030	--
Sonoma.....	CA	--	3,308	20,623	--
Durango.....	CO	--	1,242	7,865	--
Boise.....	ID	--	968	6,405	--
Missoula.....	MT	--	210	1,607	--
Astoria.....	OR	--	269	2,043	--
Bend.....	OR	--	233	1,726	--
Coos Bay.....	OR	--	404	3,049	--
Eugene.....	OR	--	361	2,721	--
Medford.....	OR	--	609	4,668	--
Pendleton.....	OR	--	556	4,245	--
Salt Lake City.....	UT	--	5,620	32,695	--
Kelso.....	WA	--	502	3,779	--
Seattle.....	WA	--	5,101	32,080	--
Vancouver.....	WA	--	507	3,981	--
Wenatchee.....	WA	--	513	3,825	--
Subtotal.....		144,114	26,078	168,151	--
Total corporate tenant lease assets.....		\$1,049,902	\$428,343	\$1,942,941	\$ 49,030

LOCATION	GROSS AMOUNT CARRIED AT CLOSE OF PERIOD			ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
	LAND	BUILDING AND IMPROVEMENTS	TOTAL			
GROUND LEASE:						
San Jose.....	41,106	--	41,106	--	2000	
LAND:						
Concord.....	1,267	--	1,267	--	1999	
Irving.....	5,243	--	5,243	--	2002	
Subtotal.....	6,510	--	6,510	--		
PARKING GARAGE:						
New Orleans.....	4,241	6,466	10,707	514	1999	40.0
HOTEL:						
Sacramento.....	1,281	9,809	11,090	1,525	1998	40.0
San Diego.....	4,394	27,030	31,424	4,201	1998	40.0
Sonoma.....	3,308	20,623	23,931	3,205	1998	40.0
Durango.....	1,242	7,865	9,107	1,222	1998	40.0
Boise.....	968	6,405	7,373	995	1998	40.0
Missoula.....	210	1,607	1,817	250	1998	40.0
Astoria.....	269	2,043	2,312	318	1998	40.0
Bend.....	233	1,726	1,959	268	1998	40.0
Coos Bay.....	404	3,049	3,453	474	1998	40.0
Eugene.....	361	2,721	3,082	423	1998	40.0
Medford.....	609	4,668	5,277	726	1998	40.0
Pendleton.....	556	4,245	4,801	660	1998	40.0
Salt Lake City.....	5,620	32,695	38,315	5,081	1998	40.0
Kelso.....	502	3,779	4,281	587	1998	40.0
Seattle.....	5,101	32,080	37,181	4,986	1998	40.0
Vancouver.....	507	3,981	4,488	619	1998	40.0
Wenatchee.....	513	3,825	4,338	594	1998	40.0
Subtotal.....	26,078	168,151	194,229	26,134		

Total corporate tenant lease assets.....	----- \$428,365 =====	----- \$1,991,949 =====	----- \$2,420,314 =====	----- \$128,509 =====
--	-----------------------------	-------------------------------	-------------------------------	-----------------------------

EXPLANATORY NOTE:

(1) Represents a direct financing lease.

ISTAR FINANCIAL INC.
NOTES TO SCHEDULE III
DECEMBER 31, 2002
(DOLLARS IN THOUSANDS)

1. RECONCILIATION OF CORPORATE TENANT LEASE ASSETS:

The following table reconciles Corporate Tenant Lease Assets from January 1, 2000 to December 31, 2002:

	2002	2001	2000
	-----	-----	-----
Balance at January 1.....	\$1,861,786	\$1,639,062	\$1,647,779
Additions.....	606,653	248,804	137,998
Dispositions.....	(3,106)	(26,080)	(146,715)
Assets classified as held for sale.....	(45,019)	--	--
	-----	-----	-----
Balance at December 31.....	\$2,420,314	\$1,861,786	\$1,639,062
	=====	=====	=====

2. RECONCILIATION OF ACCUMULATED DEPRECIATION:

The following table reconciles Accumulated Depreciation from January 1, 2000 to December 31, 2002:

	2002	2001	2000
	-----	-----	-----
Balance at January 1.....	\$ (80,221)	\$ (46,975)	\$ (14,860)
Additions.....	(48,615)	(33,898)	(33,739)
Dispositions.....	131	652	1,624
Assets classified as held for sale.....	196	--	--
	-----	-----	-----
Balance at December 31.....	\$ (128,509)	\$ (80,221)	\$ (46,975)
	=====	=====	=====

ISTAR FINANCIAL INC.
SCHEDULE IV-LOANS AND OTHER LENDING INVESTMENTS
AS OF DECEMBER 31, 2002
(DOLLARS IN THOUSANDS)

TYPE OF LOAN/BORROWER	DESCRIPTION/LOCATION	INTEREST ACCRUAL RATES (3)	INTEREST PAYMENT RATES	FINAL MATURITY DATE
-----	-----	-----	-----	-----
Senior Mortgages:				
Borrower A(1).....	Office, Detroit, MI	7.03%	7.03%	9/11/09
Borrower B(1).....				

Borrower C(1).....	Office, San Diego, CA	LIBOR + 1.50%	LIBOR + 1.50%	12/31/11
Borrower D.....	Hotel, Various States	LIBOR + 1.75%	LIBOR + 1.75%	9/15/03
Borrower E.....	Office, Charlotte, NC	LIBOR + 3.25%	LIBOR + 3.25%	10/10/07
Borrower F.....	Office, New York, NY	LIBOR + 3.00%	LIBOR + 3.00%	7/24/05
Borrower G.....	Hotel, Various States	LIBOR + 4.50%	LIBOR + 4.50%	4/30/05
All other senior mortgages individually < 3%.....				
Subordinate Mortgages:				
Borrower B(1).....	Office, San Diego, CA	9.00%	9.00%	12/31/11
Borrower C(1).....	Hotel, Various States	LIBOR + 5.80%	LIBOR + 5.80%	9/15/03
Borrower G.....	Office, New York, NY	LIBOR + 4.00%	LIBOR + 4.00%	7/31/03
All other subordinate mortgages individually < 3%.....				
Corporate/Partnership Loans:				
Borrower A(1).....	Office, Detroit, MI	12.67%	12.67%	5/15/08
Borrower C(1).....	Hotel, Various States	LIBOR + 5.37%	LIBOR + 5.37%	9/15/03
Borrower H(1).....	Residential, Various States	LIBOR + 5.00%	LIBOR + 5.00%	3/01/05
All other corporate/partnership loans individually < 3%.....				
Other Lending Investments--Loans:				
All other lending investments--loans individually < 3%.....				
Other Lending Investments--Securities:				
Borrower H(1).....	Residential, Various States	10.00%	10.00%	8/15/05
All other lending investments--securities individually < 3%.....				
Subtotal.....				
Provision for Loan Losses.....				
Total:.....				

TYPE OF LOAN/BORROWER	PERIODIC PAYMENT TERMS (3)	PRIOR LIENS (2)	FACE AMOUNT OF LOANS	CARRYING AMOUNT OF LOANS
Senior Mortgages:				
Borrower A(1).....	P&I	\$ --	\$ 178,857	\$ 162,243
Borrower B(1).....	P&I	--	103,883	103,883
Borrower C(1).....	P&I	--	102,539	102,539
Borrower D.....	IO	--	100,000	99,048
Borrower E.....	IO	--	100,000	98,877
Borrower F.....	P&I	--	98,773	98,679
All other senior mortgages individually < 3%.....		1,206 (4)	1,028,915	1,010,528
		1,206	1,712,967	1,675,797
Subordinate Mortgages:				
Borrower B(1).....	IO	--	29,000	29,000
Borrower C(1).....	IO	--	40,000	39,954
Borrower G.....	IO	500,000	100,000	100,000
All other subordinate mortgages individually < 3%.....		1,574,309	461,683	460,532
		2,074,309	630,683	629,486
Corporate/Partnership Loans:				
Borrower A(1).....	IO	--	8,339	8,202
Borrower C(1).....	IO	129,977	76,700	76,605
Borrower H(1).....	IO	940,044	33,870	33,870
All other corporate/partnership loans individually < 3%.....		1,531,311	344,598	322,351
		2,601,332	463,507	441,028
Other Lending Investments--Loans:				
All other lending investments--loans individually < 3%.....		--	29,411	23,167
Other Lending Investments--Securities:				
Borrower H(1).....				

All other lending	IO	--	150,000	132,363
investments--securities				
individually < 3%.....		1,970,322	172,305	177,751
		-----	-----	-----
		1,970,322	351,716	333,281
		-----	-----	-----
Subtotal.....		6,647,169	3,158,873	3,079,592
		-----	-----	-----
Provision for Loan Losses.....		--	--	(29,250)
		-----	-----	-----
Total:.....		\$6,647,169	\$3,158,873	\$3,050,342
		=====	=====	=====

EXPLANATORY NOTES:

-
- (1) Loan is a part of a common borrowing provided by the Company (see corresponding letter reference).
 - (2) Represents only third-party liens and excludes senior loans held by the Company from the same borrower on the same collateral.
 - (3) P&I = principal and interest, IO = interest only.
 - (4) Represents value of a ground lease senior to the Company's first mortgage.

94

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Portions of the Company's definitive proxy statement for the 2003 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Portions of the Company's definitive proxy statement for the 2003 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Portions of the Company's definitive proxy statement for the 2003 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Portions of the Company's definitive proxy statement for the 2003 annual meeting of the shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities and Exchange Act of 1934 (the "Exchange Act") reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company has formed a Disclosure Committee that is responsible for considering the materiality of information and determining the disclosure obligations of the Company on a timely basis. The Disclosure Committee reports directly to the Company's Chief Executive Officer and the Audit Committee.

Within the 90-day period prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Disclosure Committee and other members of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to timely alert them to

material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's Exchange Act filings.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date that the Company carried out its evaluation.

ITEM 16. PRINCIPAL ACCOUNTANTS FEES AND SERVICES

Portions of the Company's definitive proxy statement for the 2003 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated by reference.

95

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

- a. and (d). Financial statements and schedules--see Index to Financial Statements and Schedules included in Item 8.
- b. Reports on Form 8-K.

On November 12, 2002, a Current Report on Form 8-K was filed which included financial statements and exhibits on Company information used as materials for the Company's primary equity offering on November 14, 2002.

On November 14, 2002, a Current Report on Form 8-K was filed which included the certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

On November 19, 2002, a Current Report on Form 8-K was filed which included the purchase agreement for the 8,000,000 shares of Common Stock sold by the Company in its primary equity offering on November 14, 2002.

- c. Exhibits--see index on following page.

96

INDEX TO EXHIBITS

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
1.1	Underwriting Agreement dated August 9, 2001 relating to the Company's 8 3/4% Senior Notes due 2008. (10)
1.2	Purchase Agreement dated November 14, 2002. (15)
2.1	Agreement and Plan of Merger, dated as of June 15, 1999, by and among Starwood Financial Trust, ST Merger Sub, Inc. and TriNet Corporate Realty Trust, Inc. (4)
2.2	Agreement and Plan of Merger, dated as of June 15, 1999, by and among Starwood Financial Trust, Starwood Financial, Inc. and to the extent described therein, TriNet Corporate Realty Trust, Inc. (4)
2.3	Agreement and Plan of Merger, dated as of June 15, 1999, by and among Starwood Financial Trust, SA Merger Sub, Inc., STW Holdings I, Inc., the Stockholders named therein, Starwood Capital Group, L.L.C. and, to the extent described therein, TriNet Corporate Realty Trust, Inc. (4)
3.1	Amended and Restated Charter of the Company (including the Articles Supplementary for the Series A, B, C and D Preferred Stock). (7)
3.2	Bylaws of the Company (8)

- 3.3 Articles Supplementary for the High Performance Common Stock--Series 1. (14)
- 3.4 Articles Supplementary for the High Performance Common Stock--Series 2. (14)
- 3.5 Articles Supplementary for the High Performance Common Stock--Series 3. (14)
- 3.6 Articles Supplementary for the High Performance Common Stock--Series 4.
- 4.1 Amended and Restated Registration Rights Agreement dated March 18, 1998 among Starwood Financial Trust and Starwood Mezzanine Investors, L.P., SAHI Partners and SOFI-IV SMT Holdings, L.L.C. (2)
- 4.2 Investor Rights Agreement, dated as of December 15, 1998 among Starwood Financial Trust, a Maryland real estate investment trust, Starwood Mezzanine Investors, L.P., a Delaware limited partnership, SOFI-IV SMT Holdings, L.L.C., a Delaware limited liability company, B Holdings, L.L.C., a Delaware limited liability company, and Lazard Freres Real Estate Fund II, L.P., a Delaware limited partnership, Lazard Freres Real Estate Offshore Fund II L.P., a Delaware limited Partnership, and LF Mortgage REIT, a Maryland real estate investment trust. (3)
- 4.3 Form of warrant certificates. (3)
- 4.4 Form of stock certificate for the Company's Common Stock. (6)
- 4.5 Form of certificate for Series A Preferred Shares of beneficial interest. (3)
- 4.6 Form of Supplemental Indenture, dated as of August 16, 2001. (10)
- 4.7 Form of Global Note evidencing 8 3/4% Senior Notes 2008. (10)
- 10.1 Starwood Financial Trust 1996 Share Incentive Plan. (2)
- 10.2 Contribution Agreement dated as of February 11, 1998, between Starwood Financial Trust, Starwood Mezzanine Investors, L.P. and Starwood Opportunity Fund IV, L.P. (2)
- 10.3 Second Amended and Restated Shareholder's Agreement dated March 18, 1998 among B Holdings, L.L.C., SAHI Partners, Starwood Mezzanine Investors, L.P., SOFI-IV SMT Holdings, L.L.C., and Starwood Financial Trust. (2)

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
10.4	Securities Purchase Agreement, dated as of December 15, 1998, by and between Starwood Financial Trust, Lazard Freres Real Estate Fund II, L.P., a Delaware limited partnership, Lazard Freres Real Estate Offshore Fund II, L.P., a Delaware limited partnership, and LF Mortgage REIT, a Maryland real estate investment trust. (2)
10.5	Asset Purchase and Sale Agreement, dated as of December 15, 1998 by and between Lazard Freres Real Estate Fund, L.P., a Delaware limited partnership, Lazard Freres Real Estate Fund II, L.P., a Delaware limited partnership, Prometheus

Mid-Atlantic Holding, L.P., a Delaware limited partnership, Pacific Preferred LLC, a New York limited liability company, Atlantic Preferred II LLC, a New York limited liability company, Indian Preferred LLC, a New York limited liability company and Prometheus Investment Holding, L.P., a Delaware limited partnership and Starwood Financial Trust. (3)

- 10.6 Form of Advisor Lock-Up Agreement, dated as of June 15, 1999, among Greenhill & Co., LLC and each owner of interests in the Advisor. (5)
- 10.7 Form of Option Standstill Agreement, dated as of June 15, 1999, among Starwood Financial Trust and each of George R. Puskar, Willis Anderson, Jr., Stephen B. Oresman, Robert W. Holman Jr. and John G. McDonald. (5)
- 10.8 Form of Starwood Financial Trust Affiliate Lock-Up Agreement, dated as of June 15, 1999, between Greenhill & Co., LLC and each of B Holdings L.L.C., SOFI-IV SMT Holdings, L.L.C. and Starwood Mezzanine Investors, L.P. (5)
- 10.9 Stock Purchase Agreement dated as of June 15, 1999 among Jay Sugarman, Spencer B. Haber, A. William Stein and Robert Holman, Jr. (5)
- 10.10 Amendment No. 1 to the Stock Purchase Agreement dated as of July 26, 1999, which amends the Stock Purchase Agreement dated as of June 15, 1999 among Jay Sugarman, Spencer B. Haber, A. William Stein and Robert Holman, Jr. (5)
- 10.11 Shareholder Agreement, dated as of June 15, 1999, among SOFI-IV SMT Holdings, L.L.C., Starwood Mezzanine Investors, L.P., B Holdings, L.L.C. and TriNet Corporate Realty Trust, Inc. (5)
- 10.12 First Amendment to Shareholder Agreement dated as of July 15, 1999, which amends the Shareholder Agreement, dated as of June 15, 1999, among SOFI-IV SMT Holdings, L.L.C., Starwood Mezzanine Investors, L.P., B Holdings L.L.C. and TriNet Corporate Realty Trust, Inc. (5)
- 10.14 Indenture, dated May 17, 2000, among iStar Asset Receivables Trust, La Salle Bank National Association and ABN AMRO BANK N.V. (9)
- 10.15 Purchase Agreement dated October 14, 2001. (11)
- 10.16 Employment Agreement dated as of April 1, 2001 by and between iStar Financial Inc. and Spencer B. Haber. (12)
- 10.17 Employment Agreement, dated as of March 31, 2001, by and between iStar Financial Inc. and Jay Sugarman. (12)
- 10.18 Reimbursement Agreement, dated as of June 24, 2001, by and between iStar Financial Inc. and certain of its shareholders. (12)
- 10.19 Master Agreement between iStar DB Seller, LLC, Seller and Deutsche Bank AG, New York Branch, Buyer dated January 11, 2001. (13)

EXHIBIT
NUMBER

DOCUMENT DESCRIPTION

-
- 10.20 Employment Agreement, dated November 1, 2002, by and between iStar Financial Inc. and Catherine D. Rice.

10.21	iStar Financial Inc. Code of Conduct.
12.1	Computation of Ratio of EBITDA to interest expense.
12.2	Computation of Ratio of EBITDA to combined fixed charges.
21.1	Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP.

EXPLANATORY NOTES:

-
- (1) Incorporated by reference from the Company's Registration Statement on Form S-4 filed on May 12, 1998.
 - (2) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1997 filed on April 2, 1998.
 - (3) Incorporated by reference from the Company's Form 8-K filed on December 23, 1998.
 - (4) Incorporated by reference to the Company's Current Report on Form 8-K filed on June 22, 1999.
 - (5) Incorporated by reference to the Company's Registration Statement on Form S-4 filed on August 25, 1999.
 - (6) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30, 2000.
 - (7) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 filed on May 15, 2000.
 - (8) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 filed on August 14, 2000.
 - (9) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2000 filed on March 30, 2001.
 - (10) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 filed on November 14, 2001.
 - (11) Incorporated by reference from the Company's Form 8-K filed on November 5, 2001.
 - (12) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 filed on August 3, 2001.
 - (13) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 filed on May 15, 2001.
 - (14) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.
 - (15) Incorporated by reference from the Company's Form 8-K filed on November 19, 2002.

99

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

iSTAR FINANCIAL INC.
REGISTRANT

Date: March 27, 2003

/s/ JAY SUGARMAN

Jay Sugarman
CHAIRMAN OF THE BOARD OF DIRECTORS AND
CHIEF EXECUTIVE OFFICER

Date: March 27, 2003

/s/ CATHERINE D. RICE

Catherine D. Rice
CHIEF FINANCIAL OFFICER

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following person on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 27, 2003

/s/ JAY SUGARMAN

Jay Sugarman
CHIEF EXECUTIVE OFFICER AND DIRECTOR

Date: March 27, 2003

/s/ WILLIS ANDERSEN JR.

Willis Andersen Jr.
DIRECTOR

Date: March 27, 2003

/s/ JEFFREY G. DISHNER

Jeffrey G. Dishner
DIRECTOR

Date: March 27, 2003

/s/ ANDREW L. FARKAS

Andrew L. Farkas
DIRECTOR

Date: March 27, 2003

/s/ MADISON F. GROSE

Madison F. Grose
DIRECTOR

100

Date: March 27, 2003

/s/ SPENCER B. HABER

Spencer B. Haber
DIRECTOR

Date: March 27, 2003

/s/ ROBERT W. HOLMAN, JR.

Robert W. Holman, Jr.
DIRECTOR

Date: March 27, 2003

/s/ ROBIN JOSEPHS

Robin Josephs
DIRECTOR

Date: March 27, 2003

/s/ MERRICK R. KLEEMAN

Merrick R. Kleeman
DIRECTOR

Date: March 27, 2003

/s/ H. CABOT LODGE III

H. Cabot Lodge III
DIRECTOR

Date: March 27, 2003

/s/ MATTHEW J. LUSTIG

Matthew J. Lustig

DIRECTOR

Date: March 27, 2003

/s/ WILLIAM M. MATTHES

William M. Matthes
DIRECTOR

Date: March 27, 2003

/s/ JOHN G. MCDONALD

John G. McDonald
DIRECTOR

Date: March 27, 2003

/s/ STEPHEN B. ORESMAN

Stephen B. Oresman
DIRECTOR

Date: March 27, 2003

/s/ GEORGE R. PUSKAR

George R. Puskar
DIRECTOR

Date: March 27, 2003

Barry S. Sternlicht
DIRECTOR

101

CERTIFICATIONS

I, Jay Sugarman, certify that:

1. I have reviewed this annual report on Form 10-K of iStar Financial Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to

record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

- b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ JAY SUGARMAN

Name: Jay Sugarman
Title: Chief Executive Officer

102

I, Catherine D. Rice, certify that:

1. I have reviewed this annual report on Form 10-K of iStar Financial Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ CATHERINE D. RICE

Name: Catherine D. Rice
Title: Chief Financial Officer

iSTAR FINANCIAL INC.

Articles Supplementary

iStar Financial Inc., a Maryland corporation, (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: Under a power contained in Article V of the Charter of the Corporation (the "Charter"), the Board by duly adopted resolutions classified and designated 5,000 shares of authorized but unissued shares of Common Stock (as defined in the Charter) as shares of High Performance Common Stock-Series 4, with the following preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption, which, upon any restatement of the Charter, shall become part of Article V of the Charter, with any necessary or appropriate renumbering or relettering of the sections or subsections hereof.

HIGH PERFORMANCE COMMON STOCK- SERIES 4

1. DESIGNATION AND NUMBER. A series of Common Stock, designated High Performance Common Stock-Series 4 ("HP Series 4 Stock"), is hereby established. The number of shares of HP Series 4 Stock shall be 5,000. The number of shares of HP Series 4 Stock may be increased or decreased (but not below the number of shares of HP Series 4 Stock then issued and outstanding) from time to time by resolution of the Board. HP Series 4 Stock repurchased by the Corporation shall be canceled and shall revert to authorized but unissued shares of Common Stock, undesignated as to class or series, subject to reclassification and reissuance by the Corporation in accordance with the Charter.

2. RANK. The HP Series 4 Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) on a parity with the Common Stock; and (b) junior to the Corporation's 9.5% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock"), 9-3/8% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock"), 9.2% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock") and 8% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock"), and all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the HP Series 4 Stock.

3. VOTING RIGHTS. Each share of HP Series 4 Stock (voting together as a single class with all Common Stock (including any High Performance Common Stock-Series 1, High Performance Common Stock-Series 2, High Performance Common Stock-Series 3, and High Performance Common Stock-Series 5) and all Preferred Stock entitled to vote) will be entitled to cast twenty-five one-hundredths of one vote with respect to all matters on which the holders of Common Stock are entitled to vote. Shares of HP Series 4 Stock shall not have cumulative voting rights.

4. DIVIDENDS

(a) Each share of HP Series 4 Stock shall be entitled to receive dividends in the same amount and at the same times as regular quarterly cash dividends are paid on a number of shares of Common Stock equal to the Common Stock Equivalent, as defined below. For the avoidance of doubt, shares of HP Series 4 Stock shall not be entitled to receive dividends in respect of any dividend or other distribution paid on the Common Stock other than regular quarterly cash dividends.

(b) Each dividend will be payable to holders of record of the HP Series 4 Stock on a date (a "Record Date") selected by the Board which is the same date as the Record Date for the payment of the related dividend or other distribution on the Common Stock.

(c) Except as otherwise provided in paragraph (d), the Common Stock Equivalent shall be 0.01 shares of Common Stock.

(d) If the Cumulative Total Return of the Common Stock during the Measurement Period exceeds the Threshold Return, then with respect to each

dividend declared after the Valuation Date, the Common Stock Equivalent shall be deemed to equal: (1) the product of (w) 7.5% of the amount by which the Cumulative Total Return of the Common Stock during the Measurement Period exceeds the Threshold Return multiplied by (x) the Average Market Capitalization of the Common Stock for the Measurement Period; divided by (2) the product of (y) the Security Price of one share of Common Stock as of the Valuation Date and (z) the number of shares of HP Series 4 Stock Outstanding at the close of business, New York time, on the Valuation Date; PROVIDED, HOWEVER, that in no event shall the Common Stock Equivalent exceed the quotient of (A) 1.0% of the average number of shares of Common Stock outstanding on the last day of each full calendar month during the Measurement Period, on a fully diluted basis, divided by (B) the number of shares of HP Series 4 Stock outstanding on the Valuation Date.

5. RIGHTS UPON LIQUIDATION, DISSOLUTION OR WINDING UP. In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, each share of HP Series 4 Stock shall be entitled, on the same basis as the Common Stock Equivalent and any other class of stock hereafter classified or reclassified that does not have a preference on distributions in the liquidation, dissolution or winding up of the Company, to share ratably in the net assets of the Company remaining, after payment or provision for payment of the debts and other liabilities of the Company and the amount to which the holders of any class of stock of the Company that has a preference on distributions in the liquidation, dissolution or winding up of the Company shall be entitled. The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

6. REDEMPTION. The HP Series 4 Stock is not redeemable, except in the following instances:

(a) In order to ensure that the Corporation remains a qualified real estate investment trust for Federal income tax purposes, the HP Series 4 Stock will be subject to the provisions of Article IX of the Charter. Without limiting the generality of the foregoing, pursuant to Article IX, HP Series 4 Stock, together with other equity stock of the Corporation, owned by a stockholder in excess of the Ownership Limit will automatically be transferred to a Charitable Trust for the benefit of a Charitable Beneficiary and the Corporation will have the right to purchase such transferred shares from the Charitable Trust.

(b) The Corporation shall have the right, but not the obligation, to redeem shares of HP Series 4 Stock held by iStar HPU 2005, L.L.C. (the "LLC") upon receipt of a written notice (an "LLC Redemption Notice") from the managing member of the LLC of a proposed redemption by the LLC of units of interest in the LLC pursuant to the LLC's operating agreement. The LLC Redemption Notice shall specify the number of units of LLC interest to be redeemed, the redemption price and the date on which the redemption shall take place. The number of shares of HP Series 4 Stock that may be redeemed by the Corporation and the redemption price to be paid by the Corporation shall be the same as the number of units of LLC interest proposed to be redeemed and the redemption price to be paid for such units, in each case as set forth in the LLC Redemption Notice. In order for the Corporation to exercise its right of redemption hereunder, the Corporation shall advise the LLC in writing, as promptly as practicable

2

and in any event within 10 business days after receipt of the LLC Redemption Notice, of its intent to redeem HP Series 4 Stock in response to the LLC Redemption Notice and shall specify a date for such redemption, which date shall be no later than 10:00 a.m., New York time, on the redemption date specified in the LLC Redemption Notice.

(c) Notice of redemption of HP Series 4 Stock having been given in accordance with the previous paragraph, on or before the redemption date, the LLC shall surrender the certificates representing the shares of HP Series 4 Stock to be redeemed to the Corporation. Promptly after the certificates representing HP Series 4 Stock are surrendered to the Corporation, the Corporation will deliver to the LLC the consideration for such shares.

(d) The Corporation shall redeem for cash all outstanding shares of HP Series 4 Stock at a redemption price per share equal to the Security Price of the Common Stock as of the first date on which the Corporation is no longer

treated as a real estate investment trust for U.S. federal income tax purposes. Such redemption shall take place no later than 60 days after the first date on which the Corporation is no longer treated as a real estate investment trust for U.S. federal income tax purposes.

(e) At the close of business on the redemption date for shares of HP Series 4 Stock, the holders of the shares called for redemption will cease to be stockholders with respect to those shares, will have no interest in or claims against the Corporation by virtue of the shares and will have no voting or other rights with respect to the shares (except the right to receive the redemption price, and except the right to receive dividends or distributions payable thereafter to the holder of the HP Series 4 Stock as of a Record Date preceding such redemption date) and, from and after the close of business on the redemption date the shares of HP Series 4 Stock to be redeemed or exchanged will no longer be deemed outstanding.

(f) If a Record Date occurs prior to a redemption date for shares of HP Series 4 Stock but the corresponding dividend payment date occurs after the redemption date, the dividend payable on such dividend payment date will be payable on the dividend payment date to the holder of record of the shares of HP Series 4 Stock on the Record Date notwithstanding the redemption of the shares of HP Series 4 Stock on the redemption date.

7. CONVERSION. If the Corporation consolidates or merges with or into any person, or sells, assigns, transfers, leases or otherwise disposes of all or substantially all of its consolidated assets to another person, in a single transaction or a series of related transactions in which (1) the Corporation is not the surviving or continuing person and (2) the common stock of the Corporation is converted or exchanged into cash or other property or securities of the surviving or continuing person (a "Change of Control"), then at the effective time of the completion of such Change of Control transaction, each share of HP Series 4 Common Stock shall automatically be converted into the same type and amount of consideration as a number of shares of common stock equal to the Common Stock Equivalent in effect at the effective time of the completion of the transaction.

8. DEFINITIONS. As used herein, the following terms shall have the following meanings:

"AVERAGE MARKET CAPITALIZATION" means the weighted average of the common equity market capitalization of the Corporation for each calendar month of the Measurement Period, as calculated by multiplying the number of basic shares of Common Stock outstanding on the last day of each calendar month by the average daily closing price of the Common Stock for each such month.

"CHANGE OF CONTROL" means, a transaction of the type contemplated by paragraph 7 "Conversion" of these Articles.

3

"CHANGE OF CONTROL PRICE" means, if the Common Stock is publicly traded on a U.S. national securities exchange or automated quotation system prior to the occurrence of a Change of Control, then the closing price of the Common Stock at the end of regular trading on the last trading day prior to the occurrence of the Change of Control, and otherwise shall mean the fair market value of the Common Stock on the day prior to the occurrence of the Change of Control as determined by the Board.

"CUMULATIVE TOTAL RETURN" means, for any security and for any period, the cumulative total return for such security over such period, as measured by (1) the sum of (a) the cumulative amount of dividends paid in respect of such security for such period (assuming that all cash dividends are reinvested in such security as of the payment date for such dividend based on the Security Price as of the dividend payment date), and (b) an amount equal to (x) the Change of Control Price or, if no Change of Control has occurred, the Security Price as of the last day of the Measurement Period, minus (y) the closing price of the security, as reported by the principal stock exchange or automated quotation system on which the security is then traded, on the last trading day prior to the first day of the Measurement Period, divided by (2) the closing price of the security, as reported by the principal stock exchange or automated quotation system on which the security is then traded, on the last trading day prior to the first day of the Measurement Period; provided, however, that if the foregoing calculation results in a negative number, the "Cumulative Total Return" shall be equal to zero.

"INDEX RETURN" means the Cumulative Total Return, expressed as a percentage, achieved by the Peer Group Index during the Measurement Period.

"SECURITY PRICE" means, for any security, the average of the closing prices for such security on the principal securities exchange or automated quotation system on which the security is traded or listed for the 20 trading days ended on the trading date immediately preceding the date as of which the Security Price is being determined; provided, however, that if the security is not publicly-traded, then the Security Price shall be equal to the fair market value of the security as determined by the Board.

"MEASUREMENT PERIOD" means the period from and including January 1, 2005 to and including the Valuation Date.

"PEER GROUP INDEX" means, initially, a combination of The Morgan Stanley Dean Witter REIT Index and the Russell 1000 Financial Index, with each such index being accorded equal weighting. The Board may select one or more different indices to serve as the Peer Group Index from time to time if the Board determines that the applicable indices no longer serve as an appropriate comparison for the Company, or if they are not maintained throughout the Measurement Period or for any other reason the Board may determine.

"THRESHOLD RETURN" means the greater of (1) 10% and (2) the Index Return.

"VALUATION DATE" means the earlier of (1) December 31, 2005, (2) the date of the occurrence of a Change of Control of the Company and (3) the date of any liquidation, dissolution or winding up of the Company.

SECOND: The shares of High Performance Common Stock-Series 4 have been classified and designated by the Board of Directors under the authority contained in the Charter.

THIRD: These Articles Supplementary have been approved by the Board of Directors in the manner and by the vote required by law.

4

FOURTH: The undersigned Chairman and Chief Executive Officer of the Corporation acknowledges these Articles Supplementary to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned Chairman and Chief Executive Officer acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]

5

IN WITNESS WHEREOF, the Corporation has caused these Articles Supplementary to be signed in its name and on its behalf by its Chairman and attested to by its Secretary on this 22 day of January, 2003.

ATTEST: iSTAR FINANCIAL INC.

By: /s/ Catherine D. Rice	By: /s/ Jay Sugarman	(SEAL)
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Name: Catherine D. Rice	Name: Jay S. Sugarman	
Title: Chief Financial Officer and Secretary	Title: Chairman and CEO	

6

EMPLOYMENT AGREEMENT

THIS AGREEMENT entered into as of November 1, 2002 by and between iStar Financial Inc., a Maryland corporation (together with its successors and assigns, the "Company"), and Catherine D. Rice (the "Executive").

WITNESSETH :

WHEREAS, the Company wishes to offer employment to the Executive, and the Executive desires to accept such offer, on the terms and conditions set forth below;

NOW, THEREFORE, IT IS AGREED by and between the Company and the Executive (the "Parties") as follows:

1. EMPLOYMENT PERIOD. The Company agrees to employ the Executive, and the Executive agrees to such employment on the terms and conditions set forth in this Agreement. The term of the Executive's employment under this Agreement shall be deemed to have commenced as of November 6, 2002 (the "Effective Date") and, unless earlier terminated in accordance with Section 5, shall continue through December 31, 2005 (the "Initial Employment Period"); provided, however, that the Effective Date shall not be deemed to have occurred unless and until the parties execute and deliver the agreements contemplated by Section 4 hereof. Upon the expiration of the Initial Employment Period and upon each anniversary thereof, the term of Executive's employment hereunder, if not previously ended, shall automatically be extended for an additional employment period of one year, subject to earlier termination in accordance with Section 5 (collectively, the "Additional Employment Period"), unless either Party shall have given written notice to the other Party of its decision not to extend the Initial Employment Period or to further extend the Additional Employment Period at least 30 days prior to the scheduled expiration of the Initial Employment Period or the Additional Employment Period, as the case may be. (the period during which the Executive is employed hereunder being hereinafter referred to as the "Term").

2. POSITION AND DUTIES.

(a) The Executive shall become an employee of the Company as of the Effective Date and shall serve as Chief Financial Officer of the Company beginning on November 16, 2002 and during the remainder of the Term. The Executive shall have the authorities, duties and responsibilities that are customarily assigned to the chief financial officer of a company of the size and nature of the Company, including, but not limited to, raising capital; financial, accounting, treasury and investor relations functions; financial reporting; communicating with external parties (including, but not limited to, shareholders, bondholders and research analysts); and reporting to the Audit Committee. The Executive agrees that upon the termination of her employment as Chief Financial Officer of the Company, she shall promptly execute any documents evidencing such termination that the Company may reasonably request her to execute.

(b) In her capacity as Chief Financial Officer of the Company, the Executive shall report directly to the President of the Company. In the event the President position is unfilled, the Executive shall report to the Chief Executive Officer of the Company.

(c) During the Term, Executive shall devote substantially all of her business time and attention to the business and affairs of the Company and shall perform, faithfully and diligently, her duties

and responsibilities hereunder. It shall not be considered a violation of the foregoing for the Executive to: (i) serve on corporate, industry, civic, social or charitable boards or committees or engage in charitable activities and community affairs, provided that the Chief Executive Officer approves Executive's service on any such corporate or industry boards or committees; or (ii) manage her own personal investments and affairs; provided that the foregoing activities do not materially interfere with the performance of the Executive's responsibilities hereunder.

(d) The Executive agrees to discharge her duties and obligations under this Agreement in accordance with such reasonable policies, consistent with the express terms of this Agreement, as the Company may from time to time (either before or after the Effective Date) adopt and communicate to the Executive.

(e) During the Term, the Executive's principal office, and principal place of employment, shall be at the Company's principal executive offices in Manhattan.

3. COMPENSATION.

(a) BASE SALARY. During the Term, Executive shall receive a base salary ("Base Salary") at a rate of \$225,000 per annum, subject to annual review for upward (but not downward) adjustment by the Company's Board of Directors (the "Board"), or its Compensation Committee (the "Compensation Committee"), in their sole discretion. The Base Salary shall be paid in accordance with the Company's customary payroll practices for its senior executives.

(b) ANNUAL BONUS. Executive shall, to the extent provided in this Section 3(b), be entitled to receive an annual cash incentive award in respect of each fiscal year of the Company that ends during the Term, beginning with the fiscal year ending December 31, 2003. Beginning with the bonus for the fiscal year ending December 31, 2003, the Executive's annual incentive award target for any such year shall be \$325,000, subject to annual review for upward or downward adjustment. Such Annual Bonus shall be payable in cash to the Executive on or about January 31 of the year following the last day of the fiscal year to which the bonus relates.

(c) FRINGE BENEFITS.

(i) REIMBURSEMENT OF EXPENSES. The Company shall promptly pay or reimburse Executive in accordance with the Company's standard policies as in effect from time to time, upon the presentation of appropriate documentation of such expenses, for all reasonable travel and other expenses incurred by the Executive in the course of performing services for or on behalf of the Company.

(ii) PARTICIPATION IN BENEFIT PLANS. The Executive shall be entitled to participate, during the Term, in all welfare and retirement benefit plans, programs and arrangements that are generally available to senior executives of the Company, including but not limited to qualified and non-qualified pension and retirement plans, supplemental pension and retirement plans, group hospitalization, health, medical, vision, dental care, death benefit, disability, and post-retirement welfare plans, and other present and future welfare and retirement benefit plans, programs and arrangements, on no less favorable terms than those that apply to other senior executives of the Company generally. For avoidance of doubt, the foregoing shall not be construed as a guaranty of, or as an obligation on the part of the Company to provide, any future awards (including, but not limited to, stock options, restricted stock, phantom shares, or other performance awards) under any Company incentive plan from time to time in effect for its senior executives or other employees.

2

(iii) VACATION. During the Term, Executive shall be entitled to four weeks' paid vacation per annum. Executive shall not be entitled to any cash payment in respect of any unused vacation time.

(iv) OTHER FRINGE BENEFITS AND PERQUISITES. During the Term, the Executive shall be entitled to participate in all fringe benefits and perquisites available to senior executives of the Company generally at levels, and on terms and conditions, that are commensurate with her position and responsibilities at the Company and shall be entitled to receive such additional fringe benefits and perquisites as the Company may, in its discretion, from time to time provide.

(v) RELOCATION; CORPORATE APARTMENT. The Company shall reimburse the Executive for relocation expenses in accordance with the Company's relocation policy, as in effect from time to time. Reimbursable relocation expenses will include reasonable travel costs between New York City and San Francisco related to the Executive's relocation. Commencing on the Effective Date through December 31, 2002, the Executive shall have use of the Company's corporate apartment in Manhattan. Thereafter, the Executive shall be permitted to use such apartment consistent with Company policies.

4. EQUITY-BASED COMPENSATION; HIGH PERFORMANCE UNITS. It is acknowledged that, commencing herewith, the Executive is being granted certain equity-based compensation in accordance with and subject to the terms of two award agreements, copies of which are attached hereto as Exhibit A and Exhibit B. In addition, the Executive is purchasing interests in each of the Company's 2003, 2004, 2005 and 2006 High Performance Unit Plans pursuant to a subscription agreement, a copy of which is attached hereto as Exhibit C. The Executive is hereby granted the right to purchase interests representing 12.5% of the total interests in the Company's 2007 High Performance Unit Plan; provided, however, that in the event such 2007 High Performance Unit Plan is required to be approved by the Company's shareholders, and, after submission to the shareholders, the Plan is not approved, then this right shall terminate with no liability on the part of the Company or the Executive. The purchase price for interests in the 2007 High Performance Unit Plan shall be the fair market value for such interests as determined by the Company, subject to review by its independent auditors.

5. TERMINATION OF EMPLOYMENT.

(a) DEATH OR DISABILITY. The Executive's employment with the Company shall terminate automatically upon the Executive's death. To the extent permitted by applicable law, the Company shall be entitled to terminate the Executive's employment with the Company in the event of the Executive's Disability. "Disability" shall mean that the Executive shall have been unable, for a period of not less than six consecutive months, to substantially perform her duties for the Company, as a result of physical or mental illness, injury or impairment.

(b) BY THE COMPANY.

(i) The Company may terminate the Executive's employment with the Company for Cause or Without Cause. "Cause" shall mean (i) the conviction of the Executive (including a guilty or NOLO CONTENDERE plea) for the commission of any felony; (ii) the Executive's engagement in fraud or embezzlement or intentional misappropriation of the Company's funds or other assets of the Company; (iii) willful engagement by the Executive in significant activities resulting in material and demonstrable harm to the reputation of the Company; (iv) the willful and repeated refusal to perform or substantial disregard of the duties properly assigned to the Executive by the Company (other than as a result of Disability); (v) a material violation by the Executive of any statutory or common law duty of loyalty to the Company; or (vi) a material breach by the Executive of this Agreement or the Company's Code of Conduct. Notwithstanding the foregoing, (i) the Executive shall be given written notice of any

3

action or failure to act that is alleged to constitute Cause (a "Default"), and an opportunity for 20 business days from the date of such notice to cure such Default, such period to be subject to extension in the discretion of the CEO or the Board of Directors; and (ii) regardless of whether the Executive is able to cure any Default, the Executive shall not be deemed to have been terminated for Cause without (x) an opportunity for the Executive, together with her counsel, to be heard by the Board of Directors, and (y) following any such hearing by the Board of Directors, delivery to the Executive of a notice of termination stating that the Company has determined that the actions or inactions of the Executive described in the Company's prior notice of Default constitute Cause.

(ii) A termination of the Executive's employment by the Company "Without Cause" (that is, neither for Cause nor for death, nor Disability, in each case as determined in accordance with this Agreement) shall be effected by the Company giving the Executive prior written notice of the termination, which notice shall specify the Date of Termination (as defined below). A termination of Executive's employment Without Cause by the Company shall not constitute a breach of this Agreement.

(c) BY THE EXECUTIVE.

(i) The Executive may terminate her employment hereunder for Good Reason or without Good Reason. "Good Reason" means any of the following that is not cured within 30 calendar days following written notice thereof from the Executive to the Company:

(A) failure by the Company to maintain the Executive as CFO of the Company with such duties as are described in Section 2(a);

(B) the assignment to the Executive of any duties or responsibilities inconsistent in any respect with those customarily associated with the position to be held by Executive pursuant to this Agreement or any diminution in Executive's position, authority, duties or responsibilities in a manner inconsistent with the terms and provisions of this Agreement;

(C) any requirement that the Executive's services hereunder be rendered primarily at a location or locations other than the offices of the Company located in the borough of Manhattan in New York City and in San Francisco, California;

(D) the failure of any successor to all or substantially all of the assets or business of the Company to promptly assume in writing all of the obligations of the Company under this Agreement; or

(E) any other material breach of this Agreement by the Company.

(ii) A termination of employment by the Executive (including a termination for Good Reason), other than for death or Disability, in each case determined in accordance with this Agreement, and not by notice of non-extension in accordance with Section 1, shall be effected by her giving the Company prior written notice, no less than 30 days before the Date of Termination, specifying the Date of Termination. Termination of the Executive's employment in accordance with this Section 5(c) (ii) shall not constitute a breach of this Agreement.

(d) NO WAIVER. The failure to set forth any fact or circumstance shall not constitute a waiver of the right to assert, and shall not preclude the Party giving notice from asserting, such fact or circumstance in an attempt to enforce any right under, or in connection with, this Agreement.

4

(e) DATE OF TERMINATION. "Date of Termination" means the date of the Executive's death, the date on which the termination of the Executive's employment with the Company by the Company on account of Disability is effected, the date on which the termination of the Executive's employment with the Company by the Company for Cause or Without Cause is effective, the date on which the termination of the Executive's employment for Good Reason is effective, or the date on which the Executive terminates her employment without Good Reason.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION.

(a) DEATH. In the event that the Executive's employment hereunder is terminated by the Executive's death, then:

(i) the Executive's estate or beneficiaries shall be entitled to receive any Base Salary and other benefits earned and accrued under this Agreement prior to the Date of Termination (and reimbursement under this Agreement for expenses incurred prior to the Date of Termination); and

(ii) the Executive shall receive such additional rights and benefits as may be provided under the benefit plans and programs of the Company and its affiliates in accordance with the provisions of such plans and programs, if any; and

(iii) the Executive's estate and beneficiaries shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder, except as may otherwise be provided under the agreements described in Section 4 of this Agreement.

(b) DISABILITY. In the event that the Executive's employment hereunder is terminated for Disability in accordance with this Agreement, then:

(i) the Executive or her legal representative, as the case may be, shall be entitled to receive any Base Salary and other benefits earned and accrued under this Agreement prior to the Date of Termination (and

reimbursement under this Agreement for expenses incurred prior to the Date of Termination);

(ii) the Executive shall receive Company-paid, continued medical insurance coverage, as then provided generally to employees of the Company and their eligible dependents, for the Executive and her eligible dependents for a period of one year following the Date of Termination; which coverage shall be included as part of any required COBRA coverage; provided, however, that the COBRA coverage shall terminate with respect to the Executive and her eligible dependents as of the earliest date allowed by law;

(iii) the Executive shall receive such additional rights and benefits as may be provided under the benefit plans and programs of the Company and its affiliates in accordance with the provisions of such plans and programs, if any; and

(iv) the Executive shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder, except as may otherwise be provided under the agreements described in Section 4 of this Agreement.

(c) WITHOUT CAUSE BY THE COMPANY OR FOR GOOD REASON BY THE EXECUTIVE. In the event that the Executive's employment hereunder is terminated Without Cause by the Company or for Good Reason by the Executive, in each case in accordance with this Agreement, then:

5

(i) the Executive shall be entitled to receive any Base Salary and other benefits earned and accrued under this Agreement prior to the Date of Termination (and reimbursement under this Agreement for expenses incurred prior to the Date of Termination);

(ii) the Executive shall continue to receive Base Salary at the then-current rate for 12 months, payable at such times as the Base Salary would otherwise be payable without regard to such termination;

(iii) the Executive shall receive Company-paid, continued medical insurance coverage, as then provided generally to employees of the Company and their eligible dependents, for the Executive and her eligible dependents for a period of one year following the Date of Termination; which coverage shall be included as part of any required COBRA coverage; provided, however, that the COBRA coverage shall terminate with respect to the Executive and her eligible dependents as of the earliest date allowed by law;

(iv) the Executive shall receive such additional rights and benefits as may be provided under the benefit plans and programs of the Company and its affiliates in accordance with the provisions of such plans and programs, if any; and

(v) the Executive shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder, except as may otherwise be provided under the agreements described in Section 4 of this Agreement.

(d) FOR CAUSE BY THE COMPANY, OR BY THE EXECUTIVE WITHOUT GOOD REASON; BY EXPIRATION OF THE TERM. In the event that the Executive's employment hereunder is terminated (i) by the Company for Cause in accordance with this Agreement, (ii) by the Executive without Good Reason, or (iii) upon the scheduled expiration of the Initial Employment Period or any Additional Employment Period in accordance with Section 1, then Executive shall be entitled solely to the following benefits:

(i) the Executive shall be entitled to receive any Base Salary and other benefits earned and accrued under this Agreement prior to the Date of Termination (and reimbursement under this Agreement for expenses incurred prior to the Date of Termination), and

(ii) the Executive shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder.

(e) GENERAL RELEASE. The Company's obligation to make any payment pursuant to Section 6(c)(ii) shall be contingent upon, and is the consideration

for, the Executive executing and delivering to the Company, a general release (the "Release"), in customary form, releasing the Company, its affiliates and all current and former members, officers and employees of the Company (the "Releasees") from any claims relating to her employment hereunder, other than claims relating to continuing obligations under, or preserved by, (x) this Agreement or (y) any compensation or benefit plan, program or arrangement in which the Executive was participating as of the Date of Termination, and no such amounts shall be provided until the Executive executes and delivers to the Company a letter which provides that the Executive had not revoked such Release after seven days following the date of the Release; subject to no Releasee initiating or maintaining any proceeding or claim against the Executive or any of her heirs, beneficiaries or legal representatives or against her estate, other than proceedings and claims relating solely to enforcing the Executive's continuing obligations under this Agreement or any of the agreements, plans, programs and arrangements referred to in clause (y) of this Section Section 6(e).

6

(f) NO OFFSET, ETC.. The Company's obligation to make the payments provided for in, and otherwise to perform its obligations under, this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company or any Releasee may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amount payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced, regardless of whether the Executive obtains other employment or receives benefits or compensation in connection therewith. Amounts due under this Section 6 are considered to be reasonable by the Company and are not in the nature of a penalty. The payments and benefits provided for in this Section 6 are intended to constitute both liquidated damages and, in the case of the payment described in Section 6(c)(ii), consideration for the general release described in Section 6(e).

7. WITHHOLDING. Notwithstanding any other provision of this Agreement, the Company may withhold from amounts payable under this Agreement all Federal, state, local and foreign taxes that it determines are required to be withheld by applicable law or regulation.

8. CONFIDENTIAL INFORMATION.

(a) The Executive shall hold all secret or confidential information, knowledge or data relating to the Company or any of its affiliates and their respective businesses that the Executive obtains during her employment hereunder and that is not public knowledge (other than as a result of the Executive's violation of this Section 8) ("Confidential Information") in strict confidence. The Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after the Executive's employment with the Company, except (i) in the course of performing her duties for the Company or its affiliates, (ii) in confidence to any attorney, accountant or other professional for the purpose of securing professional advice, (iii) to the extent reasonably necessary to enforce her rights, (iv) with the prior written consent of the Company or (v) as otherwise required by law, regulation or legal process. If the Executive is requested pursuant to, or required by, applicable law, regulation or legal process to disclose any Confidential Information, the Executive shall provide the Company, as promptly as the circumstances reasonably permit, with notice of such request or requirement and, unless a protective order or other appropriate relief is previously obtained, the Confidential Information subject to such request may be disclosed pursuant to and in accordance with the terms of such request or requirement, provided that the Executive shall use her best reasonable efforts, at the Company's reasonable request and sole expense, to limit any such disclosure to the precise terms of such request or requirement.

(b) All memoranda, notes, lists, records, property and any other tangible product and documents (and all copies thereof), whether visually perceptible, machine-readable or otherwise, made, produced or compiled by the Executive or made available to the Executive concerning the business of the Company or its affiliates, (i) shall at all times be the property of the Company (and, as applicable, any affiliates) and shall be delivered to the Company at any time upon its request, and (ii) upon the Executive's termination of employment, shall be immediately returned to the Company.

9. NON-COMPETITION/NON-SOLICITATION. The Executive acknowledges that the

services to be rendered by her to the Company (which, as used in this Section 9, shall be deemed to include the Company and each of its Subsidiaries) are of a special and unique character. In consideration of her employment hereunder, the Executive agrees, for the benefit of the Company, that she will not (other than in connection with performing her duties for the Company or its affiliates):

(a) during the Term and, if the Executive's employment hereunder is terminated (x) by the Company for any reason other than a termination Without Cause or (y) by the Executive other than for

7

Good Reason, for 12 months thereafter: (i) engage, directly or indirectly, whether as principal, agent, representative, consultant, employee, partner, stockholder, limited partner or other investor (other than an investment of not more than (x) 5% of the stock or equity of any corporation the capital stock of which is publicly traded or (y) 5% of the ownership interest of any limited partnership or other entity) or otherwise, within the United States of America, in any business that competes directly or materially with the business conducted by the Company as of the Date of Termination or (ii) solicit or entice, or attempt to solicit or entice, away from the Company, either for her own account or for any individual, firm or corporation, any person known by her to have been, at any time during the 12 months prior to such solicitation, enticement or attempt, a borrower from, a lender to, or a direct and material participant in a substantial financial transaction with, the Company, or to have been actively solicited by the Company to become a borrower from, a lender to, or a direct and material participant in a substantial financial transaction with, the Company; or

(b) during the Term and for 12 months thereafter: (i) solicit or entice, or attempt to solicit or entice, away from the Company any individual who is known by the Executive to then be an officer or employee of the Company either for her own account or for any individual, firm or corporation, whether or not such individual would commit a breach of a contract of employment by reason of leaving the service of the Company or (ii) employ, directly or indirectly, any person who has been, during the 12 months prior to employment by the Executive, an officer, employee or sales representative of the Company.

(c) The Executive understands that the provisions of this Section 9 may limit her ability to earn a livelihood in a business similar to the business of the Company but nevertheless agrees and hereby acknowledges that (A) such provisions do not impose a greater restraint than is necessary to protect the goodwill or other business interests of the Company, (B) such provisions contain reasonable limitations as to time and scope of activity to be restrained, (C) such provisions are not harmful to the general public, (D) such provisions are not unduly burdensome to the Executive, and (E) the consideration provided hereunder is sufficient to compensate the Executive for the restrictions contained in such provisions. In consideration thereof and in light of the Executive's education, skills and abilities, the Executive agrees that the Executive will not assert in any forum that such provisions prevent the Executive from earning a living or otherwise are void or unenforceable or should be held void or unenforceable.

(d) Notwithstanding anything herein to the contrary, the Executive shall not be restricted from engaging in a non-competing business pursuant to Section 9(a) even if another division, subsidiary or affiliate of that enterprise does compete with the Company, so long as she does not perform any services for such division, subsidiary or affiliate.

10. RIGHTS AND REMEDIES UPON BREACH OF SECTION 8 OR 9.

(a) The Executive acknowledges and agrees that any breach by her of any of the provisions of Sections 8 or 9 (the "Restrictive Covenants") would result in irreparable injury and damage for which money damages would not provide an adequate remedy. Therefore, if the Executive breaches, or threatens to commit a breach of, any of the provisions of Section 8 or Section 9, the Company and its affiliates shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Company and its affiliates under law or in equity (including, without limitation, the recovery of damages);

(i) The right and remedy to have the Restrictive Covenants

specifically enforced (without posting bond and without the need to prove damages) by any court having equity

8

jurisdiction, including, without limitation, the right to an entry against the Executive of restraining orders and injunctions (preliminary, mandatory, temporary and permanent) against violations, threatened or actual, and whether or not then continuing, of such covenants.

(ii) The right and remedy to require the Executive to account for and pay over to the Company and its affiliates all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by her as the result of any transactions constituting a breach of the Restrictive Covenants, and the Executive shall account for and pay over such Benefits to the Company and, if applicable, its affected affiliates.

(b) The Executive agrees that in any action seeking specific performance or other equitable relief, she will not assert or contend that any of the provisions of Sections 8 or 9 are unreasonable or otherwise unenforceable. The existence of any claim or cause of action by the Executive, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement of the Restrictive Covenants.

11. ARBITRATION. Any claim or dispute arising out of or relating to this Agreement (other than a controversy or claim arising under Section 8 or Section 9, to the extent necessary for the Company (or its affiliates, where applicable) to avail itself of the rights and remedies referred to in Section 10), any other agreement between the Executive and the Company or any of its affiliates, the Executive's employment with the Company or the termination thereof (collectively, "Covered Claims") shall be resolved by binding arbitration, to be held in the Borough of Manhattan, in accordance with the Commercial Arbitration Rules (and not the National Rules for the Resolution of Employment Disputes) of the American Arbitration Association and this Section 11. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

12. SUCCESSORS; BENEFICIARIES.

(a) This Agreement is personal to the Executive and, without the prior written consent of the Company, shall not be assignable by the Executive; provided, however, that any of the Executive's rights to compensation hereunder may be transferred by will or by the laws of descent and distribution or as provided in Section 12(d).

(b) This Agreement shall inure to the benefit of and be binding upon the Parties and their respective successors, heirs (in the case of the Executive) and assigns.

(c) No rights of the Company under this Agreement may be assigned or transferred by the Company, other than to a successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company that promptly and expressly agrees to assume and perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in this Agreement, the term "Board" shall include both the "Board" as defined in the first sentence of Section 2(b) and the board of directors, board of trustees, or analogous governing person or body of any successor to all or substantially all of the business or assets of the Company.

(d) The Executive shall be entitled, to the extent permitted under any applicable law, any applicable plans, programs and arrangements of the Company, to select and change the beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following the Executive's death by giving the Company written notice thereof. In the event of the Executive's death or a judicial determination of her incompetence, references in this Agreement to the Executive shall be deemed, where appropriate, to refer to her beneficiary, estate or other legal representative.

9

(e) Except to the extent otherwise provided in Sections 12(a) and

12(d), the rights and benefits of the Executive under this Agreement may not be anticipated, assigned, alienated or subjected to attachment, garnishment, levy, execution or other legal or equitable process. Any attempt by the Executive to anticipate, alienate, assign, sell, transfer, pledge, encumber or charge such rights or benefits, except as required by law or court order or as provided in Sections 12(a) and 12(d), shall be void. Payments hereunder shall not be considered assets of the Executive in the event of insolvency or bankruptcy unless and until paid, or due to be paid, to the Executive.

13. REPRESENTATIONS. The Executive represents to the Company that she is not subject or a party to any employment or consulting agreement, non-competition covenant or other agreement, covenant or understanding which might prohibit her from executing this Agreement or limit her ability to fulfill her responsibilities hereunder.

14. INDEMNIFICATION OF EXECUTIVE. To the extent permitted under applicable law, the Company agrees that if the Executive is made a party, or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that she is or was a director, officer or employee of the Company or is or was serving at the request of the Company as a director, officer, member, employee or agent of another Company, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Company to the fullest extent permitted or authorized by the Company's certificate of incorporation or bylaws or, if greater, by the laws of the State of Maryland, against all costs, expenses, liabilities and losses (including, without limitation, attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by the Executive in connection therewith (including, without limitation, investigating, preparing for and defending any such Proceeding), and such indemnification shall continue as to the Executive even if she has ceased to be a director, officer, member, employee or agent of the Company or other entity and shall inure to the benefit of the Executive's heirs, executors and administrators. To the extent permitted by law, the Company shall advance to the Executive all reasonable costs and expenses incurred by her in connection with a Proceeding within 20 days after receipt by the Company of a written request for such advance. Such request shall include an undertaking by the Executive to repay the amount of such advance if it shall ultimately be determined that she is not entitled to be indemnified against such costs and expenses. Without in any way limiting the foregoing or the scope or generality thereof, to the extent permitted by law, the Company agrees to indemnify and hold harmless the Executive to the fullest extent permitted or authorized by the Company's certificate of incorporation or bylaws or, if greater, by the laws of the State of Maryland, against all costs, expenses, liabilities and losses reasonably incurred or suffered by the Executive by reason of, arising from or relating to any written statement of the Executive that (1) is required to be, and is, filed with the Securities and Exchange Commission regarding the accuracy of reports or statements filed by the Company with such Commission pursuant to Federal securities laws or (2) is made to another officer or executive of the Company to support such a required filed statement of such other officer or executive, PROVIDED that, in making (and, if applicable, filing) such written statement, the Executive acted in good faith and in a manner the Executive reasonably believed to be in and not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that the Executive's conduct was unlawful. The indemnification provided for in this Section shall not extend to any claims or disputes arising between the Executive and the Company under, pursuant to, or with respect to, this Agreement or the agreements referred to in Section 4.

10

15. MISCELLANEOUS.

(a) This Agreement shall be governed, construed, performed and enforced in accordance with its express terms, and otherwise in accordance with the laws of the State of New York, without reference to principles of conflict of laws. No provision of this Agreement may be amended or modified except by a written agreement that is executed by the Parties or their respective successors and legal representatives and that expressly refers to the provision(s) of this Agreement that are being amended or modified. In the event of any inconsistency between any provision of this Agreement and any provision of any plan, employee

handbook, personnel manual, program, policy, arrangement or agreement of the Company or any of its affiliates, the provisions of this Agreement shall control unless the Executive otherwise agrees in a writing that expressly refers to the provision of this Agreement whose control she is waiving.

(b) All notices, requests, consents and other communications under this Agreement shall be in writing and shall be given (i) by hand delivery or (ii) by registered or certified mail, return receipt requested, postage prepaid, addressed as follows or (iii) by nationally recognized overnight courier, addressed as follows:

IF TO EXECUTIVE:

Catherine D. Rice
c/o iStar Financial Inc.
1114 Avenue of the Americas, 27th Floor
New York, NY 10036

with a copy to the Executive at the address of her primary residence as it then appears in the records of the Company and a copy to:

Gibson, Dunn & Crutcher LLP
200 Park Avenue
New York, NY 10166-0193
Attn: Charles F. Feldman, Esq.

IF TO THE COMPANY:

iStar Financial Inc.
1114 Avenue of the Americas, 27th Floor
New York, NY 10036
Attn: General Counsel

with copy each to:

iStar Financial Inc.
1114 Avenue of the Americas, 27th Floor
New York, NY 10036
Attn: Chairman, Compensation Committee of the Board of Directors

11

and

Clifford Chance US LLP
200 Park Avenue
New York, NY 10166-0513
Attn: Kathleen L. Werner, Esq.

or to such other address or addresses as either Party furnishes to the other in writing in accordance with this Section 15(b). Notices and other communications shall be effective when actually received by the addressee.

(c) If any provision of this Agreement, including but not limited to Section 8, 9 or 10 or the application of any such provision to any person or circumstances shall be determined by any court or arbitrator of competent jurisdiction to be invalid or unenforceable to any extent, then (i) the remainder of this Agreement, and the application of such provision to such person or circumstances other than those to which it is so determined to be invalid or unenforceable, shall not be affected thereby, and each provision hereof shall be enforced to the fullest extent permitted by law and (ii) such court or arbitrator shall have the power, and is hereby directed, to reduce the scope, duration or area of the provision, to delete specific words or phrases and to replace any invalid or unenforceable provision with a provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable provision, and this Agreement shall be enforced as so modified.

(d) Anything contained in this Agreement to the contrary notwithstanding, the provisions of Sections 7 through 11, and the other provisions of this Agreement to the extent necessary to effectuate the survival of Sections 7 through 11, shall survive termination of this Agreement and any termination of the Executive's employment hereunder.

(e) The Company agrees to reimburse the Executive for legal fees incurred by her in connection with the negotiation and execution of this Agreement, up to a maximum amount of \$10,000.00.

(f) The captions and headings in this Agreement are not part of the provisions hereof and shall have no force or effect.

(g) No waiver by any person or entity of any breath of any condition or provision contained in this Agreement shall be deemed a waiver of any similar or dissimilar condition or provision at the same or any prior or subsequent time. To be effective, any waiver must be set forth in a writing signed by (or on behalf of) the waiving person or entity and must specifically refer to the condition(s) or provision(s) of this Agreement being waived.

(h) The Parties acknowledge that this Agreement supersedes any other agreement between them concerning the specific subject matter hereof.

[REST OF PAGE INTENTIONALLY LEFT BLANK]

12

This Agreement may be executed in several counterparts, each of which shall be deemed an original, and said counterparts shall constitute one and the same instrument. Signatures delivered by facsimile shall be valid and binding for all purposes.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the day and year first above written.

CATHERINE D. RICE

/s/ Catherine D. Rice

Catherine D. Rice

iSTAR FINANCIAL INC.

By: /s/ Jay S. Sugarman

Name: Jay S. Sugarman
Title: Chairman and CEO

13

EXHIBIT A

STOCK UNIT AWARD AGREEMENT

THIS AGREEMENT, entered into as of November 6, 2002, by and between Catherine D. Rice (the "EXECUTIVE"), and iStar Financial Inc. (together with its successors and assigns, the "COMPANY").

WITNESSETH:

WHEREAS, the Executive is a key employee of the Company; and

WHEREAS, the Company desires to grant Stock Units to the Executive subject to the terms and conditions set forth below.

NOW, THEREFORE, IT IS AGREED by and between the Company and the Executive as follows:

1. AWARD.

Subject to the terms of this Agreement, the Executive is hereby awarded 100,000 Stock Units.

2. DEFINITIONS.

For purposes of this Agreement, the following definitions shall apply, in addition to definitions set forth elsewhere herein:

- (a) "AWARD" shall mean this grant of Stock Units to the Executive.
- (b) "BASE PRICE" shall mean the closing price of a Share as reported on the New York Stock Exchange on January 2, 2003.
- (c) "BOARD" shall mean the Board of Directors of the Company.
- (d) "BUSINESS DAY" shall mean any day on which banks in New York city are open for business.
- (e) "CAUSE" or "WITHOUT CAUSE" shall mean "Cause" or "Without Cause" as defined in, and determined in accordance with, the Employment Agreement.
- (f) "CHANGE OF CONTROL" shall have the meaning ascribed to such term under the Long-Term Incentive Plan.
- (g) "CODE" shall mean the Internal Revenue Code of 1986, as amended.
- (h) "COMMITTEE" shall mean the Committee designated by the Board, if any is so designated (the Board being under no obligation to establish or maintain such a committee) consisting of two or more members of the Board, each of whom shall be (i) a "Non-Employee Director" within the meaning of Rule 16b-3 under the Exchange Act, and (ii) at the election of the Board, an "outside director" within the meaning of Section 162(m) of the Code.
- (i) "COMMON STOCK" shall mean the common stock, par value \$0.001 of the Company.
- (j) "DETERMINATION DATE" shall mean the earliest to occur of (i) January 31, 2004, (ii) the first date on which the Executive's employment with the Company terminates by reason of death or Disability, or (iii) the date of the occurrence of a Change of Control.
- (k) "DISABILITY" shall mean "Disability" as defined in, and determined in accordance with, the Employment Agreement.
- (l) "EMPLOYMENT AGREEMENT" shall mean the Employment Agreement made as of November 1, 2002 between the Company and the Executive, as from time to time amended in accordance with its terms, or any successor to such Employment Agreement then in effect (or, if none is in effect at a point in time, such Employment Agreement or successor as last in effect).
- (m) "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.
- (n) "FAIR MARKET VALUE" per Stock Unit shall mean the closing price of a Share as reported on the New York Stock Exchange on the first trading day immediately preceding the date as of which such value is being determined; provided, however, that if the Fair Market Value of a Share for any date cannot be determined as above provided, Fair Market Value of a Share shall be determined by the Administrator by whatever means or method as to which the Administrator, in the good faith exercise of its discretion, shall at such time deem appropriate.
- (o) "LONG-TERM INCENTIVE PLAN" shall mean the iStar Financial Inc. 1996 Long-Term Incentive Plan (amended and restated as of March 13, 1998) or any successor plan thereto, as may be in effect from time to time.
- (p) "SECURITIES ACT" shall mean the Securities Act of 1933, as amended.
- (q) "SHARE" shall mean a share of Common Stock.
- (r) "STOCK UNIT" shall mean a right, granted pursuant to this Agreement, of the Executive to receipt of one Share (or cash in lieu thereof pursuant to Section 5).
- (s) "TRR" shall mean, as of the Determination Date, the quotient of (i) the sum of (A) the total amount of dividends per Share declared and paid from the date of this Agreement through the Determination Date and (B) the net gain or loss per Share between the Base Price and the average of the closing prices of a Share as reported on the New York Stock Exchange for the 20 trading days immediately preceding and including the Determination Date, divided by (ii) the Base Price.

3. VESTING.

(a) In determining the number of Stock Units which vest as of a Determination Date pursuant to this Agreement, the following schedule shall apply:

-2-

TRR ---	NUMBER OF SHARE UNITS VESTING -----
0.00%-9.99%	0
Between 10.00%, and 20.00%	0-100,000 using straight line interpolation
20.00% or more	100,000

(b) On the Determination Date, that number of Stock Units determined by reference to the TRR calculation described in Section 3(a) shall become vested and the remaining Stock Units shall be forfeited.

4. DIVIDEND EQUIVALENT.

No dividends or any equivalent thereof shall be provided to the Executive with respect to any unvested Stock Units.

5. SETTLEMENT OF UNITS.

(a) Each outstanding Stock Unit shall be settled as soon as practicable, and in any event within five Business Days, after the Determination Date by the transfer to the Executive of one Share or, at the option of the Company, cash in lieu thereof; provided, however, that, Stock Units must be settled in cash if the Shares to be delivered in settlement of Stock Units are not registered under the Securities Act or listed on the principal U.S. securities exchange on which the Shares are then listed. If the Company elects to deliver cash in settlement of Stock Units, the amount of cash per Stock Unit to be delivered to the Executive shall be equal to the average of the closing prices of a Share as reported on the New York Stock Exchange (or other principal stock exchange on which the Shares are then traded) for the 20 trading days ending on and including the Determination Date. Upon any settlement of Stock Units in Shares, the Company shall deliver or cause to be delivered one or more certificates representing the applicable number of Shares.

(b) Upon any termination of employment, any Stock Units that have not previously vested and do not thereupon vest as provided herein shall automatically, and with no further action, cease to be outstanding and be forfeited.

6. TAX WITHHOLDING.

(a) The Company shall have the right to require, prior to the delivery of any Shares or the payment of any cash pursuant to this Award, payment by the Executive of any federal, state, local or other taxes which may be required to be withheld or paid in connection with such award. The Administrator may provide that the Executive may satisfy any such obligation by any of the following means: (i) a cash payment to the Company; (ii) withholding of whole Shares from the Shares otherwise to be distributed upon settlement and having an aggregate Fair Market Value, determined as of the date the obligation to withhold or pay taxes arises in connection with this award, equal to the amount necessary to satisfy any such obligation; or (iii) any combination of (i) and (ii); provided, however, that the Administrator shall have sole discretion to disapprove of an election pursuant to any of the foregoing clauses (ii) and (iii). Any fraction of a Share which would be required to satisfy such an obligation shall be disregarded and the remaining amount due shall be paid in cash by the Executive.

-3-

(b) Notwithstanding anything contained in this Agreement to the contrary, the Executive's satisfaction of any tax-withholding requirements imposed by the

Administrator shall be a condition precedent to the Company's obligation as may otherwise be provided hereunder to provide Shares to the Executive.

7. TRANSFERABILITY.

This Award is not transferable except as designated by the Executive by will or by the laws of descent and distribution or, subject to such procedures as the Administrator may establish, to or for the benefit of members of the Executive's family. Except to the extent permitted by the Administrator in the case of transfers to or for the benefit of members of the Executive's family, during the Executive's lifetime this award shall be settled only by the Executive or the Executive's legal representative. Except as permitted by the foregoing, this Award may not be sold transferred, assigned, pledged, hypothecated, voluntarily encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment or similar process. Any sale, transfer, assignment, pledge, hypothecation, voluntary encumbrance or other disposition of this Award not permitted by the foregoing shall be wholly null and void.

8. REPRESENTATIONS.

The Shares, when and if issued, will be registered under the Securities Act and any applicable state securities laws, pursuant to an effective registration statement on Form S-8 (or any successor form). The Executive hereby represents and covenants that any subsequent sale of any such Shares shall be made either pursuant to an effective registration statement under the Securities Act and any applicable state securities laws, or pursuant to an exemption from registration under the Securities Act and such state securities laws.

9. ADJUSTMENT OF STOCK UNITS.

In the event of any change in the outstanding Shares by reason of any stock dividend, split, spin-off, recapitalization or other similar change, the terms and the number of any outstanding Stock Units shall be equitably adjusted by the Administrator in its discretion to the extent the Administrator determines that such adjustment is necessary to preserve the benefit of this Award for the Executive and the Company. In the event of any adjustment pursuant to this Section 9, the Administrator shall promptly deliver to the Executive a notice (i) setting forth in reasonable detail (A) the transactions and/or events that lead to the adjustment and (B) the method by which the adjustment was calculated or otherwise determined and (ii) specifying the adjustment made.

10. ADMINISTRATION.

This Award shall be administered by the Board or, if so determined by the Board, the Committee (the Board or Committee, as applicable, the "Administrator"). Notwithstanding the foregoing, except as otherwise determined by the Board, for any period during which the Company's Long-Term Incentive Plan is in effect, the Administrator hereunder shall be the "Administrator" under such plan (the "LTIP Administrator"), and the rules applicable to the LTIP Administrator's internal procedures shall apply.

11. AWARD CONFERS NO RIGHTS AS SHAREHOLDER.

The Executive shall not be entitled to any privileges of ownership with respect to Shares subject to this Award unless and until such Shares are delivered upon a settlement of a Stock Unit and the Executive becomes a shareholder of record with respect to such delivered Shares; and the Executive shall

-4-

not be considered a shareholder of the Company with respect to any such Shares not so purchased and delivered.

12. NO RIGHTS TO CONTINUED EMPLOYMENT.

In no event shall the granting of this Award or its acceptance by the Executive give or be deemed to give the Executive any rights to continued employment by the Company or any affiliate of the Company.

13. DISPUTE RESOLUTION.

Any controversy, dispute or claim arising out of or related to this Agreement shall be resolved by binding arbitration in accordance with the dispute resolution provisions of the Employment Agreement, after proceeding in accordance with any claims procedures adopted for purposes hereof.

14. WAIVER OF RESPONSIBILITY.

The Executive understands that the Company has assumed no responsibility for advising the Executive as to the tax consequences to the Executive of the grant of this Award. The Executive should consult with her individual tax advisor concerning the applicability of Federal, state and local tax laws to this Award and to her personal tax circumstances.

15. NOTICES AND OTHER MISCELLANEOUS PROVISIONS.

(a) CERTAIN PROCEDURAL TERMS. The provisions of Section 14(a) through 14(d) of the Employment Agreement as in effect when this Agreement is executed shall apply to this Agreement as if fully set forth herein, to the extent not inconsistent herewith, with references to the "Executive" being deemed to be references to the Executive and with references to the "Parties" being deemed to be references to the Executive and the Company.

(b) DESIGNATION OF BENEFICIARY. If permitted by the Company, the Executive may file with the Administrator a written designation of one or more persons as such Executive's beneficiary or beneficiaries (both primary and contingent) in the event of the Executive's death.

16. COUNTERPARTS.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. Signatures delivered by facsimile shall be valid and binding for all purposes.

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IN WITNESS WHEREOF, the Executive and the Company have executed this Agreement, as of the date first above written.

CATHERINE D. RICE

ISTAR FINANCIAL INC.

By: _____

THIS AGREEMENT, entered into as of November 6, 2002, by and between Catherine D. Rice (the "EXECUTIVE"), and iStar Financial Inc. (together with its successors and assigns, the "COMPANY").

WITNESSETH:

WHEREAS, the Executive is a key employee of the Company; and

WHEREAS, the Company desires to grant Stock Units to the Executive subject to the terms and conditions set forth below.

NOW, THEREFORE, IT IS AGREED by and between the Company and the Executive as follows:

1. AWARD.

Subject to the terms of this Agreement, the Executive is hereby awarded 108,980 Stock Units.

2. DEFINITIONS.

For purposes of this Agreement, the following definitions shall apply, in addition to definitions set forth elsewhere herein:

(a) "AWARD" shall mean this grant of Stock Units to the Executive.

(b) "BOARD" shall mean the Board of Directors of the Company.

(c) "BUSINESS DAY" shall mean any day on which banks in New York City are open for business.

(d) "CAUSE" or "WITHOUT CAUSE" shall mean "Cause" or "Without Cause" as defined in, and determined in accordance with, the Employment Agreement.

(e) "CHANGE OF CONTROL" shall have the meaning ascribed to such term under the Long-Term Incentive Plan.

(f) "CODE" shall mean the Internal Revenue Code of 1986, as amended.

(g) "COMMITTEE" shall mean the Committee designated by the Board, if any is so designated (the Board being under no obligation to establish or maintain such a committee) consisting of two or more members of the Board, each of whom shall be (i) a "Non-Employee Director" within the meaning of Rule 16b-3 under the Exchange Act, and (ii) at the election of the Board, an "outside director" within the meaning of Section 162(m) of the Code.

(h) "COMMON STOCK" shall mean the common stock, par value \$0.001 of the Company.

(i) "DISABILITY" shall mean "Disability" as defined in, and determined in accordance with, the Employment Agreement.

(j) "EMPLOYMENT AGREEMENT" shall mean the Employment Agreement made as of November 1, 2002 between the Company and the Executive, as from time to time amended in accordance with its terms, or any successor to such Employment Agreement then in effect (or, if none is in effect at a point in time, such Employment Agreement or successor as last in effect).

(k) "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

(l) "FAIR MARKET VALUE" per Stock Unit shall mean the closing price of a Share as reported on the New York Stock Exchange on the first trading day immediately preceding the date as of which such value is being determined; provided, however, that if the Fair Market Value of a Share for any date cannot be determined as above provided, Fair Market Value of a Share shall be determined by the Administrator by whatever means or method as to which the Administrator, in the good faith exercise of its discretion, shall at such time deem appropriate.

(m) "GOOD REASON" shall mean "Good Reason" as defined in, and determined in accordance with, the Employment Agreement.

(n) "LONG-TERM INCENTIVE PLAN" shall mean the iStar Financial Inc. 1996 Long-Term Incentive Plan (amended and restated as of March 13, 1998) or any successor plan thereto, as may be in effect from time to time.

(o) "STOCK UNIT" shall mean a right, granted pursuant to this Agreement, of the Executive to receipt of one Share (or cash in lieu thereof pursuant to Section 5).

(p) "SECURITIES ACT" shall mean the Securities Act of 1933, as amended.).

(q) "SHARE" shall mean a share of Common Stock.

3. VESTING.

Subject to the provisions hereof, the Stock Units shall become vested on December 31, 2005 if the Executive's employment with the Company has not terminated before such date; provided, however, that this Award shall vest prior to such date (i) if the Executive's employment with the Company terminates by reason of death or Disability, (ii) upon the occurrence of a Change of Control, (iii) if the Company terminates the Executive's employment with the Company Without Cause or (iv) if the Executive terminates her employment with the Company for Good Reason.

4. DIVIDEND EQUIVALENT; VOTING.

(a) The Executive shall not be entitled to receive any cash payment, in the nature of common stock dividend equivalents or otherwise, until the earlier of (i) the first date on which the Company determines that there is sufficient availability under the Long-Term Incentive Plan, in terms of the number of Shares reserved for awards under the Long-Term Incentive Plan, to permit the issuance of the same number of Shares as Stock Units then outstanding, and (ii) May 31, 2003. From and after the date contemplated by the prior sentence, the Company shall make an aggregate payment to the Executive in an amount equal to the aggregate amount of ordinary cash dividends paid in respect of a number of Shares equal to the number of Stock Units (or Shares issued in respect of the Stock Units pursuant to Section 5), then held by the Executive. Such payments shall take the form of either actual dividends (if Shares have been issued in respect of Stock Units) or cash dividend equivalents. Such payments shall be made on the same dates on which the related ordinary cash dividends are paid on Shares.

-2-

(b) Any Shares issued to Executive in respect of Stock Units (or Shares) shall carry full voting rights (i.e., one vote per Share) which shall be exercisable from and after the date that such Shares are issued.

5. ISSUANCE OF SHARES; CASH SETTLEMENT.

(a) Within five Business Days after the Company determines that there is sufficient availability under the Long-Term Incentive Plan to permit the issuance of the same number of Shares as Stock Units then outstanding, the Company will deliver to the Executive one or more certificates representing such Shares.

(b) If, as of the date on which the Stock Units (or Shares if they have been issued in respect thereof) vest, the Company has not delivered certificates representing such vested Shares to the Executive in accordance with paragraph (a), then the Executive shall be entitled to received a cash payment from the Company, in lieu of such vested Shares, in an amount equal to the product of (1) the number of Stock Units (or Shares) that have become vested multiplied by (2) the average of the closing prices of a Share as reported on the New York Stock Exchange (or other principal exchange on which the Shares are then trading) for the 20 trading days ending on and including the vesting date. Any such cash payment will be made no later than five Business Days after the date on which such Stock Units (or Shares) become vested.

(c) Upon any termination of employment, any Stock Units (or Shares) that have not previously vested and do not thereupon vest as provided herein shall automatically, and with no further action, cease to be outstanding and be forfeited.

6. ADDITIONAL PAYMENTS BY THE COMPANY.

(a) If it is determined (as hereafter provided) that any payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement, or the lapse or termination of any restriction on the Stock Units and Shares which are the subject of this Agreement, (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto) or to any similar tax imposed by state or local law, or any interest or penalties with respect to such excise tax (such tax or taxes, together with any such interest and penalties, are hereafter collectively referred to as the "Excise Tax"), then Executive will be entitled to receive an additional payment or payments (a "Gross-Up Payment") in an amount such that, after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) All determinations required to be made under this Section, including whether an Excise Tax is payable by Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, will be made by a nationally recognized firm of certified public accountants (the "Accounting Firm") selected by the mutual consent of Executive and the Company; provided that if Executive and the Company cannot agree on the identity of the Accounting Firm, then the Accounting Firm shall be PricewaterhouseCoopers unless that firm is unwilling or unable to provide such services, in which case the Accounting Firm may be selected by the Company. The Company will direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and Executive within 30 calendar days after the date of the Change of Control. If the Accounting Firm determines that any Excise Tax is payable by Executive, the Company will pay the required Gross-Up Payment to Executive no later than five calendar days prior to the date such Excise Tax is paid by the Executive or by withholding, or due to be paid. If the Accounting Firm determines that

-3-

no Excise Tax is payable by Executive, it will, at the same time as it makes such determination, furnish Executive with an opinion that she has substantial authority not to report any Excise Tax on her federal, state, local income or other tax return. Any determination by the Accounting Firm as to the amount of the Gross-Up Payment will be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts or fails to pursue its remedies pursuant to Section 6(f) hereof and Executive thereafter is required to make a payment of any Excise Tax, Executive shall so notify the Company, which will direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and Executive as promptly as possible. Any such Underpayment will be promptly paid by the Company to, or for the benefit of, Executive within five business days after receipt of such determination and calculations.

(c) The Company and Executive will each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determination contemplated by Section 6(b) hereof.

(d) The federal, state and local income or other tax returns filed by Executive will be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by Executive. Executive will make proper payment of the amount of any Excise Tax, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of her federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of Executive's federal income tax return, or corresponding state

or local tax return, if relevant, the Accounting Firm determines that the amount of the Gross-Up Payment should be reduced, Executive will within five business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Sections 6(b) and (d) hereof will be borne by the Company. If such fees and expenses are initially advanced by Executive, the Company will reimburse Executive the full amount of such fees and expenses within five business days after receipt from Executive of a statement therefor and reasonable evidence of her payment thereof.

(f) Executive will notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification will be given as promptly as practicable but no later than ten (10) business days after Executive actually receives notice of such claim and Executive will further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by Executive). Executive will not pay such claim prior to the earlier of (x) the expiration of the 30-calendar-day period following the date on which she gives such notice to the Company and (y) the date that any payment or amount with respect to such claim is due. If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive will:

(A) provide the Company with any written records or documents in her possession relating to such claim reasonably requested by the Company;

-4-

(B) take such action in connection with contesting such claim as the Company will reasonably request in writing from time to time, including without limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(C) cooperate with the Company in good faith in order effectively to contest such claim; and

(D) permit the Company to participate in any proceedings relating to such claim; PROVIDED, HOWEVER, that the Company will bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and will indemnify and hold harmless Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed in connection with such claim and payment of costs and expenses. Without limiting the foregoing provisions of this Section 6(f), the Company may control all proceedings taken in connection with the contest of any claim contemplated by this Section 6(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided that Executive may participate therein at her own cost and expense) and may, at its option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company will determine; provided, however, that if the Company directs Executive to pay the tax claimed and sue for a refund, the Company will advance the amount of such payment to Executive on an interest-free basis and will indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance; and PROVIDED FURTHER, HOWEVER, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim will be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Executive will be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(g) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 6(f) hereof, Executive receives any refund with respect to such claim, Executive will (subject to the Company's complying with the requirements of Section 6(f) hereof) promptly pay to the Company the amount

of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 6(f) hereof, a determination is made that Executive will not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 calendar days after such determination, then such advance will be forgiven and will not be required to be repaid and the amount of such advance will offset, to the extent thereof, the amount of Gross-Up Payment required to be paid pursuant to this Section 6. If, after the receipt by Executive of a Gross-Up Payment but before the payment by Executive of the Excise Tax, it is determined by the Accounting Firm that the Excise Tax payable by Executive is less than the amount originally computed by the Accounting Firm and consequently that the amount of the Gross-Up Payment is larger than that required by this Section 6, Executive shall promptly refund to the Company the amount by which the Gross-Up Payment initially made to Executive exceeds the Gross-Up Payment required under this Section 6.

-5-

7. TAX WITHHOLDING.

(a) The Company shall have the right to require, prior to the delivery of any Shares or the payment of any cash pursuant to this Award, payment by the Executive of any federal, state, local or other taxes which may be required to be withheld or paid in connection with such award. The Administrator may provide that the Executive may satisfy any such obligation by any of the following means: (i) a cash payment to the Company; (ii) withholding of whole Shares from the Shares otherwise to be distributed upon settlement and having an aggregate Fair Market Value, determined as of the date the obligation to withhold or pay taxes arises in connection with this award, equal to the amount necessary to satisfy any such obligation; or (iii) any combination of (i) and (ii); provided, however, that the Administrator shall have sole discretion to disapprove of an election pursuant to any of the foregoing clauses (ii) and (iii). Any fraction of a Share which would be required to satisfy such an obligation shall be disregarded and the remaining amount due shall be paid in cash by the Executive.

(b) Notwithstanding anything contained in this Agreement to the contrary, the Executive's satisfaction of any tax-withholding requirements imposed by the Administrator shall be a condition precedent to the Company's obligation as may otherwise be provided hereunder to provide Shares to the Executive.

8. TRANSFERABILITY.

This Award is not transferable except as designated by the Executive by will or by the laws of descent and distribution or, subject to such procedures as the Administrator may establish, to or for the benefit of members of the Executive's family. Except to the extent permitted by the Administrator in the case of transfers to or for the benefit of members of the Executive's family, during the Executive's lifetime this award shall be settled only by the Executive or the Executive's legal representative. Except as permitted by the foregoing, this Award may not be sold transferred, assigned, pledged, hypothecated, voluntarily encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment or similar process. Any sale, transfer, assignment, pledge, hypothecation, voluntary encumbrance or other disposition of this Award not permitted by the foregoing shall be wholly null and void.

9. REPRESENTATIONS.

The Shares, when and if issued, will be registered under the Securities Act and any applicable state securities laws, pursuant to an effective registration statement on Form S-8 (or any successor form). The Executive hereby represents and covenants that any subsequent sale of any such Shares shall be made either pursuant to an effective registration statement under the Securities Act and any applicable state securities laws, or pursuant to an exemption from registration under the Securities Act and such state securities laws.

10. ADJUSTMENT OF STOCK UNITS.

In the event of any change in the outstanding Shares by reason of any stock dividend, split, spin-off, recapitalization or other similar change, the terms and the number of any outstanding Stock Units shall be equitably adjusted by the Administrator in its discretion to the extent the Administrator

determines that such adjustment is necessary to preserve the benefit of this Award for the Executive and the Company. In the event of any adjustment pursuant to this Section 10, the Administrator shall promptly deliver to the Executive a notice (i) setting forth in reasonable detail (A) the transactions and/or events that lead to the adjustment and (B) the method by which the adjustment was calculated or otherwise determined and (ii) specifying the adjustment made.

-6-

11. ADMINISTRATION; PLAN GOVERNS.

(a) This Award shall be administered by the Board or, if so determined by the Board, the Committee (the Board or Committee, as applicable, the "Administrator"). Notwithstanding the foregoing, except as otherwise determined by the Board, for any period during which the Company's Long-Term Incentive Plan is in effect, the Administrator hereunder shall be the "Administrator" under such plan (the "LTIP Administrator"), and the rules applicable to the LTIP Administrator's internal procedures shall apply.

(b) From and after the date, if any, on which Shares are issued in respect of Stock Units, the terms of this Agreement shall be subject to the terms of the Long-Term Incentive Plan, a copy of which may be obtained by the Executive from the office of the Secretary of the Company.

12. AWARD CONFERS NO RIGHTS AS SHAREHOLDER. The Executive shall not be entitled to any privileges of ownership with respect to Shares subject to this Award unless and until such Shares are delivered upon a settlement of a Stock Unit and the Executive becomes a shareholder of record with respect to such delivered Shares; and the Executive shall not be considered a shareholder of the Company with respect to any such Shares not so purchased and delivered.

13. NO RIGHTS TO CONTINUED EMPLOYMENT.

In no event shall the granting of this Award or its acceptance by the Executive give or be deemed to give the Executive any rights to continued employment by the Company or any affiliate of the Company.

14. DISPUTE RESOLUTION.

Any controversy, dispute or claim arising out of or related to this Agreement shall be resolved by binding arbitration in accordance with the dispute resolution provisions of the Employment Agreement, after proceeding in accordance with any claims procedures adopted for purposes hereof.

15. WAIVER OF RESPONSIBILITY.

The Executive understands that the Company has assumed no responsibility for advising the Executive as to the tax consequences to the Executive of the grant of this Award. The Executive should consult with her individual tax advisor concerning the applicability of Federal, state and local tax laws to this Award and to her personal tax circumstances.

16. NOTICES AND OTHER MISCELLANEOUS PROVISIONS.

(a) CERTAIN PROCEDURAL TERMS. The provisions of Section 14(a) through 14(d) of the Employment Agreement as in effect when this Agreement is executed shall apply to this Agreement as if fully set forth herein, to the extent not inconsistent herewith, with references to the "Executive" being deemed to be references to the Executive and with references to the "Parties" being deemed to be references to the Executive and the Company.

(b) DESIGNATION OF BENEFICIARY. If permitted by the Company, the Executive may file with the Administrator a written designation of one or more persons as such Executive's beneficiary or beneficiaries (both primary and contingent) in the event of the Executive's death.

-7-

17. COUNTERPARTS.

This Agreement may be executed in two or more counterparts, each of which

shall be deemed an original and all of which together shall constitute one and the same instrument. Signatures delivered by facsimile shall be valid and binding for all purposes.

IN WITNESS WHEREOF, the Executive and the Company have executed this Agreement, as of the date first above written.

CATHERINE D. RICE

ISTAR FINANCIAL INC.

By: -----

[iSTAR FINANCIAL LOGO]

CODE OF CONDUCT

INTRODUCTION

It is the policy of iStar Financial Inc. that our business shall be conducted in accordance with the highest moral, legal and ethical standards. Our reputation for integrity is our most important asset and each employee and director must contribute to the care and preservation of that asset.

This reputation for integrity is the cornerstone of the public's faith and trust in our Company; it is what provides us an opportunity to serve our investors, customers and other stakeholders. A single individual's misconduct can do much to damage a hard-earned reputation. No code of business conduct or ethics can effectively substitute for the thoughtful behavior of an ethical director, officer or employee. This Code of Conduct is presented to assist you in guiding your conduct to enhance the reputation of our Company. The Code supersedes all previous codes and policy statements.

The Code is drafted broadly. In that respect, it is the Company's intent to exceed the minimum requirements of the law and industry practice. Mere compliance with the letter of the law is not sufficient to attain the highest ethical standards. Good judgment and great care must also be exercised to comply with the SPIRIT of the law and of this Code.

The provisions of the Code apply to you, your spouse and members of your immediate family. In addition, it covers any partnership, trust, or other entity, which you, your spouse or members of your immediate family control.

The Company intends to enforce the provisions of this Code vigorously. Violations could lead to sanctions, including dismissal in the case of an employee, as well as, in some cases, civil and criminal liability.

Inevitably, the Code addresses questions and situations that escape easy definition. No corporate code can cover every possible question of business practice. There will be times when you are unsure about how the Code applies. When in doubt, ask before you act.

The Company has established a Compliance Committee that administers the Company's overall compliance program, including the Code of Conduct. The Committee consists of Nina Matis, the Company's Executive Vice President and General Counsel, Tim O'Connor, Executive Vice President and Chief Operating Officer, and Geoff Dugan, Senior Vice President and Assistant General Counsel.

Upholding the Code is the responsibility of every employee and director. Department heads are responsible for Code enforcement in their departments and managers are accountable for the employees who report to them.

11/1/02

QUESTIONS ABOUT THE CODE; REPORTING SUSPECTED VIOLATIONS

Any questions about how to interpret the Code of Conduct should be raised with the Compliance Committee. Geoff Dugan, Senior Vice President and Assistant General Counsel, has been designated as Compliance Officer for purposes of enforcing the Code and he may be contacted by telephone at (415) 263-8639, by confidential fax at (415) 391-3092, or by e-mail at gdugan@istarfinancial.com.

If you know of or suspect any illegal or unethical conduct, or any other violation of the Code, you should promptly report this to your supervisor or the Compliance Officer. If you are not comfortable doing so for any reason, or if you feel appropriate action is not being taken, you should contact any other member of the Compliance Committee, or the Chief Executive Officer, or the Chairman of the Audit Committee of the Board of Directors. You are not required to identify yourself when reporting a violation.

To the extent possible, we will endeavor to keep confidential the identity of anyone reporting a violation of the Code of Conduct. We will also keep

confidential the identities of employees about whom allegations of violations are brought, unless or until it is established that a violation has occurred. It is the Company's policy that retaliation against employees who report actual or suspected Code violations is prohibited; anyone who attempts to retaliate will be subject to disciplinary action, up to and including dismissal.

CONFLICTS OF INTEREST

The Company relies on the integrity and undivided loyalty of our employees and directors to maintain the highest level of objectivity in performing their duties. Each employee is expected to avoid any situation in which your personal interests conflict, or have the appearance of conflicting, with those of the Company. Individuals must not allow personal considerations or relationships to influence them in any way when representing the Company in business dealings.

A conflict situation can arise when an employee or director takes actions or has interests that may make it difficult to perform work on behalf of the Company objectively and effectively. Conflicts also arise when an employee or director, or a member of his or her family, receives improper personal benefits as a result of his or her position with the Company. Loans to, or guarantees of obligations of, such persons are of special concern.

All employees and directors must exercise great care any time their personal interests might conflict with those of the Company. The APPEARANCE of a conflict often can be as damaging as an ACTUAL conflict. PROMPT AND FULL DISCLOSURE IS ALWAYS THE CORRECT FIRST STEP TOWARDS IDENTIFYING AND RESOLVING ANY POTENTIAL CONFLICT OF INTEREST. Non-employee directors are expected to make appropriate disclosures to the Board and to take appropriate steps to recuse themselves from Board decisions with respect to transactions or other matters involving the Company as to which

2

they are interested parties or with respect to which a real or apparent conflict of interest exists.

The following sections review several common problems involving conflicts of interest. The list is not exhaustive. Each individual has a special responsibility to use his or her best judgment to assess objectively whether there might be even the appearance of acting for reasons other than to benefit the Company, and to discuss any conflict openly and candidly with the Company.

PAYMENTS AND GIFTS

Employees who deal with the Company's borrowers, tenants, suppliers or other third parties are placed in a special position of trust and must exercise great care to preserve their independence. As a general rule, no employee should ever receive a payment or anything of value in exchange for a decision involving the Company's business. Similarly, no employee of the Company should ever offer anything of value to government officials or others to obtain a particular result for the Company. Bribery, kickbacks or other improper payments have no place in the Company's business.

The Company recognizes exceptions for token gifts of nominal value (less than \$250) or customary business entertainment, when a clear business purpose is involved. If you are in doubt about the policy's application, the Compliance Committee should be consulted.

PERSONAL FINANCIAL INTERESTS; OUTSIDE BUSINESS INTERESTS

Employees should avoid any outside financial interests that might be in conflict with the interests of the Company. No employee may have any significant direct or indirect financial interest in, or any business relationship with, a person or entity that does business with the Company or is a competitor of the Company. A financial interest includes any interest as an owner, creditor or debtor. Indirect interests include those through an immediate family member or other person acting on his or her behalf. This policy does not apply to an employee's arms-length purchases of goods or services for personal or family use, or to the ownership of shares in a publicly held corporation.

Employees should not engage in outside jobs or other business activities that compete with the Company in any way. Further, any outside or secondary employment ("moonlighting") may interfere with the job being performed for the Company and is discouraged. Under no circumstances may employees have outside

interests that are in any way detrimental to the best interests of the Company.

You must disclose to the Compliance Committee any personal activities or financial interests that could negatively influence, or give the appearance of negatively influencing, your judgment or decisions as a Company employee. The Compliance Committee will then determine if there is a conflict and, if so, how to resolve it without compromising the Company's interests.

3

CORPORATE BOARDS

The director of an organization has access to sensitive information and charts the course of the entity. If you are invited to serve as a director of an outside organization, the Company must take safeguards to shield both the Company and you from even the appearance of impropriety. For that reason, any employee invited to join the Board of Directors of another organization (including a nonprofit or other charitable organization) must obtain the approval of the Compliance Committee. Directors who are invited to serve on other Boards should promptly notify the Chairman.

CORPORATE OPPORTUNITIES

An employee or director must not divert for personal gain any business opportunity available to the Company. The duty of loyalty to the Company is violated if the employee or director personally profits from a business opportunity that rightfully belongs to the Company. This problem could arise, for example, if an employee or director becomes aware through the use of corporate property, information or position of an investment opportunity (either a loan or equity transaction) in which the Company is or may be interested, and then participates in the transaction personally or informs others of the opportunity before the Company has the chance to participate in the transaction. An employee or director also is prohibited from using corporate property, information or position for personal gain. Employees and directors owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises and, in the case of a non-employee director, such director is aware of the Company's possible interest through use of corporate property, information or position.

USE AND PROTECTION OF COMPANY ASSETS

Proper use and protection of the Company's assets is the responsibility of all employees. Company facilities, materials, equipment, information and other assets should be used only for conducting the Company's business and are not to be used for any unauthorized purpose. Employees should guard against waste and abuse of Company assets in order to improve the Company's productivity.

CONFIDENTIALITY

One of the Company's most important assets is its confidential corporate information. The Company's legal obligations and its competitive position often mandate that this information remain confidential.

Confidential corporate information relating to the Company's financial performance (e.g. quarterly financial results of the Company's operations) or other transactions or events can have a significant impact on the value of the Company's securities. Premature or improper disclosure of such information may expose the individual involved to onerous civil and criminal penalties.

4

You must not disclose confidential corporate information to anyone outside the Company, except for a legitimate business purpose (such as contacts with the Company's accountants or its outside lawyers). Even within the Company, confidential corporate information should be discussed only with those who have a need to know the information. Your obligation to safeguard confidential corporate information continues even after you leave the Company.

The same rules apply to confidential information relating to other companies with which we do business. In the course of the many pending or proposed transactions that this Company has under consideration at any given time, there is a great deal of non-public information relating to other companies to which our employees may have access. This could include "material"

information that is likely to affect the value of the securities of the other companies.

Employees and directors who learn material information about suppliers, customers, venture partners, acquisition targets or competitors through their work at the Company must keep it confidential and must not buy or sell stock in such companies until after the information becomes public. Employees and directors must not give tips about such companies to others who may buy or sell the stocks of such companies.

The Company has issued a detailed "Statement of Policy Concerning Insider Trading and Special Trading Procedures" regarding the use of confidential information in connection with trading in securities. You should become familiar with this policy and the procedures it requires. If you have any questions regarding trading in the Company's securities or on the basis of confidential information, you should contact Geoff Dugan, the Compliance Officer.

DEALINGS WITH THE PRESS AND COMMUNICATIONS WITH THE PUBLIC

The Company's Chief Executive Officer and President are the Company's principal spokesmen. If someone outside the Company asks you questions or requests information regarding the Company, its business or financial results, do not attempt to answer. All requests for information - from reporters, securities analysts, shareholders or the general public - should be referred to the President, who will handle the request or delegate it to an appropriate person.

ACCOUNTING MATTERS

INTERNAL ACCOUNTING CONTROLS

The Company places the highest priority on "best practices" disclosure. Our annual reports, quarterly reports and press releases, and other public disclosure of the Company's financial results, reflect how seriously we take this responsibility.

To this end, we have established an internal Disclosure Committee, which includes key members of senior management responsible for our internal financial and risk management controls. This Committee, which currently consists of Spencer

5

Haber, Tim O'Connor, Andy Richardson, Colette Tretola, Steven Sinnett and Geoff Dugan, meets on a quarterly basis, and additionally when issues arise, to discuss the state of the Company's internal controls, reporting systems and the integrity of our financial information relative to our disclosure obligations. This Committee assists senior management and the Audit Committee of the Board in overseeing the Company's internal control systems and evaluating our public disclosure processes.

Each employee shares this responsibility with senior management and the Board of Directors and must help maintain the integrity of the Company's financial records. We trust that every employee understands that protecting the integrity of our information gathering, information quality, internal control systems and public disclosures is one of the highest priorities we have as a firm.

If you ever observe conduct that causes you to question the integrity of our internal accounting controls and/or disclosure, or you otherwise have reason to doubt the accuracy of our financial reporting, it is imperative that you bring these concerns to our attention immediately. You should promptly report any concerns to any member of the Disclosure Committee. If you are not comfortable providing your name, you may report anonymously. Any kind of retaliation against an employee for raising these issues is strictly prohibited and will not be tolerated.

IMPROPER INFLUENCE ON THE CONDUCT OF AUDITS

It is unlawful for any officer or director of the Company, or any other person acting under the direction of such person, to take any action to fraudulently influence, coerce, manipulate, or mislead the independent accountants engaged in the performance of an audit of the Company's financial statements for the purpose of rendering such financial statements materially

misleading. Any such action is a violation of this Code of Conduct. Types of conduct that might constitute improper influence include the following:

- Offering or paying bribes or other financial incentives, including offering future employment or contracts for non-audit services,
- Providing an auditor with inaccurate or misleading legal analysis,
- Threatening to cancel or canceling existing non-audit or audit engagements if the auditor objects to the Company's accounting practices or procedures,
- Seeking to have a partner removed from the audit engagement because the partner objects to the Company's accounting practices or procedures,
- Blackmailing, and
- Making physical threats.

Any employee or director who engages in such conduct will be subject to sanctions under the Code, including dismissal in the case of an employee, in addition to potential civil and criminal liability.

6

RECORDS RETENTION

You should retain documents and other records for such period of time as you and your colleagues will reasonably need such records in connection with the Company's business activities. All documents not required to be retained for business or legal reasons, including draft work product, should not be retained and should be destroyed in order to reduce the high cost of storing and handling the vast amounts of material that would otherwise accumulate. However, under unusual circumstances, such as litigation, governmental investigation or if required by applicable state and federal law and regulations, the Compliance Committee may notify you if retention of documents or other records is necessary.

LEGAL COMPLIANCE

Pertinent laws of every jurisdiction in which the Company operates must be followed. Each employee is charged with the responsibility of acquiring sufficient knowledge of the laws relating to his or her particular duties in order to recognize potential dangers and to know when to seek legal advice. In any instance where the law is ambiguous or difficult to interpret, the matter should be reported to the Company's management who in turn will seek legal advice from the Company's legal counsel as appropriate.

FAIR DEALING

It is the Company's policy to deal fairly with its customers, suppliers, competitors and employees. In the course of business dealings on behalf of the Company, no employee should take advantage of another person or party through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair business practice.

ENFORCEMENT

The conduct of each employee matters vitally to the Company. A misstep by a single employee can cost the Company dearly; it undermines all of our reputations. For these reasons, violations of this Code of Conduct may lead to significant penalties, including dismissal.

WAIVERS

Any waiver of this Code of Conduct for executive officers or directors of the Company may be made only by the Board of Directors, or by a Board Committee specifically authorized for this purpose, and must be promptly disclosed to the Company's shareholders.

7

EXHIBIT 12.1

Computation of Ratio of EBITDA to interest expense

	For the 12 Months Ended December 31,		
	2002	2001	2000
EBITDA:			
Total Revenue	\$ 525,724	\$ 471,119	\$ 463,519
Plus: Equity in earnings from joint ventures and unconsolidated subsidiaries	1,222	7,361	4,796
Less: General and administrative	30,449	24,151	25,706
Less: General and administrative-stock-based compensation	3,048	3,574	2,864
Less: Provision for loan losses	8,250	7,000	6,500
Less: Operating costs-corporate tenant lease assets	13,755	12,782	12,737
Less: Advisory fees	-	-	-
Total EBITDA	\$ 471,444	\$ 430,973	\$ 420,508
INTEREST EXPENSE:	\$ 185,375	\$ 169,974	\$ 173,741
EBITDA/INTEREST EXPENSE	2.54	2.54	2.42

EXHIBIT 12.2

Computation of Ratio of EBITDA to combined fixed charges

	For the 12 Months Ended December 31,		
	2002	2001	2000
EBITDA:			
Total Revenue	\$ 525,724	\$ 471,119	\$ 463,519
Plus: Equity in earnings from joint ventures and unconsolidated subsidiaries	1,222	7,361	4,796
Less: General and administrative	30,449	24,151	25,706
Less: General and administrative-stock-based compensation	3,048	3,574	2,864
Less: Provision for loan losses	8,250	7,000	6,500
Less: Operating costs-corporate tenant lease assets	13,755	12,782	12,737
Less: Advisory fees	-	-	-
Total EBITDA	\$ 471,444	\$ 430,973	\$ 420,508
COMBINED FIXED CHARGES:			
Interest expense	185,375	169,974	173,741
Preferred dividends	36,908	36,908	36,908
Total combined fixed charges	\$ 222,283	\$ 206,882	\$ 210,649
EBITDA/COMBINED FIXED CHARGES	2.12	2.08	2.00

EXHIBIT 21.1

SUBSIDIARY	STATE OF ORGANIZATION/INCORPORATION	OTHER NAMES USED
767 STARS LLC	Delaware	None
1001 East Palm, LLC	Delaware	None
7555-7575 Colshire LLC	Delaware	None
Acquest Government Holdings, L.L.C.	New York	None
Acquest Government Holdings II, L.L.C.	New York	None
Acquest Holdings FC, LLC	New York	None
ACRE CLS, LLC	Delaware	None
ACRE Dublin LLC	Delaware	None
ACRE HPC, LLC	Delaware	None
ACRE IDG Manager, LLC	Delaware	None
ACRE IDG, LLC	Delaware	None
ACRE Partners, LLC	Delaware	None
ACRE Seymour, LLC	Delaware	None
ACRE Simon, L.L.C.	Delaware	None
American Corporate Real Estate, Inc.	Massachusetts	None
BM Center, LLC	Delaware	None
Corporate Technology Centre Associates II LLC	California	None
Corporate Technology Centre Associates LLC	California	None
CTC Associates I GenPar, LLC	California	None
CTC Associates I, L.P.	Delaware	None
CTC Associates II GenPar, LLC	Delaware	None
CTC Associates II, L.P.	Delaware	None
CTL I Maryland, Inc.	Delaware	None
F/S Subsidiary, L.L.C.	Delaware	None
FMAC StarFund, L.L.P	Connecticut	None
iStar 85 10th L/C LLC	Delaware	None
iStar Asset Receivables Trust	Delaware	None
iStar Asset Services, Inc.	Delaware	None
iStar BEST Finance LLC	Delaware	None
iStar Bishops		
Gate LLC	Delaware	None
iStar Campbellsville, LLC	Delaware	None
iStar CTL I GenPar, Inc.	Delaware	None
iStar CTL I, L.P.	Delaware	None
iStar D.C., Inc.	Delaware	None
iStar DB Seller, LLC	Delaware	None
iStar Denver Place, LLC	Delaware	None
iStar Eagle GenPar LLC	Delaware	None
iStar Eagle L.P.	Delaware	None
iStar Finance Sub V Inc.	Delaware	None
iStar Finance Preferred, Inc.	Delaware	None
iStar Funding, LLC	Delaware	None
iStar GT GenPar, LLC	Delaware	None
iStar GT, L.P.	Delaware	None
iStar Harborside LLC	Delaware	None
iStar Harrisburg Business Trust	Delaware	None
iStar Harrisburg GenPar LLC	Delaware	None
iStar Harrisburg, L.P.	Delaware	None
iStar HQ GT Inc.	Delaware	None
iStar HQ GT Illinois Inc.	Delaware	None
iStar HQ I GenPar, Inc.	Delaware	None
iStar HQ I Maryland, Inc.	Delaware	None
iStar HQ I, L.P.	Delaware	None
iStar HQ I Inc.	Delaware	None
iStar Las Vegas LLC	Delaware	None
iStar Merger Co. I	Delaware	None
iStar Merger Co. II	Delaware	None
iStar Poydras, LLC	Delaware	None
iStar Preferred Holdings, LLC	Delaware	None
iStar Real Estate Services, Inc.	Maryland	None
iStar San Jose, L.L.C.	Delaware	None

iStar Safeguard Preferred Holdings LLC	Delaware	None
iStar Sunnyvale Partners, L.P.	Delaware	None
iStar Sunnyvale, LLC	Delaware	None
iStar Ventures, Inc.	Delaware	None
iStar Ventures Direct Holdings, LLC	Delaware	None
iStar Walden, LLC	Delaware	None
MD3 Cayman L.P.	Cayman	None
NewPar, LLC	Delaware	None
NewPar/New LLC	Delaware	None
P Funding Inc.	Delaware	None
Red Lion G.P., Inc.	Delaware	None
RLH Partnership, L.P.	Delaware	None
SFI I, LLC	Delaware	None
SFT I, Inc.	Delaware	None
SFT II, Inc.	Delaware	None
SFT Starbonds Inc.	Delaware	None
SFT Venturer, LLC	Delaware	None
SFT Whole Loans A, Inc.	Delaware	None
SFT/RLH, Inc.	Delaware	None
Star Liberty Funding, LLC	Delaware	None
STARS I Corp.	Delaware	None
STARS Investment I Corp.	Delaware	None
Starwood Financial Advisors II, LLC	Connecticut	None
Starwood Operating, Inc.	Delaware	None
STW Holdings I, Inc.	Delaware	None
TN-CP Ventures One	Texas	None
TriNet Concord Farms III Limited Partnership	Massachusetts	None
TriNet Corporate Partners II, L.P.	Delaware	None
TriNet Corporate Realty Trust, Inc.	Maryland	None
TriNet Essential Facilities III, Inc.	Maryland	None
TriNet Essential Facilities VII, Inc.	Maryland	None
TriNet Essential Facilities VIII, Inc.	Maryland	None

TriNet Essential Facilities X, Inc.	Maryland	None
TriNet Essential Facilities XI, Inc.	Maryland	None
TriNet Essential Facilities XII, Inc.	Maryland	None
TriNet Essential Facilities XVIII, Inc.	Maryland	None
TriNet Essential Facilities XIX, Inc.	Maryland	None
TriNet Essential Facilities XX, Inc.	Maryland	None
TriNet Essential Facilities XXIII, Inc.	Maryland	None
TriNet Essential Facilities XXIV, Inc.	Maryland	None
TriNet Essential Facilities XXVI, Inc.	Maryland	None
TriNet Essential Facilities XXVII, Inc.	Maryland	None
TriNet Essential Facilities XXVIII, Inc.	Maryland	None
TriNet Essential Facilities XXIX, Inc.	Maryland	None
TriNet Management Operating Company, Inc.	Maryland	None
TriNet Milpitas Associates, LLC	Maryland	None
TriNet Property Partners, L.P.	Maryland	None
TriNet Realty Capital, Inc.	Maryland	None
TriNet Realty Investors I, Inc.	Maryland	None
TriNet Realty Investors II, Inc.	Maryland	None
TriNet Realty Investors III, Inc.	Maryland	None
TriNet Realty Investors IV, Inc.	Maryland	None
TriNet Realty Investors V, Inc.	Maryland	None
TriNet Sunnyvale Partners, L.P.	Maryland	None
TriNet XVII Realty Trust	Massachusetts	None
W9/TriNet Poydras, LLC	Maryland	None

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-32946, 333-38486, 333-73592, 333-83646) and the Registration Statement on Form S-8 (No. 333-34300) of iStar Financial, Inc. of our report dated February 14, 2003, except for Note 17, which is as of March 11, 2003 relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

New York, NY
March 26, 2003