

ISTAR FINANCIAL INC
Form 424B5
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As Filed Pursuant to Rule 424(b)(5)
Registration No. 333-109599

PROSPECTUS SUPPLEMENT
(To Prospectus Dated December 5, 2003)

3,200,000 Shares

7.65% Series G Cumulative Redeemable Preferred Stock Liquidation Preference \$25.00 Per Share

We are offering 3,200,000 shares of our 7.65% Series G Cumulative Redeemable Preferred Stock, par value \$0.001 per share, which we refer to as our "Series G Preferred Stock." We will pay to investors cumulative dividends on the Series G Preferred Stock from December 19, 2003 in the amount of \$1.9125 per share each year, which is equivalent to 7.65% of the \$25.00 liquidation preference per share. Dividends on the Series G Preferred Stock will be payable quarterly in arrears, beginning on March 15, 2004. The shares of Series G Preferred Stock have no stated maturity, will not be subject to any sinking fund or mandatory redemption and will not be convertible into any other securities. Holders of shares of Series G Preferred Stock will generally have no voting rights, but will have limited voting rights if we fail to pay dividends for six or more quarters and in certain other events.

Except in limited circumstances to preserve our status as a real estate investment trust, we may not redeem the Series G Preferred Stock until December 19, 2008. On or after December 19, 2008, we may, at our option, redeem the Series G Preferred Stock, in whole or in part, at any time and from time to time, for cash at \$25.00 per share, plus accrued and unpaid dividends, if any, to and including the redemption date. Any partial redemption will generally be on a pro rata basis.

No market currently exists for our Series G Preferred Stock. We intend to apply to list our Series G Preferred Stock on the New York Stock Exchange under the symbol "SFI PrG." We expect that trading will commence within 30 days after the initial delivery of the Series G Preferred Stock. Our common stock currently trades on the NYSE under the symbol "SFI."

See "Risk Factors" beginning on page S-4 in this prospectus supplement and page two of the accompanying prospectus for a discussion of the risks relevant to an investment in our Series G Preferred Stock.

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

The underwriter proposes to offer the shares of Series G Preferred Stock from time to time for sale in one or more transactions in the over-the-counter market, through negotiated transactions or otherwise at market prices prevailing at the time of the sale, at prices relating to prevailing market prices or at negotiated prices. The proceeds (before expenses) from the offering will be \$80,000,000. We agreed with the underwriter to sell the Series G Preferred Stock offered hereby in exchange for all of our outstanding shares of Series A Cumulative Redeemable Preferred Stock.

The underwriter expects that the shares of Series G Preferred Stock will be ready for delivery in book-entry form through The Depository Trust Company on or about December 19, 2003.

Bear, Stearns & Co. Inc.

The date of this prospectus supplement is December 9, 2003.

FORWARD-LOOKING STATEMENTS

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

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

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PROSPECTUS SUMMARY

This summary may not contain all the information that may be important to you. You should read the entire prospectus supplement and accompanying prospectus, as well as the documents incorporated by reference in them, before making an investment decision. All references to "we" or "us" in this prospectus supplement refer to iStar Financial Inc. and its consolidated subsidiaries, unless the context otherwise requires. For the definition of EBITDA and for a detailed reconciliation of EBITDA to net income determined in accordance with GAAP, see "Ratios of EBITDA to Combined Fixed Charges and Preferred Stock Dividends and EBITDA to Interest Expense."

iStar Financial Inc.

We are the largest publicly traded finance company focused exclusively on the commercial real estate industry. We provide custom-tailored financing to high-end private and corporate owners of real estate nationwide, including senior and junior mortgage debt, senior, mezzanine and subordinated corporate capital, and corporate net lease financing. Our objective is to generate consistent and attractive returns on our invested capital by providing innovative and value-added financing solutions to our customers. We are taxed as a real estate investment trust. As of September 30, 2003, our total enterprise value (market value of equity plus book value of preferred stock and debt, less cash balances) was \$8.4 billion, and our EBITDA and net income for the twelve months ended September 30, 2003 were \$523.0 million and \$275.6 million, respectively.

By capitalizing on our competitive strengths, we have delivered consistent financial performance, developed a high-quality, diversified asset base and established ourselves as a reliable provider of financial solutions for our customers. We have maintained strong credit statistics and have consistently grown our EBITDA since the quarter ended June 1998, our first quarter as a public company. Between that quarter and the quarter ended September 30, 2003, we grew our EBITDA and net income from approximately \$30.7 million and \$19.9 million, respectively, to \$134.6 million and \$74.9 million, respectively.

We began our business in 1993 through private investment funds formed to take advantage of the lack of well-capitalized lenders capable of servicing the needs of high-end customers in our markets. During our ten-year history, we have structured or originated \$9.0 billion of financing commitments.

Recent Developments

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On December 5, 2003 we priced an offering for the sale of \$350 million of 6.0% senior notes due 2010 and \$150 million of 6.5% senior notes due 2013. The net proceeds from the sale of the notes will be used to repay outstanding secured indebtedness.

Our principal executive offices are located at 1114 Avenue of the Americas, New York, New York 10036, and our telephone number is (212) 930-9400. Our website is www.istarfinancial.com. The information on our website is not considered part of this prospectus supplement or the accompanying prospectus. Our six primary regional offices are located in Atlanta, Boston, Dallas, Denver, Hartford and San Francisco. iStar Asset Services, our loan servicing subsidiary, is located in Hartford, and iStar Real Estate Services, our corporate facilities management division, is headquartered in Atlanta.

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The Offering

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Series G Preferred Stock, see "Description of the Series G Preferred Stock" in this prospectus supplement.

Issuer	iStar Financial Inc.
Securities Offered	3,200,000 shares of 7.65% Series G Cumulative Redeemable Preferred Stock.
Dividends	Investors will be entitled to receive cumulative cash dividends on the Series G Preferred Stock at a rate of 7.65% per year of the \$25.00 liquidation preference (equivalent to \$1.9125 per year per share). Beginning on March 15, 2004, dividends on the Series G Preferred Stock will be payable quarterly in arrears on or before March 15, June 15, September 15 and December 15 of each year, or if not a business day, the next succeeding business day. Dividends paid to investors on the Series G Preferred Stock will be cumulative from December 19, 2003. The first dividend we pay on March 15, 2004 will be for less than a full quarter.
Liquidation Preference	If we liquidate, dissolve or wind up, holders of the Series G Preferred Stock will have the right to receive \$25.00 per share, plus accrued and unpaid dividends (whether or not declared) to the date of payment, before any payments are made to the holders of our common stock and any other of our equity securities ranking junior to the Series G Preferred Stock as to liquidation rights. The rights of the holders of the Series G Preferred Stock to receive their liquidation preference will be subject to the proportionate rights of each other series or class of our equity securities ranked on parity with the Series G Preferred Stock, including our outstanding Series B, C, D, E and F Cumulative Redeemable Preferred Stock.
Maturity	The Series G Preferred Stock has no maturity date and we are not required to redeem the Series G Preferred Stock. Accordingly, the Series G Preferred Stock will remain outstanding indefinitely, unless we decide to redeem it. We are not required to set aside funds to redeem the Series G Preferred Stock.
Optional Redemption	We may not redeem the Series G Preferred Stock prior to December 19, 2008, except in limited circumstances to preserve our status as a REIT. On or after December 19, 2008, we may, at our option, redeem the Series G Preferred Stock, in whole or in part, at any time and from time to time, for cash at \$25.00 per share, plus accrued and unpaid dividends, if any, to and including the redemption date. Any partial redemption generally will be on a pro rata basis.
Ranking	The Series G Preferred Stock will rank senior to our common stock and on parity with our Series B, C, D, E and F Cumulative Redeemable Preferred Stock with respect to the payment of distributions and amounts upon liquidation, dissolution or winding up.

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Voting Rights	<p>Holders of the Series G Preferred Stock will generally have no voting rights. However, if dividends on any outstanding Series G Preferred Stock have not been paid for six or more quarterly periods (whether or not consecutive), holders of the Series G Preferred Stock, voting as a class with the holders of all other classes or series of our equity securities ranking on parity with the Series G Preferred Stock which are entitled to similar voting rights, will be entitled to elect two additional directors to our board of directors to serve until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series G Preferred Stock cannot be made and certain other actions may not be taken without the affirmative vote of holders of at least two-thirds of the outstanding shares of Series G Preferred Stock.</p>
Listing	<p>We have applied to list the Series G Preferred Stock on the New York Stock Exchange under the symbol "SFI PrG." We expect that trading on the NYSE will commence within 30 days after the initial delivery of the Series G Preferred Stock.</p>
Settlement Date	<p>Delivery of the shares of Series G Preferred Stock will be made against payment therefor on or about December 19, 2003.</p>
Form	<p>The Series G Preferred Stock will be maintained in book-entry form registered in the name of the nominee of The Depository Trust Company, except under limited circumstances.</p>
No Conversion	<p>The Series G Preferred Stock is not convertible into or exchangeable for any other of our property or securities.</p>
Restrictions on Ownership	<p>In order to ensure that we remain a qualified REIT for federal income tax purposes, no person may own more than 9.8% of the number or value of our outstanding shares of capital stock, with some exceptions. See "Description of Common Stock and Preferred Stock Restrictions on Ownership and Transfers" in the accompanying prospectus.</p>
Use of Proceeds	<p>The proceeds from the offering (before expenses) will be \$80,000,000. On December 9, 2003, Bear, Stearns & Co. Inc., the underwriter of this offering, purchased from third parties \$80,000,000 liquidation value of our outstanding Series A Cumulative Redeemable Preferred Stock. We agreed with the underwriter to sell the Series G Preferred Stock offered hereby in exchange for these shares of Series A Cumulative Redeemable Preferred Stock. The Series A Cumulative Redeemable Preferred Stock we received in the exchange has been retired. As a result, none of our Series A Cumulative Redeemable Preferred Stock remains outstanding. We will not receive any cash proceeds from this offering.</p>
Risk Factors	<p>See "Risk Factors" beginning on page S-4 of this prospectus supplement and page two of the accompanying prospectus, and the other information contained herein for a discussion of factors you should carefully consider before deciding to invest in the Series G Preferred Stock.</p>
Ratio of Earnings to Fixed Charges	<p>See "Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends and Earnings to Fixed Charges" on page S-5 of this prospectus supplement.</p>

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RISK FACTORS

This section describes some, but not all, of the risks of purchasing our Series G Preferred Stock in the offering. You should carefully consider these risks, and the risks described under the corresponding heading beginning on page two of the accompanying prospectus, before purchasing our Series G Preferred Stock in the offering. In connection with the forward-looking statements that appear in this prospectus supplement and the accompanying prospectus, you should also carefully review the cautionary statements referred to in "Forward-Looking Statements."

The Series G Preferred Stock is a new issuance and does not have an established trading market, which may negatively affect its market value and your ability to transfer or sell your shares; the Series G Preferred Stock has no stated maturity date.

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The shares of Series G Preferred Stock are a new issue of securities with no established trading market. Since the securities have no stated maturity date, investors seeking liquidity will be limited to selling their shares in the secondary market. We intend to apply to list the Series G Preferred Stock on the New York Stock Exchange under the symbol "SFI PrG." We expect that trading will commence within 30 days after the initial delivery of the Series G Preferred Stock. However, an active trading market on the New York Stock Exchange for the shares may not develop or, even if it develops, may not last, in which case the trading price of the shares could be adversely affected and your ability to transfer your shares of Series G Preferred Stock will be limited. We have been advised by the underwriter that it intends to make a market in the Series G Preferred Stock, but it is not obligated to do so and may discontinue market-making at any time without notice.

Numerous factors affect the trading price of the Series G Preferred Stock.

The trading price of our Series G Preferred Stock may depend on many factors, including:

prevailing interest rates;

the market for similar securities;

additional issuances of other series or classes of preferred stock;

general economic conditions; and

our financial condition, performance and prospects.

The Series G Preferred Stock is subordinated to existing and future debt.

Payment of amounts due on our Series G Preferred Stock will be subordinated to all of our existing and future debt and will be structurally subordinated to the payment of dividends on preferred stock, if any, issued by our subsidiaries. The Series G Preferred Stock will rank on a parity with our Series B Cumulative Redeemable Preferred Stock, Series C Cumulative Redeemable Preferred Stock, Series D Cumulative Redeemable Preferred Stock, Series E Cumulative Redeemable Preferred Stock and Series F Cumulative Redeemable Preferred Stock with respect to the payment of dividends. In addition, we may issue additional Series G Preferred Stock and/or shares of another class or series of preferred stock ranking on a parity with the Series G Preferred Stock with respect to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up. These factors may affect the trading price of the Series G Preferred Stock.

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USE OF PROCEEDS

The proceeds from the offering (before expenses) will be \$80,000,000. On December 9, 2003, Bear, Stearns & Co. Inc., the underwriter of this offering, purchased from third parties \$80,000,000 liquidation value of our outstanding Series A Cumulative Redeemable Preferred Stock. We agreed with the underwriter to sell the Series G Preferred Stock offered hereby in exchange for these shares of Series A Cumulative Redeemable Preferred Stock. The Series A Cumulative Redeemable Preferred Stock we received in the exchange has been retired. As a result, none of our Series A Cumulative Redeemable Preferred Stock remains outstanding. We will not receive any cash proceeds from this offering.

RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS AND EARNINGS TO FIXED CHARGES

Nine Months Ended September 30, 2003	Years Ended December 31,				
	2002	2001	2000	1999	1998
2.1x	1.8x	1.9x	1.9x	1.1x ⁽²⁾	2.3x

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	Nine Months Ended September 30, 2003	Years Ended December 31,					
Ratio of earnings to combined fixed charges and preferred stock dividends ⁽¹⁾							
Ratio of earnings to fixed charges ⁽¹⁾		x	2.1x	2.3x	2.2x	1.4x ⁽²⁾	2.3x
							2.5

(1) For the purpose 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 our rent obligations in the years presented.

(2) Includes the effect of a non-recurring, non-cash charge in the amount of approximately \$94.5 million relating to our November 1999 acquisition of the former external advisor to our company. Excluding the effect of this non-recurring, non-cash charge, our ratio of earnings to combined fixed charges and preferred stock dividends for the year ended December 31, 1999 would have been 2.0x and our ratio of earnings to fixed charges for that period would have been 2.5x.

RATIOS OF EBITDA TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS AND EBITDA TO INTEREST EXPENSE

The table below presents our ratio of EBITDA to combined fixed charges and preferred stock dividends and our ratio of EBITDA to interest expense. EBITDA should be examined in conjunction with net income as shown in the Consolidated Statements of Operations in our Quarterly Report on Form 10-Q for the nine months ended September 30, 2003 and our Annual Report on Form 10-K for the year ended December 31, 2002. EBITDA should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of our performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is either measure indicative of funds available to fund our cash needs or available for distribution to shareholders. Our management believes that EBITDA more closely approximates operating cash flow and that EBITDA and the ratios of EBITDA to combined fixed charges and preferred stock dividends and EBITDA to interest expense are useful measures for investors to consider, in conjunction with net income, ratio of earnings to fixed charges and other GAAP measures, in evaluating a commercial finance company that focuses on real estate lending and corporate tenant leasing, because our net income (determined in accordance with GAAP) includes significant non-cash depreciation expense on

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corporate tenant lease assets. It should be noted that our manner of calculating EBITDA may differ from the calculations of similarly-titled measures by other companies.

	Nine Months Ended September 30, 2003	Years Ended December 31,					
		2002	2001	2000	1999	1998	
Ratio of EBITDA to combined fixed charges and preferred stock dividends ⁽¹⁾		2.3x	2.0x	2.1x	2.0x	2.0x	2.4x
Ratio of EBITDA to GAAP interest expense ⁽¹⁾		2.7x	2.3x	2.5x	2.4x	2.6x	2.4x

(1) For the purpose of calculating these ratios, "EBITDA" consist of 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 (including the non-cash charge related to the performance based vesting of restricted shares granted under our 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. "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 our rent obligations in the years presented.

Reconciliation of GAAP Net Income to EBITDA:

	Nine Months Ended September 30, 2003	Years Ended December 31,				
		2002	2001	2000	1999	1998
(In thousands)						
Net income	\$ 212,578	\$ 215,270	\$ 229,912	\$ 217,586	\$ 38,886	\$ 59,903
Add: Interest expense	145,357	197,541	171,594	174,446	91,159	44,697
Add: Depreciation and amortization	40,483	47,821	35,411	34,384	10,324	4,287
Add: Minority interest in consolidated entities	119	162	218	195	41	54
Add: Cumulative effect of change in accounting principle			282			
Less: (Loss) income from discontinued operations	(1,555)	(3,583)	(5,299)	(3,155)	(107)	
Less: Gain from discontinued operations	(964)	(717)	(1,145)	(2,948)		
Add: Costs incurred in acquiring former external advisor					94,476	
EBITDA	\$ 396,018	\$ 456,494⁽¹⁾	\$ 430,973	\$ 420,508	\$ 234,779	\$ 108,941

- (1) Includes a \$15.0 million non-cash charge incurred in the second and third quarter of 2002 related to performance-based vesting of restricted shares granted under a long-term incentive plan.

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DESCRIPTION OF THE SERIES G PREFERRED STOCK

This description of the particular terms of the Series G Preferred Stock supplements, and to the extent inconsistent therewith replaces, the description of the general terms and provisions of our preferred stock set forth in the accompanying prospectus, to which description reference is hereby made.

General

We are authorized to issue up to 30,000,000 shares of preferred stock in one or more series, with such terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption, in each case, if any, as are permitted by Maryland law and as our board of directors may determine by adoption of an amendment to our charter, without any further vote or action by our stockholders. See "Description of Common Stock and Preferred Stock Preferred Stock" in the accompanying prospectus. Our board of directors has adopted articles supplementary to our charter establishing the number and fixing the terms, designations, powers, preferences, rights, limitations and restrictions of a series of our preferred stock classified as 7.65% Series G Cumulative Redeemable Preferred Stock. Our board of directors has authorized up to 3,200,000 shares of Series G Preferred Stock. This offering relates to 3,200,000 shares of Series G Preferred Stock. The Series G Preferred Stock is a series of our preferred stock.

We intend to apply to list the Series G Preferred Stock on the New York Stock Exchange under the symbol "SFI PrG." We expect that trading will commence within 30 days after the initial delivery of the Series G Preferred Stock.

The following summary of the terms and provisions of the Series G Preferred Stock does not purport to be complete and is qualified in its entirety by reference to the pertinent sections of our charter and the articles supplementary creating the Series G Preferred Stock, each of which is available from us.

Ranking

The Series G Preferred Stock will rank senior to our common stock and on a parity with our Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock"), Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock"), Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock"), Series E Cumulative Redeemable Preferred Stock (the "Series E Preferred Stock") and Series F Cumulative Redeemable Preferred Stock (the "Series F Preferred Stock") with respect to the payment of dividends.

Dividends

Holders of shares of the Series G Preferred Stock shall be entitled to receive, when and as authorized by our board of directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 7.65% per annum of the \$25.00 liquidation preference (equivalent to a fixed annual rate of \$1.9125 per share). Such dividends shall be cumulative from December 19, 2003, and shall be payable to investors 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 (each, a "Dividend Payment Date"). The first dividend, which will be paid on March 15, 2004, will be for less than a full quarter. Such dividend and any dividend payable on the Series G 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 they appear in our stock records at the close of business on the applicable record date, which shall be the first day of the calendar month in which the applicable Dividend Payment Date falls or on such other date designated by our board of directors for the payment of dividends that is not more than 30 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date").

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No dividends on shares of Series G Preferred Stock shall be declared by us or paid or set apart for payment by us at such time as the terms and provisions of any of our agreements, including any agreement relating to our indebtedness, prohibit such declaration, payment or setting apart for payment or provide that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment shall be restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Series G Preferred Stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series G Preferred Stock will accumulate as of the Dividend Payment Date on which they first become payable.

Except as set forth in the next sentence, unless full cumulative dividends on the Series G Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of common stock or in shares of any series of preferred stock ranking junior to the Series G Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon any of our common stock or preferred stock ranking junior to or on a parity with the Series G Preferred Stock as to dividends or upon liquidation, nor shall any shares of our common stock or preferred stock ranking junior to or on a parity with the Series G Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by us (except by conversion into or exchange for our other capital stock ranking junior to the Series G Preferred Stock as to dividends and upon liquidation and except for transfers made pursuant to the provisions of our charter relating to restrictions on ownership and transfers of our capital stock).

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series G Preferred Stock and the shares of any other series of preferred stock ranking on a parity as to dividends with the Series G Preferred Stock, all dividends declared upon the Series G Preferred Stock and any other series of preferred stock ranking on a parity as to dividends with the Series G Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series G Preferred Stock and such other series of preferred stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Series G Preferred Stock and such other series of preferred stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such preferred stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Series G Preferred Stock which may be in arrears.

Holders of shares of the Series G Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends on the Series G Preferred Stock as provided above. Any dividend payment made on shares of the Series G Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable.

Liquidation Preference

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Upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, the holders of shares of Series G Preferred Stock are entitled to be paid out of our assets that are legally available for distribution to our stockholders a liquidation preference of \$25.00 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of our common stock or any series of our preferred stock that ranks junior to the Series G Preferred Stock as to liquidation rights.

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In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series G Preferred Stock and the corresponding amounts payable on all shares of other classes or series of our capital stock ranking on a parity with the Series G Preferred Stock in the distribution of assets, then the holders of the Series G Preferred Stock and all other such classes or series of capital stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled

Holders of Series G Preferred Stock will be entitled to written notice of any such liquidation. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series G Preferred Stock will have no right or claim to any of our remaining assets. The consolidation or merger of us with or into any other corporation, trust or entity or of any other corporation with or into us, or the sale, lease or conveyance of all or substantially all of our assets or business, shall not be deemed to constitute a liquidation, dissolution or winding up of us. For further information regarding the rights of the holders of the Series G Preferred Stock upon the liquidation, dissolution or winding up of the Company, see "Description of Common Stock and Preferred Stock Preferred Stock" in the accompanying prospectus.

Redemption

The Series G Preferred Stock is not redeemable prior to December 19, 2008. However, in order to ensure that we remain a qualified REIT for federal income tax purposes, Series G Preferred Stock will be subject to the provisions of our charter which limit the amount of Series G Preferred Stock that may be owned by a stockholder. See "Description of Common Stock and Preferred Stock Restrictions on Ownership and Transfers" in the accompanying prospectus.

On and after December 19, 2008, we may redeem, at our option upon not less than 30 nor more than 60 days' written notice, shares of the Series G Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends thereon to and including the date fixed for redemption (except as provided below), without interest. Holders of Series G Preferred Stock to be redeemed shall surrender such Series G Preferred Stock at the place designated in such notice and shall be entitled to the redemption price and any accrued and unpaid dividends payable upon such redemption following such surrender. If notice of redemption of any shares of Series G Preferred Stock has been given and if the funds necessary for such redemption have been set aside by us in trust for the benefit of the holders of any shares of Series G Preferred Stock so called for redemption, then from and after the redemption date dividends will cease to accrue on such shares of Series G Preferred Stock, such shares of Series G Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. If less than all of the outstanding Series G Preferred Stock is to be redeemed, the Series G Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by us.

Unless full cumulative dividends on all shares of Series G Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series G Preferred Stock shall be redeemed unless all outstanding shares of Series G Preferred Stock are simultaneously redeemed and we shall not purchase or otherwise acquire directly or indirectly any shares of Series G Preferred Stock (except by exchange for our capital stock ranking junior to the Series G Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by us of shares transferred to a charitable trust in accordance with our charter to ensure we remain qualified as a REIT for federal income tax purposes, or the purchase or acquisition of shares of Series G Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series G Preferred Stock.

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Notice of redemption will be given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date. A similar notice will be mailed by us, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series G Preferred Stock to be redeemed at their respective addresses as they appear on our stock transfer records. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series G Preferred Stock except as to the holder to whom notice was defective or not given. Each notice shall state:

the redemption date;

the redemption price;

the number of shares of Series G Preferred Stock to be redeemed;

the place or places where the Series G Preferred Stock is to be surrendered for payment of the redemption price; and

that dividends on the shares to be redeemed will cease to accrue on such redemption date.

If less than all of the Series G Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series G Preferred Stock held by such holder to be redeemed.

Immediately prior to any redemption of Series G Preferred Stock, we shall pay, in cash, any accumulated and unpaid dividends through and including the redemption date, unless a redemption date falls after a Dividend Record Date and prior to the corresponding Dividend Payment Date, in which case each holder of Series G Preferred Stock at the close of business on such Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares before such Dividend Payment Date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series G Preferred Stock which is redeemed.

The Series G Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption. However, in order to ensure that we remain a qualified REIT for federal income tax purposes, Series G Preferred Stock owned by a stockholder in excess of the ownership limit provided in our charter will be subject to the provisions of the charter.

Voting Rights

Holders of the Series G Preferred Stock will not have any voting rights, except as set forth below.

Whenever dividends on any shares of Series G Preferred Stock shall be in arrears for six or more quarterly periods (a "Preferred Dividend Default"), the holders of such shares of Series G Preferred Stock (voting separately as a class with all other series of preferred stock ranking on a parity with the Series G Preferred Stock as to dividends or upon liquidation ("Parity Preferred") upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two additional members of our board of directors (the "Preferred Stock Directors"), and the number of directors on the board of directors shall increase by two, at a special meeting called by the holders of record of at least 20% of the Series G Preferred Stock or any other series of Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series G Preferred Stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment.

If and when all accumulated dividends and the dividend for the then current dividend period on the Series G Preferred Stock shall have been paid in full or set aside for payment in full, the holders thereof shall be divested of the foregoing voting rights (subject to retesting in the event of each and

every subsequent Preferred Dividend Default) and, if all accumulated dividends and the dividend for the then current dividend period have been paid in full or set aside for payment in full on all series of Parity Preferred upon which like voting rights have been conferred and are exercisable, the term of office of each Preferred Stock Director so elected shall terminate and the number of directors on the board of directors shall decrease by two. Any Preferred Stock Director may be removed at any time with or without cause by, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series G Preferred Stock when they have the voting rights described above (voting separately as a class with all series of Parity Preferred upon which like voting rights have been conferred and are exercisable). So long as a Preferred Dividend Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by the

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written consent of the Preferred Stock Directors remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series G Preferred Stock when they have the voting rights described above (voting separately as a class with all series of Parity Preferred upon which like voting rights have been conferred and are exercisable). The Preferred Stock Directors shall each be entitled to one vote per director on any matter.

So long as any shares of Series G Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series G Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class with all series of Parity Preferred upon which like voting rights have been conferred and are exercisable), (a) authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking prior to the Series G Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any of our authorized capital stock into such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (b) amend, alter or repeal the provisions of our charter, whether by merger, consolidation or otherwise (an "Event"), so as to materially and adversely affect any right, preference, privilege or voting power of the Series G Preferred Stock; provided, however, with respect to the occurrence of any Event set forth in (b) above, so long as the Series G Preferred Stock remains outstanding with the terms thereof materially unchanged, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of the Series G Preferred Stock and, provided further, that any increase in the amount of the authorized preferred stock, including the Series G Preferred Stock, or the creation or issuance of any additional Series G Preferred Stock or other series of preferred stock, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series G Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series G Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

Conversion

The Series G Preferred Stock is not convertible into or exchangeable for any other of our property or securities.

Restrictions On Ownership

For information regarding restrictions on ownership of the Series G Preferred Stock, see "Description of Common Stock and Preferred Stock Restrictions on Ownership and Transfers" in the accompanying prospectus.

Transfer Agent

The transfer agent, registrar and dividend disbursing agent for the Series G Preferred Stock will be Equiserve Trust Company, N.A.

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FEDERAL INCOME TAX CONSEQUENCES

The following supplements the discussion contained in the accompanying prospectus under the heading "Material Federal Income Tax Consequences," which discussion (to the extent not inconsistent with the following) is incorporated in its entirety in this prospectus supplement. The discussions contained under the headings herein are intended to supplement, where applicable, the discussions contained in the corresponding headings of the accompanying prospectus.

Taxation of Taxable U.S. Stockholders

Redemptions

If we redeem all or a portion of the Series G Preferred Stock, under Section 302 of the Code, such redemption will be treated as a dividend, generally taxable at ordinary income tax rates (to the extent of our current and accumulated earnings and profits), unless the redemption satisfies one or more of the tests set forth in Section 302(b) of the Code that enable the redemption to be treated as a sale or exchange of the redeemed Series G Preferred Stock. A redemption will satisfy such tests if it: (i) is "substantially disproportionate" with respect to the stockholder; (ii) results in a "complete termination" of the stockholder's stock interest in us; or (iii) is "not essentially equivalent to a dividend" with respect to

the stockholder, all within the meaning of Section 302(b) of the Code. In determining whether any of these tests have been met, shares considered to be owned by the stockholder by reason of certain constructive ownership rules set forth in the Code, as well as shares actually owned, must generally be taken into account. Because the determination as to whether any of the alternative tests of Section 302(b) of the Code is satisfied with respect to any particular holder of the Series G Preferred Stock will depend upon the facts and circumstances as of the time the determination is made, prospective investors are advised to consult their tax advisors to determine such tax treatment.

If a redemption of the Series G Preferred Stock is treated as a distribution that is taxable as a dividend, the amount of the distribution would be measured by the amount of cash and the fair market value of any property received by the stockholders. The stockholder's adjusted tax basis in such redeemed Series G Preferred Stock would, in that case, be transferred to the holder's remaining stockholdings in us. If, however, the stockholder has no remaining stockholdings in us, such basis may, under certain circumstances, be transferred to a related person, or it may be lost entirely.

Other Tax Considerations

Tax Shelter Regulations. If a stockholder recognizes a loss upon a subsequent disposition of our stock in an amount that exceeds a prescribed threshold, it is possible that the provisions of recently adopted Treasury regulations involving "reportable transactions" could apply, with a resulting requirement to separately disclose the loss generating transaction to the IRS. While these regulations are directed towards "tax shelters," they are written quite broadly, and apply to transactions that would not typically be considered tax shelters. In addition, legislative proposals have been introduced in Congress, that, if enacted, would impose significant penalties for failure to comply with these requirements. You should consult your own tax advisors concerning any possible disclosure obligation with respect to the ownership or disposition of our stock, or transactions that might be undertaken directly or indirectly by us. Moreover, you should be aware that we and other participants in transactions involving us (including advisors) might be subject to disclosure or other requirements pursuant to these regulations.

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UNDERWRITING

We and Bear, Stearns & Co. Inc. have entered into a purchase agreement, dated December 9, 2003, concerning the shares of the Series G Preferred Stock being offered by this prospectus supplement and the accompanying prospectus. Subject to the terms and conditions of the purchase agreement, the underwriter purchased 3,200,000 shares of Series G Preferred Stock from us.

On December 9, 2003, the underwriter purchased from third parties \$80,000,000 liquidation value of our Series A Cumulative Redeemable Preferred Stock. We agreed with the underwriter to sell the Series G Preferred Stock offered hereby in exchange for these shares of Series A Cumulative Redeemable Preferred Stock. In addition, the underwriter will receive a fee equal to \$2,960,000 in consideration for its services.

We estimate that the total additional expenses of the offering payable by us will be approximately \$150,000.

The underwriter proposes to offer the shares of Series G Preferred Stock from time to time for sale in one or more transactions in the over-the-counter market, through negotiated transactions or otherwise at market prices prevailing at the time of the sale, at prices relating to prevailing market prices or at negotiated prices, which prices may vary, subject to receipt and acceptance by it and subject to its right to reject any order in whole or in part. In connection with the sale of the shares of Series G Preferred Stock offered hereby, the underwriter may be deemed to receive compensation in the form of underwriting discounts. The underwriter may effect such transactions by selling the shares of Series G Preferred Stock offered hereby to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriter and/or purchasers of the shares of Series G Preferred Stock for whom they may act as agents or to whom they may sell as principals.

We have agreed not to sell or transfer any shares of preferred stock or to engage in certain hedging transactions with respect to the preferred stock for a period of 30 days after the date of this prospectus supplement without first obtaining the written consent of the underwriter, except in certain circumstances.

We have agreed in the purchase agreement to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act of 1933, as amended, and where such indemnification is unavailable, to contribute to payments that the underwriter may be required to make in respect of such liabilities.

The Series G Preferred Stock is a new issue of securities and, prior to the Series G Preferred Stock being accepted for listing on the New York Stock Exchange, there will be no established trading market for the Series G Preferred Stock. We anticipate the NYSE will authorize, upon official notice of issuance, the listing of the Series G Preferred Stock under the symbol "SFI PrG." We expect that trading on the NYSE will

commence within 30 days after the initial delivery of the Series G Preferred Stock. In order to meet the requirements for listing the Series G Preferred Stock on the NYSE, the underwriter has undertaken to sell: (i) Series G Preferred Stock to ensure a minimum of 100 beneficial holders with a minimum of 100,000 shares of Series G Preferred Stock outstanding; and (ii) sufficient Series G Preferred Stock so that following this offering, the Series G Preferred Stock has a minimum aggregate market value of \$2 million. The underwriter has advised us that prior to the commencement of listing on the NYSE it intends to make a market in the Series G Preferred Stock, but is not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Series G Preferred Stock. In order to facilitate the offering of the Series G Preferred Stock, the underwriter may engage in transactions that stabilize, maintain or otherwise affect the market price of the Series G Preferred Stock in accordance with Regulation M under the Securities Exchange Act of 1934.

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From time to time, the underwriter and/or its affiliates have in the past performed, and may in the future continue to perform, investment banking, broker dealer, lending, financial advisory or other services for us for which they have received, or may receive, customary compensation.

LEGAL MATTERS

The legality of the Series G Preferred Stock offered by this prospectus supplement and the accompanying prospectus will be passed upon for us by Clifford Chance US LLP, New York, New York. Certain legal matters will be passed upon for the underwriter by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Clifford Chance US LLP will rely upon the opinion of Venable LLP with respect to certain matters of Maryland law. Skadden, Arps, Slate, Meagher & Flom LLP provides legal services to us from time to time.

EXPERTS

The financial statements incorporated in this prospectus supplement and the accompanying prospectus by reference to our Annual Report on Form 10-K for the year ended December 31, 2002 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

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PROSPECTUS

ISTAR FINANCIAL INC.

**Common Stock
Preferred Stock
Depository Shares
Debt Securities
and
Warrants**

We may from time to time offer our common stock, preferred stock (which we may issue in one or more series), depository shares representing shares of preferred stock, debt securities (which we may issue in one or more series) or warrants entitling the holders to purchase common stock, preferred stock, depository shares or debt securities, at an aggregate initial offering price which will not exceed \$1,000,000,000. We will determine when we sell securities, the amounts of securities we will sell and the prices and other terms on which we will sell them. We may sell securities to or through underwriters, through agents or directly to purchasers.

We will describe in a prospectus supplement, which we will deliver with this prospectus, the terms of particular securities which we offer in the future. We may describe the terms of those securities in a term sheet which will precede the prospectus supplement.

In each prospectus supplement we will include the following information:

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The names of the underwriters or agents, if any, through which we will sell the securities.

The proposed amount of securities, if any, which the underwriters will purchase.

The compensation, if any, of those underwriters or agents.

The initial public offering price of the securities.

Information about securities exchanges, electronic communications networks or automated quotation systems on which the securities will be listed or traded.

Any other material information about the offering and sale of the securities.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED THAT THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

An investment in these securities entails certain material risks and uncertainties that should be considered. See "Risk Factors" on page 2 of this prospectus.

December 5, 2003

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ABOUT THIS PROSPECTUS

This prospectus is part of a shelf registration statement. Under this shelf registration statement, we may sell any combination of common stock, preferred stock, depositary shares representing shares of preferred stock, debt securities or warrants entitling the holders to purchase common stock, preferred stock, depositary shares or debt securities in one or more offerings for total proceeds of up to \$1,000,000,000. This

prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may add, update or change information contained in this prospectus. Before you buy any of our securities, it is important for you to consider the information contained in this prospectus and any prospectus supplement together with additional information described under the heading "Incorporation of Certain Documents By Reference."

FORWARD-LOOKING STATEMENTS

We make statements in this prospectus and the documents we incorporate by reference that are considered "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are usually identified by the use of words such as "will," "anticipates," "believes," "estimates," "expects," "projects," "plans," "intends," "should" or similar expressions. We intend those forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995 and are including this statement for purposes of complying with these safe harbor provisions. These forward-looking statements reflect our current views about our plans, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions and expectations as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions or expectations will be achieved. We have listed below and have discussed elsewhere in this prospectus some important risks, uncertainties and contingencies which could cause our actual results, performances or achievements to be materially different from the forward-looking statements we make in this prospectus. These risks, uncertainties and contingencies include, but are not limited to, the following:

1. The success or failure of our efforts to implement our current business strategy.
2. Economic conditions generally and in the commercial finance and real estate markets specifically.
3. The performance and financial condition of borrowers and corporate customers.
4. The actions of our competitors and our ability to respond to those actions.
5. The cost of our capital, which depends in part on our asset quality, the nature of our relationships with our lenders and other capital providers, our business prospects and outlook, and general market conditions.
6. Changes in governmental regulations, tax rates and similar matters.
7. Legislative and regulatory changes (including changes to laws governing the taxation of REITs).
8. Other factors discussed under the heading "Risk Factors" or which may be discussed in a prospectus supplement.

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

ISTAR FINANCIAL INC.

We are the largest publicly traded finance company focused exclusively on the commercial real estate industry. We provide custom-tailored financing to high-end private and corporate owners of real estate nationwide, including senior and junior mortgage debt, senior, mezzanine and subordinated corporate capital, and corporate net lease financing. Our objective is to generate consistent and attractive returns on our invested capital by providing innovative and value-added financing solutions to our customers. We are taxed as a real estate investment trust.

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Our principal executive offices are located at 1114 Avenue of the Americas, New York, New York 10036, and our telephone number is (212) 930-9400. Our website is istarfinancial.com. Information on our website is not considered part of this prospectus. Our six primary regional offices are located in Atlanta, Boston, Dallas, Denver, Hartford and San Francisco. iStar Asset Services, our loan servicing subsidiary, is located in Hartford, and iStar Real Estate Services, our corporate facilities management division, is headquartered in Atlanta.

RISK FACTORS

This section describes material risks of purchasing our securities. You should carefully consider these risks, in addition to the other information contained in this prospectus or incorporated in this prospectus by reference, before purchasing any of the securities offered by this prospectus. In connection with the forward-looking statements that appear in this prospectus, you should carefully review the factors discussed below and the cautionary statements referred to in "Forward-Looking Statements."

We Are Subject to Risks Relating to Our Lending Business.

We may suffer a loss if a borrower defaults on a non-recourse loan or on a loan that is not secured by underlying real estate.

In the event of a default by a borrower on a non-recourse loan, we will only have recourse to the real estate assets securing the loan. For this purpose, we consider loans made to special purpose entities formed solely for the purpose of holding and financing particular assets to be non-recourse loans. If the underlying asset value is below the loan amount, we will suffer a loss. Conversely, we sometimes make loan investments that are unsecured or are secured by equity interests in the borrowing entities. These loans are subject to the risk that other lenders may be directly secured by the real estate assets of the borrower. In the event of a default, those secured lenders would have priority over us with respect to the proceeds of a sale of the underlying real estate.

In the cases described above, we may lack control over the underlying asset securing our loan or the underlying assets of the borrower prior to a default, and, as a result, their value may be reduced by acts or omissions by owners or managers of the assets. As of June 30, 2003, 83.3% of our loans are non-recourse, based upon the gross carrying value of our loan assets, and 9.0% of our total investments, based on gross carrying value, consist of loans that are unsecured or secured by equity interests in the borrowing entity.

We may suffer a loss in the event of a default or bankruptcy of a borrower, particularly in cases where the borrower has incurred debt that is senior to our loan.

If a borrower defaults on our loan but does not have sufficient assets to satisfy our loan, we may suffer a loss of principal or interest. In the event of a borrower bankruptcy, we may not have full recourse to the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy our loan. In addition, certain of our loans are subordinate to other debt of the borrower. If a borrower defaults on our loan or on debt senior to our loan, or in the event of a borrower bankruptcy, our loan will be satisfied only after the senior debt. Where debt senior to our loans exists, the presence of

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intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through "standstill" periods) and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy and borrower litigation can significantly increase the time needed for us to acquire underlying collateral in the event of a default, during which time the collateral may decline in value. In addition, there are significant costs and delays associated with the foreclosure process.

We are subject to the risk that provisions of our loan agreements may be unenforceable.

Our rights and obligations with respect to our loans are governed by written loan agreements and related documentation. It is possible that a court could determine that one or more provisions of a loan agreement are unenforceable, such as a loan prepayment provision or the provisions governing our security interest in the underlying collateral. If this were to happen with respect to a material asset or group of assets, we could be adversely affected.

We are subject to the risks associated with loan participations, such as less than full control rights.

Some of our assets are participating interests in loans in which we share the rights, obligations and benefits of the loan with other participating lenders. We may need the consent of these parties to exercise our rights under such loans, including rights with respect to

amendment of loan documentation, enforcement proceedings in the event of a default and the institution of, and control over, foreclosure proceedings. Similarly, a majority of the participants may be able to take actions to which we object but to which we will be bound if our participation interest represents a minority interest. We may be adversely affected by this lack of full control.

We Are Subject to Risks Relating to Our Corporate Tenant Lease Business.

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

Lease expirations, lease defaults and lease terminations may result in reduced revenues if the lease payments received from replacement corporate tenants are less than the lease payments received from the expiring, defaulting or terminating corporate tenants. In addition, lease defaults by one or more significant corporate tenants, lease terminations by corporate tenants following events of casualty or takings by eminent domain, or the failure of corporate tenants under expiring leases to elect to renew their leases, could cause us to experience long periods with no revenue from a facility and to incur substantial capital expenditures in order to obtain replacement corporate tenants.

As of June 30, 2003, 12.4% of our annualized total revenues for the quarter ended June 30, 2003 were derived from our five largest corporate tenant customers. As of June 30, 2003, the percentage of our revenues (based on total revenues for the quarter ended June 30, 2003, annualized) that are subject to expiring leases during each year from 2003 through 2006 is as follows:

2003	1.8%
2004	3.9%
2005	2.0%
2006	4.9%

We may need to make significant capital improvements to our corporate facilities in order to remain competitive.

Our corporate facilities may face competition from newer, more updated facilities. In order to remain competitive, we may need to make significant capital improvements to our existing corporate facilities. In addition, in the event we need to re-lease a corporate facility, we may need to make

significant tenant improvements, including conversions of single tenant buildings to multi-tenant buildings. The costs of these improvements could adversely affect our financial performance.

Our ownership interests in corporate facilities are illiquid, hindering our ability to mitigate a loss.

Since our ownership interests in corporate facilities are illiquid, we may lack the necessary flexibility to vary our investment strategy promptly to respond to changes in market conditions. In addition, if we have to foreclose on an asset or if we desire to sell it in an effort to recover or mitigate a loss, we may be unable to do so at all, or only at a discount.

We Are Subject to Risks Relating to Our Asset Concentration.

As of June 30, 2003, the average size of our lending and leasing investments was \$29.2 million. No single investment represented more than 3.5% of our total revenues for the fiscal quarter ended June 30, 2003. While our asset base is diversified by product line, asset type, obligor, property type and geographic location, it is possible that if we suffer losses on a portion of our larger assets, our financial performance could be adversely impacted.

Because We Must Distribute a Portion of Our Income, We Will Continue to Need Additional Debt and/or Equity Capital to Grow.

We must distribute at least 90% of our taxable net income to our stockholders to maintain our REIT status. As a result, those earnings will not be available to fund investment activities. We have historically funded our investments by borrowing from financial institutions and raising capital in the public and private capital markets. We expect to continue to fund our investments this way. If we fail to obtain funds from these sources, it could limit our ability to grow, which could have a material adverse effect on the value of our common stock. Our taxable net income has historically been lower than the cash flow generated by our business activities, primarily because our taxable net income is reduced by non-cash expenses, such as depreciation and amortization. As a result, our dividend payout ratio as a percentage of free cash flow has generally been lower than our payout ratio as a percentage of taxable net income. Our common stock dividends for the year ended December 31, 2002 represented approximately 74.1% of our cash flows provided by operating activities less preferred dividends for 2002.

Our Growth Is Dependent on Leverage, Which May Create Other Risks.

Our success is dependent, in part, upon our ability to grow our assets through the use of leverage. Our ability to obtain the leverage necessary for execution of our business plan will ultimately depend upon our ability to maintain interest coverage ratios meeting market underwriting standards that will vary according to lenders' assessments of our creditworthiness and the terms of the borrowings. As of June 30, 2003, our debt-to-book equity ratio was 1.8x and our total debt obligations outstanding were approximately \$3.84 billion. Our charter does not limit the amount of indebtedness which we may incur. Our Board of Directors has overall responsibility for our financing strategy. Stockholder approval is not required for changes to our financing strategy. If our Board of Directors decided to increase our leverage, it could lead to reduced or negative cash flow and reduced liquidity.

The percentage of leverage used will vary depending on our estimate of the stability of iStar Financial's cash flow. To the extent that changes in market conditions cause the cost of such financing to increase relative to the income that can be derived from the assets originated, we may reduce the amount of our leverage.

Leverage creates an opportunity for increased net income, but at the same time creates risks. For example, leveraging magnifies changes in our net worth. We will incur leverage only when there is an expectation that it will enhance returns, although there can be no assurance that our use of leverage will prove to be beneficial. Moreover, there can be no assurance that we will be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets or a financial loss if we are required to liquidate assets at a commercially inopportune time.

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We and our subsidiaries are parties to agreements and debt instruments that restrict future indebtedness and the payment of dividends, including indirect restrictions (through, for example, covenants requiring the maintenance of specified levels of net worth and earnings to debt service ratios) and direct restrictions. As a result, in the event of a deterioration in our financial condition, these agreements or debt instruments could restrict our ability to pay dividends. Moreover, if we fail to pay dividends as required by the Internal Revenue Code, whether as a result of restrictive covenants in our debt instruments or otherwise, we may lose our status as a REIT. For more information regarding the consequences of loss of REIT status, please read the risk factor entitled "We May Be Subject to Adverse Consequences if We Fail to Qualify as a Real Estate Investment Trust."

We Utilize Interest Rate Hedging Arrangements Which May Adversely Affect Our Borrowing Cost and Expose Us to Other Risks.

We have 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, we earn more on our variable rate lending assets and pay more on our variable rate debt obligations and, conversely, as interest rates decrease, we earn less on our variable rate lending assets and pay less on our variable rate debt obligations. When our variable rate debt obligations exceed our variable rate lending assets, we utilize derivative instruments to limit the impact of changing interest rates on our net income. We do not use derivative instruments to hedge assets or for speculative purposes. The derivatives instruments we use 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.

The primary risks from our use of derivative instruments is the risk that a counterparty to a hedging arrangement could default on its obligation and the risk that we may have to pay certain costs, such as transaction fees or breakage costs, if a hedging arrangement is terminated by us. As a matter of policy, we enter into hedging arrangements with counterparties that are large, creditworthy financial institutions typically rated at least "A/A2" by Standard & Poor's and Moody's Investors Service, respectively. Our hedging strategy is monitored by our Audit Committee on behalf of our 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 us from risks associated with such fluctuations. There can be no assurance that our hedging activities will have the desired beneficial impact on our results of operations or financial condition.

We Face a Risk of Liability Under Environmental Laws.

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.

Certain Provisions in Our Charter May Inhibit a Change in Control.

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

Our charter authorizes our Board of Directors:

1. To cause us to issue additional authorized but unissued shares of common or preferred stock.
2. To classify or reclassify, in one or more series, any of our unissued preferred shares.
3. To set the preferences, rights and other terms of any classified or reclassified securities that we issue.

Adverse Changes in General Economic Conditions Can Adversely Affect Our Business.

Our success is dependent upon the general economic conditions in the geographic areas in which a substantial number of our investments are located. Adverse changes in national economic conditions or in the economic conditions of the regions in which we conduct substantial business likely would have an adverse effect on real estate values and, accordingly, our business.

We May Be Subject to Adverse Consequences If We Fail to Qualify as a Real Estate Investment Trust.

We intend to operate so as to qualify as a real estate investment trust for federal income tax purposes. We have received an opinion of our legal counsel, Clifford Chance US LLP, that, based on the assumptions and representations described in "Certain Federal Income Tax Consequences," our existing legal organization and our actual and proposed method of operation, enable us to satisfy the requirements for qualification as a real estate investment trust under the Internal Revenue Code in the ordinary course of our actual and proposed operations. Investors should be aware, however, that opinions of counsel are not binding on the Internal Revenue Service or any court. The real estate investment trust qualification opinion only represents the view of our counsel based on their review and analysis of existing law, that includes no controlling precedents. Furthermore, both the validity of the opinion and our qualification as a real estate investment trust will depend on our continuing ability to meet various requirements concerning, among other things, the ownership of our outstanding stock, the nature of our assets, the sources of our income and the amount of our distributions to our stockholders. See "Certain Federal Income Tax Consequences Taxation of iStar Financial General."

If we were to fail to qualify as a real estate investment trust for any taxable year, we would not be allowed a deduction for distributions to our stockholders in computing our taxable income and would be subject to federal income tax, including any applicable minimum tax, on our taxable income at regular corporate rates. Unless entitled to relief under certain Internal Revenue Code provisions, we also would be disqualified from treatment as a real estate investment trust for the four subsequent taxable years following the year during which qualification was lost. As a result, cash available for distribution would be reduced for each of the years involved. Furthermore, it is possible that future economic, market, legal, tax or other considerations may cause the Board of Directors to revoke the real estate investment trust election. See "Certain Federal Income Tax Consequences."

Even if we qualify as a real estate investment trust for federal income tax purposes, we may be subject to certain state and local taxes on our income and property, and may be subject to certain federal taxes. See "Certain Federal Income Tax Consequences Taxation of iStar Financial General."

Tax-Exempt Stockholders May Be Subject to Taxation.

The Internal Revenue Service has issued a revenue ruling in which it held that amounts distributed by a REIT to a tax-exempt employee