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G-L 2 Real Estate debt index

4Q-2020 Results

**G-L 2 4Q 2020 Quarterly Review February 22, 2021**

|  |  |  |  |
| --- | --- | --- | --- |
|   | **G-L 2 Return Summary: 4Q 2020** |  |   |
|   |  |  Total  |   |
|   |  |  Return  |   |
|   |  |  |   |
|   | All Investments | 2.12% |   |
|   |  |  |   |
|   | All Subordinate Positions | 2.38% |   |
|   |  *Mezzanine Loans* | 1.64% |   |
|   |  *Leveraged Whole Loans* | 2.16% |   |
|   |  *Other Sub. Debt \** | 6.68% |   |
|   |  |  |   |
|   | Senior Loans | 1.34% |   |
|   |  |  |   |
|   | Floating Rate | 1.67% |   |
|   | Fixed Rate | 2.95% |   |
|   |  |  |   |
|   | Stabilized Assets | 1.57% |   |
|   | Bridge / Transitional Assets | 2.47% |   |
|   | Value-add Projects | 1.34% |   |
|   |  |  |   |
|   | \* B notes, second mortgages, preferred equity and other or unknown |
|   |  |  |   |
|   | Source: Giliberto-Levy |   |   |

**Index Performance**

* **Total return performance improved considerably, with the index posting a 2.12% total return for 4Q 2020.** This was a welcome change from 3Q’s 0.53% (revised from 0.54%) outcome.[[1]](#footnote-1)
	+ Income return was 1.68%, which basically matched the prior quarter’s rate.
	+ Capital value return was 0.44%; we discuss this in detail below.
	+ Full-year 2020 total return came in at 5.12%, the lowest calendar-year total posted so far for the G-L 2.
* Monthly returns:
	+ Oct. 2020 0.90%
	+ Nov. 2020 0.58%
	+ Dec. 2020 0.62%
* The **capital value increase was driven by outsized performance from the “other subordinate debt” segment**, which includes B notes, second mortgages and preferred equity. The table at the top of this report shows a 6.68% total return for such investments, more than 450 basis points (bp) above the overall G-L 2 return. Income return for the segment was 1.97% in 4Q, and the capital value change was 4.71%.

What caused the change in value? Several large fixed-rate positions’ values had been capped by lenders in prior periods. Caps were removed in 4Q, and positions were marked to market, resulting in large increases in loan values. Returns on these positions dominated the other subordinate debt segment’s performance, and the large segment return had a substantial effect on overall G-L 2 return. We calculated that 36 bp of total return could be attributed to the segment: if other subordinate debt were excluded, G-L 2 4Q total return would be 1.76%.

* **Credit events increased, driven by an uptick in loans in forbearance / interest deferral.** Loans that receive interest deferrals or are in forbearance are not considered delinquent.

We measure credit event incidence using unpaid principal balances (UPB). Percentage incidence is the sum of UPB for a particulate event type divided by the total UPB reported for the index (see Table 1).

**Table 1. G-L 2 Credit Event Incidence 4Q 2020**



UPB Unpaid Principal Balance

Source: Giliberto-Levy

Unlike 3Q, there were no realized losses in 4Q from loans in default. Importantly, all loans marked as “in default” are valued with the expectation that recovery of principal will be low, possibly zero. Consequently, **we anticipate loss severity will continue to be high**.

**Changes to G-L 2 Report Package**

Industrial properties now have sufficient data to be reported on their own. They previously were included in the Other Property Types segment.

The report page with returns on investments held by open-end funds has been renamed to G-L 2 Capital Sources. Investments held in separate accounts form a new reporting segment on this page.

 Information such as loan count, net asset value (NAV), and total principal balance is available in the G-L 2 Dashboard, which is sent to all participants. We anticipate a March 1 release.

1. Results reflect performance fully netted for use of leverage to “manufacture mezz” from senior whole loans. Reported components may not sum to reported totals due to rounding. [↑](#footnote-ref-1)