**G-L 2 2Q 2021 Quarterly Review**

September 13, 2021

|  |  |  |  |
| --- | --- | --- | --- |
|   | **G-L 2 Return Summary: 2Q 2021** |   |   |
|   |  |  Total  |   |
|   |  |  Return  |   |
|   |  |  |   |
|   | All Investments | 1.93% |   |
|   |  |  |   |
|   | All Subordinate Positions | 2.08% |   |
|   |  *Mezzanine Loans* | 2.00% |   |
|   |  *Leveraged Whole Loans* | 2.28% |   |
|   |  *Other Sub. Debt \** | 1.30% |   |
|   |  |  |   |
|   | Senior Loans | 1.47% |   |
|   |  |  |   |
|   | Floating Rate | 1.90% |   |
|   | Fixed Rate | 1.75% |   |
|   |  |  |   |
|   | Stabilized Assets | 1.88% |   |
|   | Bridge / Transitional Assets | 1.95% |   |
|   | Value-add Projects | 1.43% |   |
|   |  |  |   |
|   | \* B notes, second mortgages, preferred equity and other or unknown |
|   |  |  |   |
|   | Source: Giliberto-Levy |   |   |

Note: Several loans have all data needed to generate investment returns but have not yet provided attribute data. As a result, some reported sub-category returns, e.g., payment type, are each less than the G-L 2 total return.

**Index Performance**

* **2Q 2021 total return was 1.93%, on par with 1.87% generated in 1Q 2021.**[[1]](#footnote-1)
	+ The 6-basis point (bp) increase was driven by higher Income return: 1.90% for 2Q versus 1.84% in 1Q.
	+ Capital value return was 0.03%.
	+ Rolling four-quarter total return ticked up from 6.41% to 6.64%. As was the case last quarter, the improvement was mainly driven by a better “comp”: this year’s 1.93% compared with 2020’s 1.70%.
* Monthly returns:
	+ Apr. 2021 0.49%
	+ May 2021 0.61%
	+ Jun. 2021 0.82%
* **Index participants reported about $1.5 billion of new loans, based on anticipated balances when the loans are fully funded.** New index participants contributed data on about $225 million of seasoned loans, mostly mezzanine positions.
* **Credit event incidence declined during the quarter.**

We measure credit event incidence using unpaid principal balance (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). Loans that receive interest deferrals or are in forbearance are not counted as delinquent.

Incidence measures for 2Q 2021 reflect a somewhat larger exposure base due to the addition of loans from new participants. As a result, starting incidence for 2Q 2021 (on April 1, 2021) is not identical to what was reported previously for March 31, 2021.

Table 1. G-L 2 Credit Event Incidence 2Q 2021

|  |  |
| --- | --- |
|  | **Incidence (% of UPB)** |
|  |  |  |
|  | 4/1/2021 | 6/30/2021 |
| **Loan Status** |  |  |
| Interest Deferral or Forbearance | 0.72% | 0.53% |
| Delinquent | 0.63% | 0.59% |
| In Default | 0.35% | 0.36% |
|  |  |  |
| All Credit Events | 1.70% | 1.48% |
| Delinquent and Defaulted | 0.99% | 0.95% |
|  |  |  |
|  | **Average Days Delinquent** |
| Delinquent Loans Only | 216 | 310 |
| Delinquent and Defaulted Loans | 245 | 353 |

 UPB Unpaid Principal Balance

Source: Giliberto-Levy

Chart 1 provides an update on credit events within the index. New events reflect data from new participants, not increased incidence in the prior exposure base.

Chart 1. G-L 2 Credit Event Tracker

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Loan | Mar-21 | Apr-21 | May-21 | Jun-21 |
| Lodging #2 |   |   |   |   |
| Lodging #4 |   |   |   |   |
| Lodging #5 |   |   |   |   |
| Lodging #6 |   |   |   |   |
| Lodging #7 |   |   |   |   |
| Lodging #8 |   |   |   | Paid Off |
| Lodging #9 |   |   |   |   |
| Mixed-use #4 |   |   |   |   |
| Mixed-use #5 |   |   |   |   |
| Office #2 |   |   |   |   |
| Retail #1 |   |   |   |   |

|  |  |  |
| --- | --- | --- |
|  |  | Legend |
|   |  | Performing |
|   |  |  Interest Deferral |
|   |  |  Delinquent |
|   |  |  Interest Forbearance |
|   |  |  In Default |
|   |  |  Terminated |

Source: Giliberto-Levy

Unsurprisingly, the greatest stress continues to be in the lodging sector. However, some hopeful signs emerged. Two loans that had been in forbearance or interest deferral paid all or most previously capitalized interest and resumed cash interest payments. One of these repaid in full at par before quarter end. That said, one hotel asset shifted from delinquent to in default as the lender envisions little chance of recovery of principal on a subordinate position.

In a further indication of market improvement, two non-lodging loans that were delinquent at the beginning of the quarter returned to performing status. Both loans repaid a portion of previously capitalized interest and resumed cash payments.

The average mark on loans with credit events was 54% of par as of June 30, 2021, ranging from below 10% to 99%.

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)