**G-L 2 4Q 2021 Quarterly Review**

March 31, 2022

|  |  |  |  |
| --- | --- | --- | --- |
|  | **G-L 2 Return Summary: 4Q 2021** |  |  |
|  |  | Total |  |
|  |  | Return |  |
|  |  |  |  |
|  | All Investments | 1.60% |  |
|  |  |  |  |
|  | All Subordinate Positions | 1.76% |  |
|  | *Mezzanine Loans* | 1.82% |  |
|  | *Leveraged Whole Loans* | 2.11% |  |
|  | *Other Sub. Debt \** | 0.73% |  |
|  |  |  |  |
|  | Senior Loans | 1.09% |  |
|  |  |  |  |
|  | Floating Rate | 1.64% |  |
|  | Fixed Rate | 1.35% |  |
|  |  |  |  |
|  | Stabilized Assets | 1.72% |  |
|  | Bridge / Transitional Assets | 1.48% |  |
|  | Value-add Projects | 1.74% |  |
|  |  |  |  |
|  | \* 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 may appear inconsistent with G-L 2 total return.

**Index Performance**

* **4Q 2021 total return was 1.60%. This was less than last quarter’s 1.92%.**[[1]](#footnote-1)
  + Income return was 1.89%, in line with that generated in 3Q.
  + Capital value return was -0.28%, accounting for most of this quarter’s performance decline. This includes both routine mark to market and credit-related value decreases.
  + Total return for 2021 was 7.51%. This was a considerable rebound from 2020’s 5.56%, which was affected by the onset and immediate aftermath of the COVID pandemic.
* Monthly returns:
  + Jul. 2021 0.48%
  + Aug. 2021 0.61%
  + Sep. 2021 0.50%
* **Index participants reported about $1.1 billion of new loans**, based on anticipated balances when loans are fully funded.However, during the quarter **$1.7 billion (unpaid principal balance) was removed due to repayment or sale**.
* **At least one new** **floating-rate loan used the secured overnight financing rate (SOFR)** rather than one-month LIBOR as its base rate. This is the first instance we have seen in the index.

**Credit Events**

Chart 1 shows credit events as reported by participants. Chart 1 includes ongoing and new credit events, based on loan statuses on October 1, 2021. (No new credit events were reported for 4Q.) Loans that had credit events but became current, paid off or otherwise terminated in prior quarters are not shown.

Chart 1. G-L 2 Credit Event Tracker 4Q 2021

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Loan | Sep-21 | Oct-21 | Nov-21 | Dec-21 |
| Lodging #7 |  |  |  |  |
| Lodging #4 |  |  |  |  |
| Office #2 |  |  |  |  |
| Lodging #6 |  |  |  |  |
| Retail #2 |  | SOLD |  |  |
| Multifamily #2 |  |  |  |  |
| Multifamily #3 |  |  |  |  |
| Lodging #10 |  |  |  |  |
| Mixed-use #6 |  |  |  |  |
| Office #3 |  |  |  |  |
| Retail #3 |  |  |  |  |
| Office #4 |  |  |  |  |

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

Source: Giliberto-Levy

We measure credit event incidence using unpaid principal balance (UPB). Percentage incidence is the sum of UPB for a particular 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. Table 1 summarizes, in the context of the overall index, the specific cases shown in Chart 1.

Table 1. G-L 2 Credit Event Incidence 4Q 2021

|  |  |  |
| --- | --- | --- |
|  | **Incidence (% of UPB)** | |
|  |  |  |
|  | 10/1/2021 | 12/31/2021 |
| **Loan Status** |  |  |
| Interest Deferral or Forbearance | 0.91% | 0.60% |
| Delinquent | 0.10% | 0.10% |
| In Default | 1.88% | 0.66% |
|  |  |  |
| All Credit Events | 2.89% | 1.36% |
| Delinquent and Defaulted | 1.98% | 0.76% |
|  |  |  |
|  | **Average Days Delinquent** | |
| Delinquent Loans Only | 300 | 390 |
| Delinquent and Defaulted Loans | 430 | 340 |

UPB Unpaid Principal Balance

Source: Giliberto-Levy

Note that Table 1 reflects transitions that occurred during the quarter. For example, Lodging #4 paid previously deferred interest in cash and returned to performing status. On the flip side, the lender on Office #4 reclassified it to “in default”.

The average mark to market on loans with reported credit events was 67% of par as of December 31, 2021. However, loans receiving interest deferrals or under forbearance agreements were marked at an average of 83%. In contrast, delinquent and defaulted loans were marked at 36% of face value.

One loan sale was noted; we cannot offer details due to confidentiality. This sale drove the large decline in default percentage, accounting for the bulk of the drop in overall credit event incidence.

**G-L 2 Report Package and Dashboard**

The detailed 4Q 2021 report package was distributed to participants on March 30. If you did not receive a copy, please contact Julia Grant ([jgrant@jblevyco.com](mailto:jgrant@jblevyco.com)). We expect to release the dashboard the week of April 3.

1. Results reflect performance fully netted for use of leverage to “manufacture mezz” from senior whole loans. G-L 2 is not a “frozen” index, so results shown for prior quarters may differ from those reported previously. Reported components may not sum to totals due to rounding. [↑](#footnote-ref-1)