**G-L 2 1Q 2022 Quarterly Review**

June 27, 2022

|  |  |  |  |
| --- | --- | --- | --- |
|   | **G-L 2 Return Summary: 1Q 2022** |  |   |
|   |  |  Total  |   |
|   |  |  Return  |   |
|   |  |  |   |
|   | All Investments | 1.66% |   |
|   |  |  |   |
|   | All Subordinate Positions | 1.69% |   |
|   |  *Mezzanine Loans* | 1.69% |   |
|   |  *Leveraged Whole Loans* | 1.79% |   |
|   |  *Other Sub. Debt \** | 1.03% |   |
|   |  |  |   |
|   | Senior Loans | 1.45% |   |
|   |  |  |   |
|   | Floating Rate | 1.64% |   |
|   | Fixed Rate | 1.44% |   |
|   |  |  |   |
|   | Stabilized Assets | 1.48% |   |
|   | Bridge / Transitional Assets | 1.72% |   |
|   | Value-add Projects | 1.72% |   |
|   |  |  |   |
|   | \* 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**

* **1Q 2022 total return was 1.66%, slightly less than the prior quarter’s 1.72%.**[[1]](#footnote-1)
	+ Income return was 1.80% compared with 1.84% in 4Q 2021.
	+ Capital value return was -0.14%. This includes both routine mark to market and credit-related value decreases.
		- Rising U.S. Treasury yields took a toll on fixed-rate loans in G-L 2. Their capital value return was -0.36%.
		- In contrast, floating-rate loans had only a -0.06% capital value change.
	+ Rolling 12-month total return as of March 31, 2022 was 7.46%. This result continued a trend of declining returns. As of September 30, 2021, 12-month return was 8.08%. As of year-end 2021, it was 7.58%
* Monthly returns:
	+ Jan. 2022 0.41%
	+ Feb. 2022 0.49%
	+ Mar. 2022 0.75%
* **Index participants reported nearly $1.8 billion of new loans**, based on anticipated balances when loans are fully funded.This considerably exceeded **$599 million (principal balances as of Jan. 1, 2022) that paid off or otherwise terminated** during the quarter.

**Credit Events**

Chart 1 shows credit events as reported by participants. Chart 1 includes ongoing and new credit events, based on loan statuses on January 1, 2022 and March 31, 2022. 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 1Q 2022

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Loan | Dec-21 | Jan-22 | Feb-22 | Mar-22 |  |  |
| Office #3 |   |   |   |   |  |  |
| Lodging #7 |   |   |   | DISCOUNTED PAYOFF |
| Lodging #2 |   | SOLD |  |  |  |  |
| Lodging #6 |   |   |   |   |  |  |
| Mixed-use #5 |   |   |   |   |  |  |
| Office #2 |   |   |   |   |  |  |
| Multifamily #2 |   |   |   |   |  |  |
| Multifamily #3 |   |   |   |   |  |  |
| Lodging #10 |   |   |   |   |  |  |
| Mixed-use #6 |   |   |   |   |  |  |
| Office #5 |   |   |   |   |  |  |
| 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 1Q 2022

|  |  |
| --- | --- |
|  | **Incidence (% of UPB)** |
|  |  |  |
|  | 1/1/2022 | 3/31/2022 |
| **Loan Status** |  |  |
| Interest Deferral or Forbearance | 0.42% | 0.22% |
| Delinquent | 0.07% | 0.08% |
| In Default | 1.22% | 0.74% |
|  |  |  |
| All Credit Events | 1.72% | 1.05% |
| Delinquent and Defaulted | 1.30% | 0.82% |
|  |  |  |
|  | **Average Days Delinquent** |
| Delinquent Loans Only | 390 | 285 |
| Delinquent and Defaulted Loans | 465 | 390 |

 UPB Unpaid Principal Balance

Source: Giliberto-Levy

Table 1 reflects transitions that occurred during the quarter. For example, Mixed-use #5 became delinquent. Two credit situations were resolved: one loan received a discounted pay off and another was sold. The average recovery, as a percentage of unpaid principal inclusive of any capitalized interest, was 45%.

Coincidentally, the average mark to market on loans with reported credit events was 49% of par as of March 31, 2022. As was the case last quarter, there was a distinct difference between loans receiving interest deferrals and under forbearance agreements compared with delinquent and defaulted loans. The former were marked at an average of 86%; the latter at 39%.

**G-L 2 Webinar**

Thank you to all who joined us on June 15 for our annual G-L 2 webinar. A recording of the session along with presentation slides are available. Please contact Julia Grant (jgrant@jblevyco.com) for more information.

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

We expect to distribute the detailed 1Q 2022 report package and dashboard the week of June 27. **We also are preparing a special report stress testing G-L 2.** This will be an expanded version of the analysis we conducted in June 2020 to assess potential effects from declining asset values caused by the COVID-19 pandemic.

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)