



# GILIBERTO-LEVY

---

## COMMERCIAL REAL ESTATE DEBT INDEXES

### G-L 2 4Q 2022 Quarterly Review

March 17, 2023

#### G-L 2 Return Summary: 4Q 2022

	Total Return
All Investments	2.32%
All Subordinate Positions	2.50%
<i>Mezzanine Loans</i>	2.35%
<i>Leveraged Whole Loans</i>	2.65%
<i>Other Sub. Debt *</i>	2.42%
Senior Loans	1.78%
Floating Rate	2.52%
Fixed Rate	1.65%
Stabilized Assets	2.35%
Bridge / Transitional Assets	2.35%
Value-add Projects	2.18%

\* B notes, second mortgages, preferred equity and other or unknown

Source: Gilberto-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.



# GILIBERTO-LEVY

## COMMERCIAL REAL ESTATE DEBT INDEXES

### Index Performance

- 4Q 2022 total return was 2.32% compared with last quarter's 1.99%.<sup>1</sup>
  - Higher return was due almost completely to higher Income coming from rising base interest rates for floating-rate loans. Income return was 2.31%, 30 basis points (bp) above 3Q 2022.
  - Capital value return was again essentially zero. However, this reflected a slightly positive effect for floating-rate loans and a negative impact on fixed-rate loans.
  - Rolling 12-month total return as of December 31, 2022 was 8.02% (see Chart 1).

Chart 1. G-L 2 Rolling Twelve-month Total Return



Source: Gilberto-Levy

<sup>1</sup> 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.



# GILIBERTO-LEVY

## COMMERCIAL REAL ESTATE DEBT INDEXES

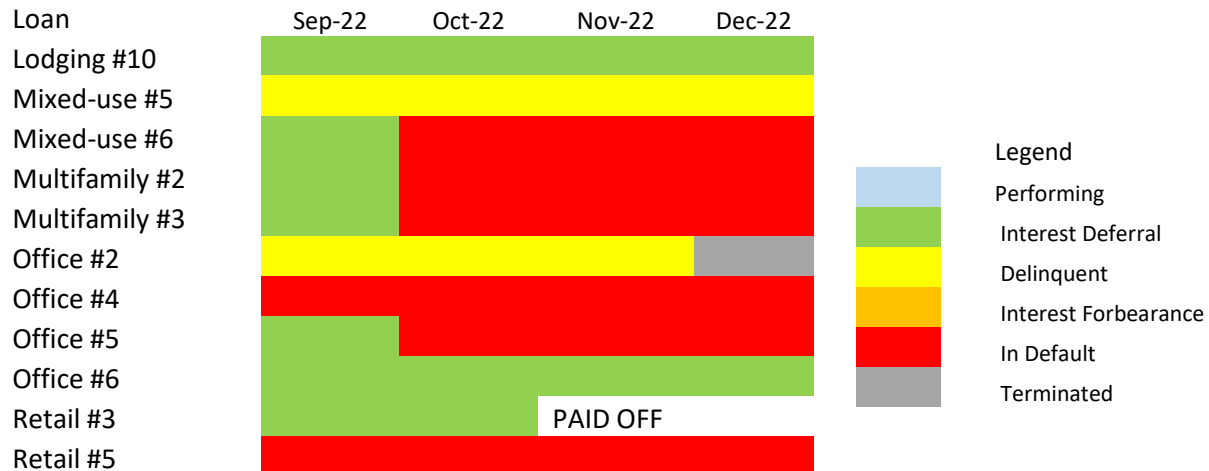
Total commitment volume for new loans was about \$1.7 billion, including some loans that initially funded in 3Q 2022 but were not reported to the index until 4Q. A total \$1.6 billion of principal was added for new and seasoned loans. Principal repayments totaled \$561 million.

On December 31, 2022 outstanding G-L 2 principal reached a new milestone, exceeding \$20 billion. Since inception, the index has tracked about \$50 billion of loans made on around \$300 billion of real estate assets.

### Credit Events

Chart 2 shows credit events reported by participants. Chart 2 includes ongoing and new credit events, based on loan statuses on October 1, 2022 and December 31, 2022. Loans that had credit events but became current, paid off or otherwise terminated in prior quarters are not shown.

Chart 2. G-L 2 Credit Event Tracker 4Q 2022



Source: Gilberto-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 2.



# GILIBERTO-LEVY

## COMMERCIAL REAL ESTATE DEBT INDEXES

Table 1. G-L 2 Credit Event Incidence 4Q 2022

Loan Status	Incidence (% of UPB)	
	10/1/2022	12/31/2022
Interest Deferral or Forbearance	0.36%	0.20%
Delinquent	0.07%	0.01%
In Default	1.82%	1.81%
All Credit Events	2.25%	2.02%
Delinquent and Defaulted	1.89%	1.82%

Average Days Delinquent		
Delinquent Loans Only	435	270
Delinquent and Defaulted Loans	328	179

UPB Unpaid Principal Balance

Source: Gilberto-Levy

Table 1 reflects transitions that occurred during the quarter. Retail #3 paid off, including the full amount of deferred interest. Office #2 had been delinquent for nearly two years. Its value had been written down to under 1% of par, and the slight remaining value was written off completely. Its removal underpinned the steep drop in average days delinquent.

Several loans transitioned from interest deferral to default, with attendant reductions in value, and no defaulted loans were resolved. So why did the default incidence rate decline? Because new lending expanded the denominator for December 31. Using October 1 UPB as an alternative denominator shows a default-rate increase from 1.82% to 1.90%.

For comparison, the American Council of Life Insurance (ACLI) reported a 0.11% delinquency rate, which includes loans in the process of foreclosure, for commercial mortgages held by life insurance companies as of year-end 2022. For year-end 2021, the ACLI rate was 0.04% and G-L 2 defaults were 0.66% of UPB. It's interesting, albeit perhaps coincidental, that both measures nearly tripled from in 2022.