G-L 2 2Q 2023 Quarterly Review

June 21, 2023

G-L 2 Return Summary: 1Q 2022	Total Return
All Investments	1.10%
All Subordinate Positions	0.88%
Mezzanine Loans	1.93%
Leveraged Whole Loans	0.11%
*Other Sub. Debt **	-0.61%
Senior Loans	1.87%
Floating Rate	1.44%
Fixed Rate	-0.06%
Stabilized Assets	1.58%
Bridge / Transitional Assets	-0.29%
Value-add Projects	2.18%

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

Source: Giliberto-Levy

Note: Several loans have all the 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 2023 total return was 1.10% compared with last quarter's 1.83%.[1]
    - Income return was 5 basis points (bp) higher at 2.35%. G-L 2 currently is about 87% floating-rate loans, as measured by unpaid principal balance. When short-term rates such as SOFR increase, so does index income. For comparison, 2Q 2022 income return was 40 bp lower at 1.95%.
    - Capital value return was negative, coming in at -1.25%. In addition, revisions to 4Q 2022 information caused that quarter's capital value result to change from near zero to -47 bp.
        - Delinquencies and defaults did not change materially; see Credit Events below.
        - Two mark-to-market actions occurred: (1) some lenders marked floating-rate spreads to market, which led to declines in loan values because spreads were higher than when the loans were originated and (2) reductions to collateral values that, in some cases, filtered through and negatively affected the likelihood of receiving full repayment of principal at maturity. (Note that most fixed-rate loans are marked to market when Treasury yields change.)
        - The large revision to 4Q 2022 arose because some lenders re-assessed year-end 2022 valuations for reasons just cited. G-L adjusted index database and returns accordingly.
- Rolling 12-month total return as of March 31, 2023 was 7.0% (see Chart 1).

[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.

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

Source: Giliberto-Levy

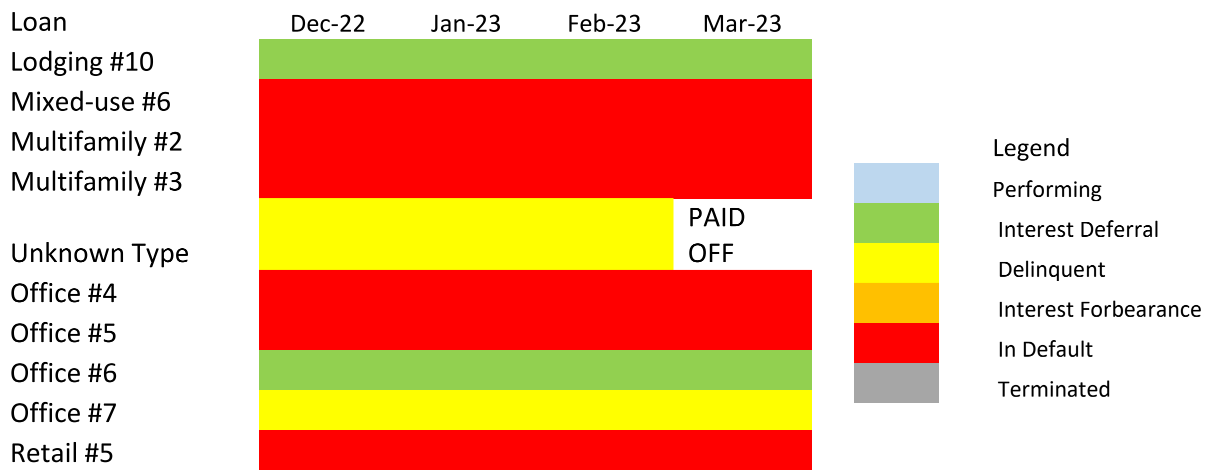
Loan fundings during the quarter added up to $851 million, about half the amount funded in 4Q 2022. Funding includes both initial disbursements for loans originated in the quarter and additional advances on seasoned loans. Commitment activity also was considerably lower at about $500 million compared with about $1.7 billion in the prior quarter.[2] Principal repayments totaled $239 million.

[2] A portion of the total was from loans made in 3Q 2022 that were reported late.

Credit Events

Chart 2 shows credit events reported by participants. Chart 2 includes ongoing and new credit events, based on loan statuses on January 1, 2023 and March 31, 2023. 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 1Q 2023



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 the cases shown in Chart 2.

Table 1. G-L 2 Credit Event Incidence 1Q 2023

	Incidence (% of UPB)	
	1/1/2023	3/31/2023
Loan Status		
Interest Deferral or Forbearance	0.21%	0.20%
Delinquent	0.03%	0.03%
In Default	1.92%	1.82%
All Credit Events	2.16%	2.05%
Delinquent and Defaulted	1.95%	1.85%
	Average Days Delinquent	
Delinquent Loans Only	30	120
Delinquent and Defaulted Loans	129	228

UPB Unpaid Principal Balance

Source: Giliberto-Levy

Table 1 reflects transitions that occurred during the quarter. The only change was that a loan for which the property type was not specified went delinquent at year-end 2022 and paid off (in full) in March 2023.

Lenders have mentioned that some defaulted loans are being restructured.

Average marks as of March 31, 2023 on loans with credit events were 87.2, 69.2 and 58.1 for interest deferral, delinquent and in default, respectively.

G-L 2 High-Yield Real Estate Debt Symposium

Our annual event was held online on June 20, 2023. A recording is available, along with slides used in the presentation. Please contact Julia Grant (jgrant@jblevyco.com) if you would like access.