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COMMERCIAL REAL ESTATE DEBT INDEXES

G-L 2 2Q 2023 Quarterly Review

September 22, 2023

G-L 2 Return Summary: 2Q 2023

	Total Return
All Investments	1.99%
All Subordinate Positions	2.02%
<i>Mezzanine Loans</i>	1.83%
<i>Leveraged Whole Loans</i>	2.53%
<i>Other Sub. Debt *</i>	0.65%
Senior Loans	1.90%
Floating Rate	2.27%
Fixed Rate	1.04%
Stabilized Assets	1.73%
Bridge / Transitional Assets	2.49%
Value-add Projects	1.74%

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

Source: Gilberto-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.



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G-L 2 Index Performance

- 2Q 2023 total return for the Gilberto-Levy High-Yield Real Estate Debt Index or G-L 2 was 1.99%, an increase from 1.10% posted in 1Q 2023.¹
 - As of June 30, 2023 about 87% of the total outstanding principal balance is floating rate. As a result, income return generally follows movements in short-term rates such as SOFR and LIBOR. This quarter's income return came in at 2.46%, up about 10 basis points (bp) from the prior quarter.
 - Capital value return was -47 bp, a less severe decline than that recorded in 1Q 2023.
 - Delinquencies and defaults increased; see Credit Events below.
 - Fixed-rate loans experienced negative marks to market as U.S. Treasury yields rose.
 - Floating-rate loans were affected by both spread marks, which were not universally applied by all lenders, and continued pressure on collateral values.
- Rolling 12-month total return as of June 30, 2023 was 7.1% (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.



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



Source: Gilberto-Levy

Lending activity continued to soften. Participants committed about \$280 million in new loans, down from \$500 million in 1Q. Most of those commitments were funded during the quarter. New loan fundings were outpaced by roughly \$450 million of additional fundings on loans made prior to 2Q.

Borrowers repaid about \$420 million during the quarter. More than 90% of this was on loans that paid off completely.



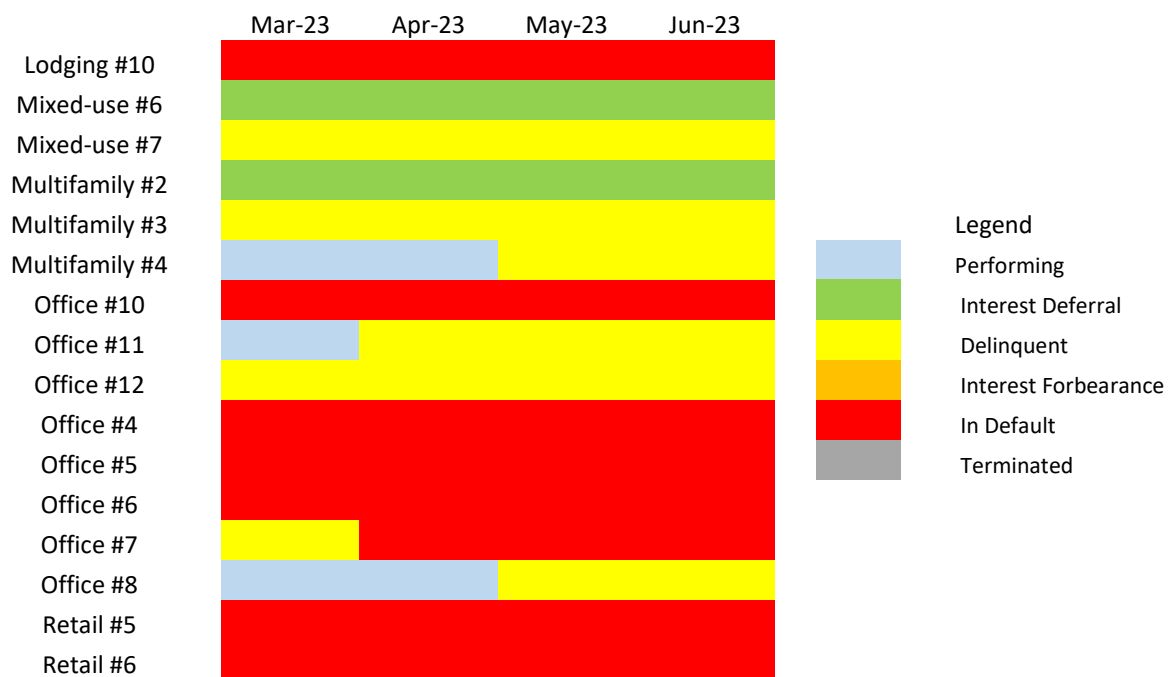
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Credit Events

Chart 2 shows credit events reported by participants. Chart 2 includes ongoing and new credit events, based on loan statuses on April 1, 2023 and June 30, 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 2Q 2023



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 the cases shown in Chart 2.



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

	Incidence (% of UPB)	
	4/1/2023	6/30/2023
Loan Status		
Interest Deferral or Forbearance	0.20%	0.20%
Delinquent	0.33%	0.40%
In Default	1.82%	2.08%
 All Credit Events	 2.36%	 2.69%
Delinquent and Defaulted	2.16%	2.48%
 Average Days Delinquent		
Delinquent Loans Only	105	128
Delinquent and Defaulted Loans	155	195

UPB Unpaid Principal Balance

Source: Gilberto-Levy

Table 1 reflects transitions that occurred during the quarter. Not surprisingly, office loans reflect stresses in the market. After a long positive run, multifamily too is showing signs of weakening.

As we discussed in our 2023 G-L 2 investor event, stress builds for some time before realized credit losses peak. In addition to the dollar-based incidence in Table 1, we also looked at the number of loans, as a percentage of total loan count, which are delinquent / defaulted. This incidence measure increased from 2.74% on April 1 to 3.47% on June 30. It is another telling indicator of increasing market stress.

We get asked about loan values fairly often. This quarter, we conducted a more in-depth analysis. As of June 30, 2023 loans that were not flagged as having a credit event were marked at 99.1 and 96.5 (with par being 100) for floating and fixed-rate loans, respectively. Loans with deferred interest were marked at 87.2 on average, delinquent loans at 84.5 and defaulted loans at 58.1.



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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.