GILIBERTO-LEVY
COMMERCIAL REAL ESTATE DEBT INDEXES

G-L 2 4Q 2023 Quarterly Review

April 1, 2024

G-L 2 Return Summary: 4Q 2023

	Total Return
All Investments	1.62%
All Subordinate Positions	1.74%
Mezzanine Loans	1.21%
Leveraged Whole Loans	2.01%
*B-Notes **	3.62%
*Other Sub. Debt ***	-1.91%
Senior Loans	1.29%
Floating Rate	2.12%
Fixed Rate	0.14%
Stabilized Assets	0.84%
Bridge / Transitional Assets	2.39%
Value-add Projects	0.96%

* This category includes all subordinate tranches of a senior loan

** Second mortgages and preferred equity

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.

G-L 2 Index Performance

- The Giliberto-Levy High-Yield Real Estate Debt Index or G-L 2 posted a 1.62% total return in 4Q 2023, rebounding from 0.96% (revised) reported for 3Q.[1]

- Income continues to be the bright spot. With floating-rate loans at nearly 85% of the total outstanding principal balance, continued high short-term rates have powered returns solidly above 2% per quarter. In fact, for calendar-year 2023, income return was almost 10%, fully delivering on the high yield label.

- It was no surprise that the index's capital value return was negative again, coming in at minus 78 basis points (bp). Floating-rate loans experienced about a 40-bp decline, while fixed-rate deals were hit with a 160-bp drop.

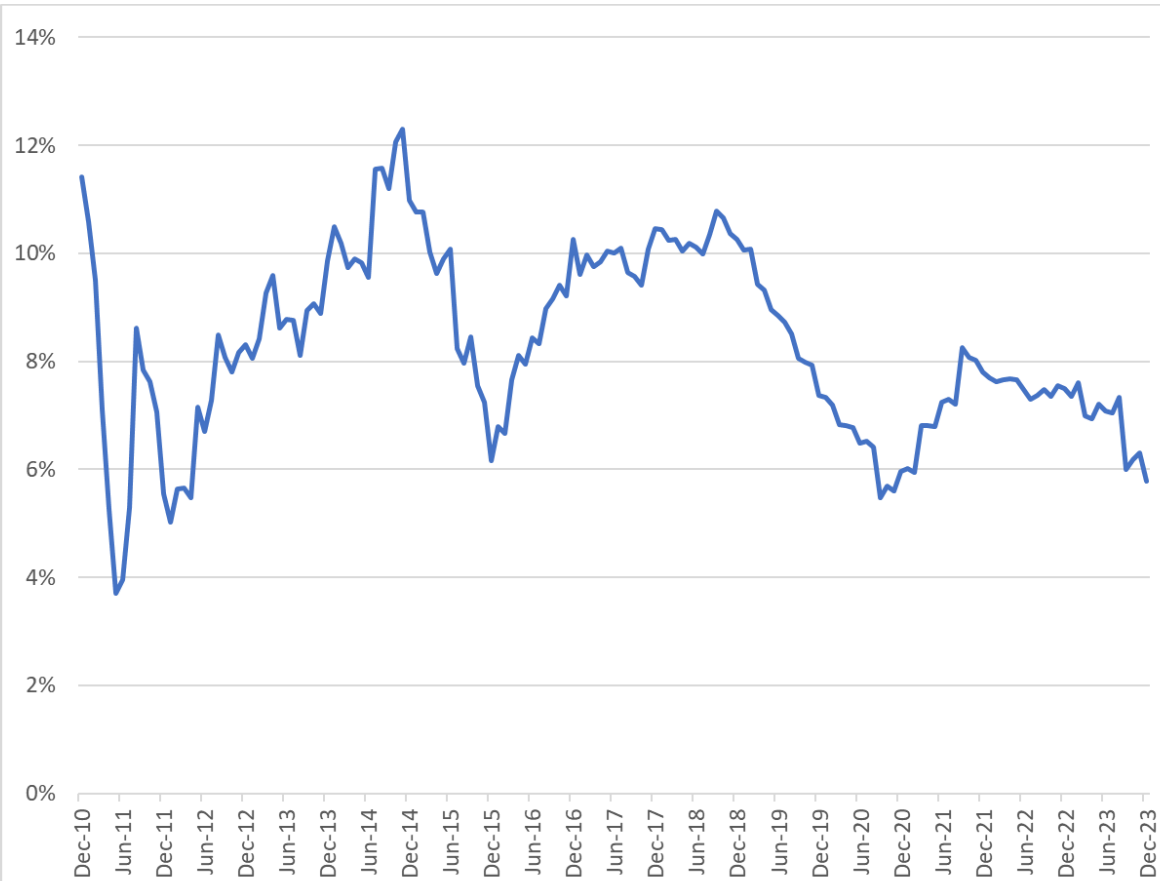
    - We attribute G-L 2's capital value declines to a combination of credit spread increases and lower collateral value assessments, which in some cases indicates lenders may not be repaid in full.

    - It's worth noting that Treasury yields declined quite a bit in 4Q. That powered strong returns to investment-grade fixed income. Our G-L 1 senior loan index, which is 100% fixed rate, registered 4.6% total return, for example.

- Rolling 12-month total return as of December 31, 2023 was 5.78% (see Chart 1). With a nearly 10% income return for the year, the implied capital value decrease was over 400 bp. This contrasted sharply with other U.S. commercial real estate debt: both G-L 1 and Bloomberg's CMBS index showed price gains for the full year. In addition, intermediate-term corporate high-yield (fixed-rate) bonds generated a low double-digit return, according to Bloomberg data.

[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

Capital Activity

Participants reported about $860 million in new loan commitments, which was similar to 3Q 2023's pace.

Approximately $670 million of those new commitments funded in 4Q; the remainder is expected to be disbursed later in 2024. Seasoned loans received $335 million of additional principal advances. However, nearly $750 million was repaid on seasoned loans. Consequently, there was a net increase of roughly $250 million in capital deployed. However, about 80% of this capital came from note-on-note financing, i.e., funds obtained from third parties that was used by investment managers to leverage positions. This was in marked contrast to 3Q when deleveraging was the norm.

Credit Events

We doubt anyone is surprised that credit event incidence increased during the fourth quarter of 2023 (Table 1).[2]

Table 1. G-L 2 Credit Event Incidence 4Q 2023

	$ Incidence (% of UPB)		**Incidence (% of Loan Count)**	
	10/1/2023	12/31/2023	10/1/2023	12/31/2023
Loan Status				
Interest Deferral	0.20%	0.68%	0.20%	0.73%
Delinquent	0.40%	0.40%	1.19%	1.22%
In Default	2.44%	2.82%	3.10%	3.41%
All Credit Events	3.04%	3.90%	4.49%	5.35%
Delinquent and Defaulted	2.84%	3.22%	4.29%	4.62%
	Average Days Delinquent			
Delinquent Loans Only	168	246		
Delinquent and Defaulted Loans	303	374		

UPB is Unpaid Principal Balance

Source: Giliberto-Levy

[2] In Table 1, UPB columns show credit event statistics for the "average" dollar invested in the index. Incidence is the sum of UPB for a particular event type divided by the total UPB reported for the index. The count approach shows the same statistics for the "average" loan. Reported percentage is the number of loans experiencing a credit event divided by the total number of active loans.

Table 2 provides incidence rates by property sector for distressed, non-performing loans (NPL). Loans with interest deferrals or forbearance are excluded.

Table 2. G-L 2 Non-performing Loan Incidence by Sector 4Q 2023

	$ Incidence (% of UPB)		**Incidence (% of Loan Count)**	
	10/1/2023	12/31/2023	10/1/2023	12/31/2023
Property Type				
Office	4.41%	4.40%	10.00%	9.90%
Multifamily	0.12%	0.12%	2.24%	2.29%
Retail	NM	NM	NM	NM
Industrial	0.00%	0.00%	0.00%	0.00%
Lodging	0.00%	7.92%	0.00%	3.85%
Mixed-use	6.83%	7.14%	11.76%	12.50%
Other	0.00%	0.00%	0.00%	0.00%
All Types	2.84%	3.22%	4.29%	4.62%

UPB is Unpaid Principal Balance

NM is Not Meaningful. There is one large, defaulted retail asset that results in a high UPB incidence number, which we believe is misleading. That loan is included in the All Types row.

Source: Giliberto-Levy

Valuation

As noted above, valuations generally fell in 4Q 2023. The average performing loan's value was 96.8 as of December 31, 2023 (see Table 3) compared with 97.5 at the end of 3Q.[3] NPL values declined roughly 12%, falling from 61.2 in Q3 to 53.7 in Q4.

Table 3. G-L 2 Loan Values by Property Sector as of December 31, 2023

Property Type	Performing Loans	NPL
Office	91.5	43.6
Multifamily	99.7	58.8
Industrial	99.7	NA
All Other	97.3	69.8
All Types	96.8	53.7

Values shown are percentages of unpaid principal balances

NPL is Non-performing Loans

Source: Giliberto-Levy

Table 4. G-L 2 Loan Values by Capital Source as of December 31, 2023

Capital Source	Office	Multifamily	Industrial	All Other inc. Retail
Closed-end Commingled Fund	89.6	102.5	100.1	97.1
Open-End Commingled Debt Fund	91.2	99.5	99.6	97.6
Separate Account	85.7	99.9	100.0	99.8

Source: Giliberto-Levy

[3] As a reminder, values are provided by participants; they are not calculated by G-L. We do check for and follow up on items that our system flags as outliers or that show inconsistencies with prior submissions, but we do not conduct audits.

Concluding Thoughts

Lenders are pursuing diverse strategies to deal with loans that have or might face challenges.

In the senior loan arena term extensions, sometimes in exchange for some principal paydown, are taking place. Other maturing senior loans are being refinanced as short-term floating rate deals, possibly with limited extension options. Negotiated foreclosure is another path for loans at or near maturity that are unlikely to qualify for new financing.

Anecdotally, we see examples where subordinate lenders make protective advances to service senior debt. Another avenue is for one subordinate position to buy out other pieces of the debt stack, likely with the aim of simplifying workout negotiations.

Of course one could take no action, hoping that things will get better. Eventually they will, but as a senior credit officer said to the author when the global financial crisis hit "Hope is not a strategy."

