



GILIBERTO-LEVY

COMMERCIAL REAL ESTATE DEBT INDEXES

G-L 2 2Q 2024 Quarterly Review

September 22, 2024

G-L 2 Return Summary: 2Q 2024

	Total Return
All Investments	1.07%
All Subordinate Positions	1.89%
<i>Mezzanine Loans</i>	2.27%
<i>Leveraged Whole Loans</i>	2.14%
<i>B-Notes *</i>	-0.21%
<i>Other Sub. Debt **</i>	0.73%
Senior Loans	-1.01%
Floating Rate	1.24%
Fixed Rate	0.29%
Stabilized Assets	1.87%
Bridge / Transitional Assets	0.99%
Value-add Projects	0.37%

* This category includes all subordinate tranches of a senior loan

** Second mortgages and preferred equity

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

G-L 2 Index Performance

- The Gilberto-Levy High-Yield Real Estate Debt Index or G-L 2 posted 1.07% total return in 2Q 2024, compared with 1.95% (revised) reported for 1Q 2024.¹
- Income generated 2.21% return for the quarter. This was lower than the 2.56% income return in 1Q 2024. Cash interest, which is the largest component of income return, held steady at about 2.15%. Accrued interest, other income – mostly fees – and expenses charged directly to loans are the other sources of income return. These categories, especially “other”, tend to fluctuate even when base interest rates are fairly constant.
- Capital value return once again was in the red at -1.14%. This outcome reflected continued deterioration in loan values.
- Rolling 12-month total return as of June 30, 2024 was 6.02% (see Chart 1 on next page).
- More loans entered non-performing status (see Credit Events section).
- Valuations of non-performing loans declined (see Valuation section).

G-L 2 High-Yield Real Estate Debt Symposium

Our annual event was held online on June 12, 2024. A recording is available, along with slides used in the presentation. Please contact Julia Grant (jgrant@jblevyco.com) if you would like access.

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.



GILIBERTO-LEVY

COMMERCIAL REAL ESTATE DEBT INDEXES

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



Source: Gilberto-Levy

Capital Activity

Last quarter, we reported on net capital flows into high-yield CRE lending. We refined and re-ran this analysis when compiling the 2Q 2024 update. Chart 2 shows net total capital and net equity capital flows since the start of 2019. Total is the sum of all principal lent, for both new and seasoned loans, minus all cash repayments of principal. Net equity flow then adds in changes in the use of leverage to finance positions. (Our 1Q 2024 analysis used net equity flow.)

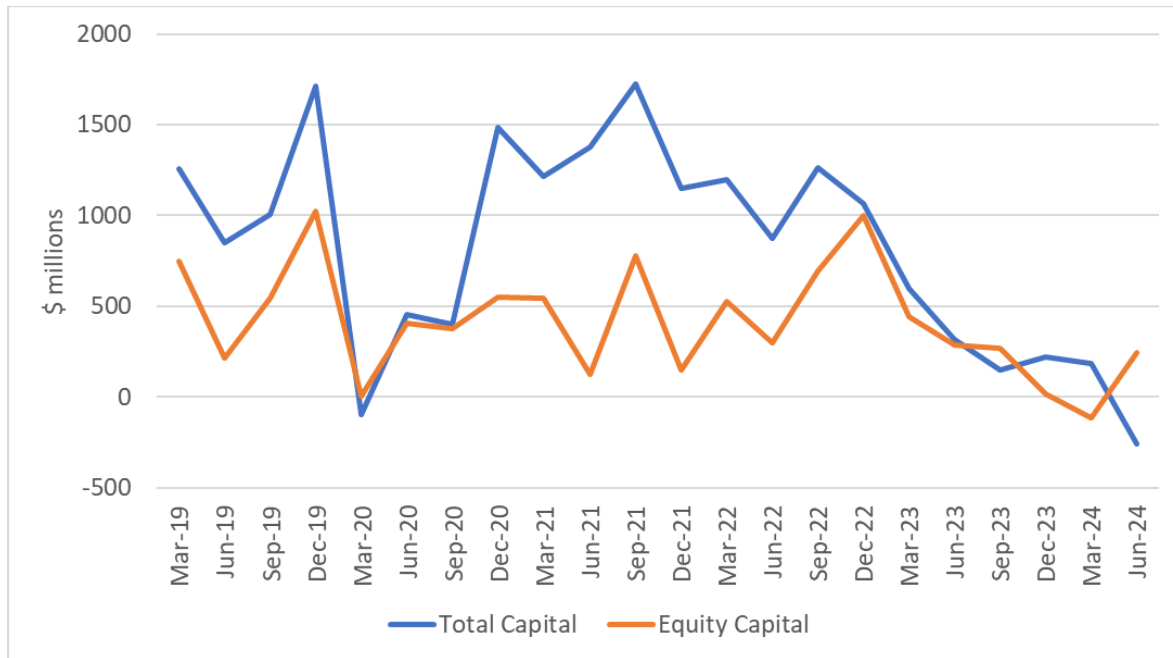
An excess of repayments over new lending generated a negative total capital flow for 2Q 2024. The resulting cash inflow fostered some deleveraging of positions that had been financed. This explains the uptick in equity capital flow in 2Q 2024.



GILIBERTO-LEVY

COMMERCIAL REAL ESTATE DEBT INDEXES

Chart 2. Quarterly G-L 2 Capital Flow Into High-yield CRE Investments



Source: Gilberto-Levy

As a reminder, our report tracks flows to and from real estate assets and the leveraging and de-leveraging of positions. It does not measure flows into or out of investor vehicles such as funds and separate accounts.



GILIBERTO-LEVY

COMMERCIAL REAL ESTATE DEBT INDEXES

Credit Events

There was a divergence in the two measures we use for credit-event incidence (see Table 1).² On a dollar basis, the rate went down, but the rate increased on a count or frequency basis. What happened?

First, we can ignore interest deferrals: incidence rates were basically unchanged over the quarter. All significant movement was in non-performing loans (NPLs), those that were either delinquent or in default.

Table 1. G-L 2 Credit Event Incidence 2Q 2024

	\$ Incidence (% of UPB)		Incidence (% of Loan Count)	
	4/1/2024	6/30/2024	4/1/2024	6/30/2024
Loan Status				
Interest Deferral	0.67%	0.69%	0.68%	0.69%
Delinquent	0.36%	0.47%	1.13%	1.15%
In Default	1.42%	0.60%	3.40%	3.91%
All Credit Events	2.45%	1.75%	5.22%	5.75%
Delinquent and Defaulted	1.78%	1.06%	4.54%	5.06%
Average Days Delinquent				
Delinquent Loans Only	300	246		
Delinquent and Defaulted Loans	388	472		

UPB is Unpaid Principal Balance

Source: Gilberto-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.



GILIBERTO-LEVY

COMMERCIAL REAL ESTATE DEBT INDEXES

Several distressed loans started the quarter as uncured maturity defaults. Full principal amounts remained outstanding until lenders formally removed loans from their books during the quarter. As a result, total NPL principal went down, causing a reduction in the dollar incidence rate. However, each loan's value had been written down significantly previously, so these default realizations had virtually zero effect on this quarter's G-L 2 returns. (As an aside, several of these loans were on office buildings and loss severity was nearly 100%.)

Those loans also came out of the NPL count, but more loans became delinquent or went into default, which caused NPL count and the incidence by count rate to increase.

Table 2 provides incidence rates by property sector for NPLs. It is clear that the bottom-line increase in incidence by count was caused by – we are shocked – additional office loans running into trouble.

Table 2. G-L 2 Non-performing Loan Incidence by Sector 2Q 2024

Delinquency and Default Rates by Property Type

Property Type	\$ Incidence (% of UPB)		Incidence (% of Loan Count)	
	4/1/2024	6/30/2024	4/1/2024	6/30/2024
Office	4.81%	2.41%	10.89%	13.54%
Multifamily	0.36%	0.38%	2.84%	2.88%
Retail	1.37%	1.40%	11.11%	11.11%
Industrial	0.00%	0.00%	0.00%	0.00%
Lodging	7.32%	3.25%	3.57%	3.70%
Mixed-use	7.28%	7.47%	12.50%	12.50%
Other/Unknown	0.13%	0.14%	1.35%	1.37%
All Types	1.78%	1.06%	4.54%	5.06%

UPB is Unpaid Principal Balance

Source: Gilberto-Levy



GILIBERTO-LEVY

COMMERCIAL REAL ESTATE DEBT INDEXES

Valuation

The average reported value of performing loans held steady during 2Q 2024.³ NPL values declined again, having averaged 53.7 at the end of Q4 2023 and 51.5 as of March 31, 2024 (see Table 3).

Table 3. G-L 2 Loan Values by Property Sector as of June 30, 2024

Property Type	Performing Loans	NPL
Office	91.3	43.8
Multifamily	98.7	55.1
Retail	97.8	58.8
Industrial	98.8	NA
All Other	97.6	58.4
All Types	96.9	50.3

Values shown are percentages of unpaid principal balances

NPL is Non-performing Loans

Source: Gilberto-Levy

Concluding Thoughts

A long-anticipated Federal Reserve rate cut materialized on September 18, 2024. The 50-basis point move was fully reflected in short-term interest rates, such as one-month SOFR, almost immediately. About 85% of G-L 2 loans are pegged to either SOFR or another rate that moves in lockstep with SOFR. Consequently, G-L 2 interest payments will decline.

As noted above, cash interest produces about 2.15% quarterly return, or 8.60% annually. That will move closer to 8%. The effect will be more apparent in 4Q 2024 results. A caveat: if delinquency and defaults increase substantially, cash interest payments will suffer.

Over time, lower intermediate and long-term rates will help lift performing asset values. We think this effect will initially be muted as investors wait to see if the Fed really did stick a “soft landing.”

³ Values are provided by participants; they are not calculated by G-L. We 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.