GILIBERTO-LEVY
COMMERCIAL REAL ESTATE DEBT INDEXES

G-L 2 3Q 2024 Quarterly Review

December 26, 2024

G-L 2 Return Summary: 3Q 2024

	Total Return
All Investments	2.53%
All Subordinate Positions	2.48%
Mezzanine Loans	2.33%
Leveraged Whole Loans	2.40%
*B-Notes and Similar **	2.34%
*Other Sub. Debt ***	7.21%
Senior Loans	2.63%
Floating Rate	2.33%
Fixed Rate	3.58%
Stabilized Assets	1.84%
Bridge / Transitional Assets	2.27%
Value-add Projects	2.44%

* This category includes all subordinate tranches of a senior loan

** Second mortgages and preferred equity

Source: Giliberto-Levy

Note: Several loans have data needed to generate investment returns but have not yet provided categorization information. 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 2.53% total return in 3Q 2024, compared with 1.06% (revised) reported for 2Q 2024.[1]

- Income generated 2.78% return for the quarter, handily exceeding 2Q's 2.20% income return. Each income component -- cash interest, accrued interest, other income and expenses – increased.[2]

- Capital value return continued to be negative at -25 basis points (bp).

    - An interesting, but not unexpected, outcome this quarter was that fixed-rate loans posted a 1.33% *increase* in capital values due to lower interest rates.
    - In contrast, floating-rate deals took a 56-bp hit.

- Rolling 12-month total return as of September 30, 2024 was 7.50% (see Chart 1 on next page).

- Loans entering non-performing status were roughly matched by loans exiting the index through default terminations (see Credit Events section).

- Valuations of non-performing loans continued to decline (see Valuation section).

G-L 2 Performance Attribution

We have developed and are beta testing return attribution reports. If your organization contributes data, you should have received your report for 2Q 2024; 3Q 2024 reports are being prepared. If you would like to discuss these tools and what features would be useful to you, please send an email to michaelg@smgiliberto.com.

[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.
[2] Increased expenses lower income return, of course. However, they were so slight, less than 1 basis point, that the effect was negligible.

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

Source: Giliberto-Levy

Capital Activity

For this quarter's report, we tweaked how we illustrate capital activity. Rather than showing dollar amounts, activity now is shown as a percentage of the outstanding unpaid principal balance (UPB) at the start of a quarter (see Chart 2). We also extended the analysis to include more historical data.

For each quarter "total capital" equals new borrowings minus principal repayments, and "equity capital" equals total capital adjusted for changes in the net amount of third-party debt used to finance investments.

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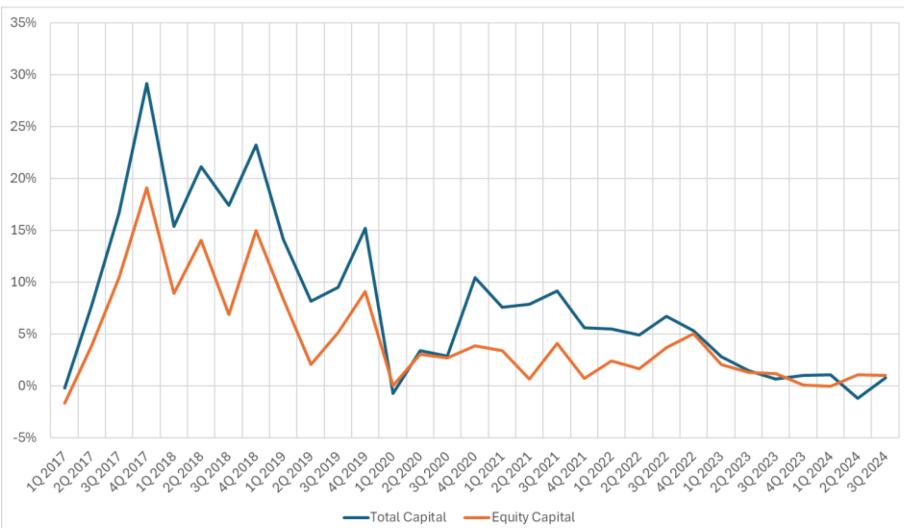
Chart 2. Quarterly G-L 2 Net Capital Flow Into High-yield CRE Investments

As a percentage of unpaid principal balance outstanding at the start of the quarter



Source: Giliberto-Levy

Quarterly net capital flows have, with only a few exceptions, been positive since 2017. Tremendous growth occurred up to the onset of the COVID pandemic in early 2020. Much of this was due to the entry and expansion of open-end debt funds.

Lending picked up as the economy recovered post COVID, then settled back when interest rates rose. In recent years leverage usage has declined. (Financing on leveraged loans averaged 70% of principal balance as of September 30, 2024.)

As a reminder, our report tracks flow 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.

Credit Events

Unlike most recent quarters, we saw only a modest uptick in credit effects in 3Q 2024 (see Table 1).[3] We reported last quarter that several defaulted loans terminated, which shrank incidence rates. This quarter, loans moving from performing to non-performing status roughly balanced out removal of defaulted loans. That's what caused incidence by loan count to be flat. However, on a dollar basis, incidence increased: there was a 25-bp shift in non-performing loans (NPLs), which are those delinquent and in default.

Table 1. G-L 2 Credit Event Incidence 3Q 2024

	$ Incidence (% of UPB)		**Incidence (% of Loan Count)**	
	7/1/2024	9/30/2024	7/1/2024	9/30/2024
Loan Status				
Interest Deferral	0.71%	1.27%	0.70%	0.93%
Delinquent	0.48%	0.46%	1.16%	0.93%
In Default	0.34%	0.60%	2.78%	3.01%
All Credit Events	1.53%	2.34%	4.64%	4.86%
Delinquent and Defaulted	0.82%	1.07%	3.94%	3.94%
	Average Days Delinquent			
Delinquent Loans Only	246	315		
Delinquent and Defaulted Loans	468	537		

UPB is Unpaid Principal Balance

Source: Giliberto-Levy

[3] 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 NPLs. Retail statistics are skewed, as this property sector is only about 1% of G-L 2 value. One small loan was in default. In 3Q another larger loan also went into default. That drove the seemingly substantial increase in dollar incidence.

Table 2. G-L 2 Non-performing Loan Incidence by Sector 3Q 2024

Commented [MG1]: The totals in the table do not agree with the prior table.

Commented [MG2R1]: Fixed

	$ Incidence (% of UPB)		**Incidence (% of Loan Count)**	
	7/1/2024	9/30/2024	7/1/2024	9/30/2024
Property Type				
Office	1.17%	0.90%	8.79%	7.78%
Multifamily	0.38%	0.45%	2.90%	2.96%
Retail	1.84%	50.62%	12.50%	25.00%
Industrial	0.00%	0.00%	0.00%	0.00%
Lodging	3.64%	3.55%	4.17%	4.17%
Mixed-use	7.47%	8.36%	12.50%	12.50%
Other/Unknown	0.13%	0.11%	1.19%	1.10%
All Types	0.82%	1.07%	3.94%	3.94%

UPB is Unpaid Principal Balance

Source: Giliberto-Levy

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Valuation

Average reported values of performing loans slightly increased in 3Q 2024, moving up to 95.6 from 94.3 as of June 30, 2024 (see Table 3).[4] We attribute some of this to capital value appreciation posted by fixed-rate deals. NPL values declined again, having averaged 50.3 at the end of Q2 2024.

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

Property Type	Performing Loans	NPL
Office	90.4	34.1
Multifamily	96.6	55.1
Retail	97.4	57.7
Industrial	97.5	NA
All Other	97.6	55.2
All Types	95.6	45.5

Values shown are percentages of unpaid principal balances

NPL is Non-performing Loans

Source: Giliberto-Levy

Concluding Thoughts

In 3Q 2024, on both dollar amount and count bases, more new loans were made than were repaid and terminated in G-L 2. This is consistent with an increasingly constructive view on U.S. commercial property. That said, working through existing problem loans will continue to occupy lenders time in 2025, and new problem loans will crop up, especially at maturity.

After the 4Q 2024 index is produced, we will update G-L 2 credit loss history. We expect a higher annual loss than the 60 to 65 bp that was recorded in both 2022 and 2023.

[4] Participants provide values; 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.