



GILBERTO-LEVY

COMMERCIAL REAL ESTATE DEBT INDEXES

G-L 2 4Q 2024 Quarterly Review

March 20, 2025

G-L 2 Return Summary: 4Q 2024

	Total Return
All Investments	1.90%
All Subordinate Positions	2.05%
<i>Mezzanine Loans</i>	2.03%
<i>Leveraged Whole Loans</i>	2.27%
<i>B-Notes and Similar *</i>	0.20%
<i>Other Sub. Debt **</i>	3.17%
Senior Loans	1.48%
Floating Rate	2.03%
Fixed Rate	1.19%
Stabilized Assets	1.94%
Bridge / Transitional Assets	2.36%
Value-add Projects	1.85%

* This category includes all subordinate tranches of a senior loan

** Second mortgages and preferred equity

Source: Gilberto-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 the G-L 2 total return.



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G-L 2 Hits a Milestone!

- With 2024 results tabulated, the Gilberto-Levy High-Yield Real Estate Debt Index or G-L 2 now provides 15 years of monthly performance data.
- Tracks more than 1200 loans
 - Total principal exceeds \$70 billion
 - Underlying collateral estimated at \$355 billion
- We expect significant growth from participants who have joined the index but are still being onboarded. Several have already indicated they will provide historical data in addition to reporting current and future loans.

G-L 2 Index Performance

- The G-L 2 generated 1.90% total return in 3Q 2024, compared with 1.77% (revised) reported for 3Q 2024.¹
- Income yielded 2.66% for the quarter, coming down a little from 3Q's 2.75% income return. Cash interest increased, but accrued interest was negative. What occurred was that some previously accrued interest was paid in cash and, as a result, removed from accrual.
- Capital value return remained in the red at -76 basis points (bp).
 - As Treasury yields rose, fixed-rate loans in G-L 2 lost 1.26%. This represented a giveback of 3Q's capital gain.
 - Floating-rate investments fell 71 bp.
- Calendar-year 2024 total return was 6.41% (see Chart 1 on next page). This outpaced 2023's 5.36%.
- Credit event incidence was roughly flat during the quarter (see Credit Events section).
- Loan values declined due to fixed rate deals being marked to market and continued erosion of non-performing loan values (see Valuation section).

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

Capital Activity

The dampening effect of the Fed's interest rate tightening, which began in 2022, is plain: Net capital flows have hovered around zero for several quarters (see Chart 2).²

² "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.)

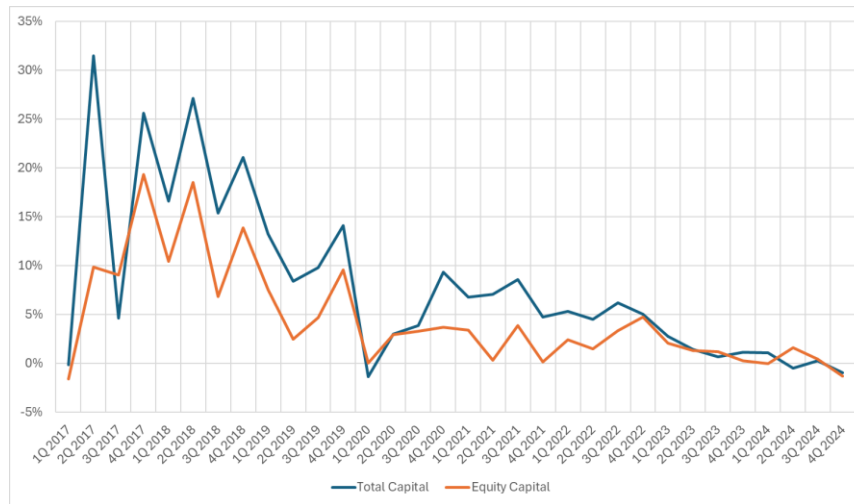


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Chart 2. Quarterly G-L 2 Net Capital Flow Into High-yield CRE Investments

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



Source: Gilberto-Levy

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

The incidence of credit events appeared to stabilize in 4Q 2024 (see Table 1).³ This is consistent with property value trends that have been reported for various measures such as the NCREIF Property Index.

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.



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However, we think it is too soon to expect a near-term rebound in loan values. An uncertain U.S. economic outlook, particularly one with potentially higher volatility, is one factor. Another is that after a significant downturn in property values a full clean-up of distressed loans takes time to play out, often requiring several years.

Table 1. G-L 2 Credit Event Incidence 4Q 2024

	\$ Incidence (% of UPB)		Incidence (% of Loan Count)	
	10/1/2024	12/31/2024	10/1/2024	12/31/2024
Loan Status				
Interest Deferral	1.22%	1.24%	0.91%	0.90%
Delinquent	0.21%	0.26%	0.45%	0.45%
In Default	1.86%	1.91%	4.32%	4.28%
All Credit Events	3.29%	3.40%	5.68%	5.63%
Delinquent and Defaulted	2.07%	2.17%	4.77%	4.73%
Average Days Delinquent				
Delinquent Loans Only	120	120		
Delinquent and Defaulted Loans	500	563		

UPB is Unpaid Principal Balance

Source: Gilberto-Levy

Table 2 provides incidence rates by property sector for non-performing loans (NPLs), which are the delinquent and defaulted investments summarized in Table 1. Retail is only about 1% of G-L 2 value; its high incidence rates arise because a couple distressed loans on a small base skew results.



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Table 2. G-L 2 Non-performing Loan Incidence by Sector 4Q 2024

	\$ Incidence (% of UPB)		Incidence (% of Loan Count)	
	10/1/2024	12/31/2024	10/1/2024	12/31/2024
Property Type				
Office	5.83%	6.49%	11.34%	11.58%
Multifamily	0.44%	0.47%	2.72%	2.70%
Retail	50.62%	50.65%	25.00%	25.00%
Industrial	0.00%	0.00%	0.00%	0.00%
Lodging	3.08%	3.18%	4.00%	3.85%
Mixed-use	8.36%	6.80%	11.76%	11.76%
Other/Unknown	0.13%	0.13%	1.33%	1.27%
All Types	2.07%	2.17%	4.77%	4.73%

UPB is Unpaid Principal Balance

Source: Gilberto-Levy

Valuation

Average reported values of performing loans decreased 4Q 2024, falling from 97.7 to 95.7 (see Table 3).⁴ Like 3Q, we attribute some of this to capital value movement for fixed-rate deals but in the opposite direction in 4Q. NPL values continued to erode. An increased number of office NPLs and added write-downs in that sector caused most of the change.

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.

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

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Table 3. G-L 2 Loan Values by Property Sector as of December 31, 2024

Property Type	Performing	
	Loans	NPL
Office	88.6	28.1
Multifamily	97.7	51.4
Retail	96.6	76.1
Industrial	98.8	NA
All Others	96.5	59.3
All Types	95.7	43.1

The values shown are percentages of unpaid principal balances

NPL is Non-performing Loans

Source: Gilberto-Levy

Concluding Thoughts

It is difficult to see where the U.S. economy might be heading. Consequently, assessing the investment landscape, never a simple task, is challenging. Does the Fed initiate more rate cuts, or does it stay on pause? What if inflation surges? What scenario is most constructive for commercial real estate?

Perhaps we'll have a clearer read over the next few months. In any case, we expect to have a robust conversation at our annual high-yield CRE debt symposium, which will be in June 2025. Keep an eye out for "Save the Date" announcements – we have not yet chosen a specific date – in your inbox.