

Blackstone Mortgage Trust Second Quarter 2024 Investor Call **July 24, 2024 at 9:00am ET**

Tim Hayes: Good morning and welcome, everyone, to Blackstone Mortgage Trust's second quarter 2024 earnings conference call. I am joined today by Tim Johnson, Chair of the Board of Directors, Katie Keenan, Chief Executive Officer, Tony Marone, Chief Financial Officer, and Austin Peña, Executive Vice President of Investments. This morning, we filed our 10-Q and issued a press release with a presentation of our results, which are available on our website and have been filed with the SEC.

I'd like to remind everyone that today's call may include forward-looking statements which are subject to risks, uncertainties and other factors outside of the company's control. Actual results may differ materially. For a discussion of some of the risks that could affect results, please see the Risk Factors section of our most recent 10-K. We do not undertake any duty to update forward-looking statements. We will also refer to certain non-GAAP measures on this call, and for reconciliations, you should refer to the press release and 10-Q. This audio-cast is copyrighted material of Blackstone Mortgage Trust and may not be duplicated without our consent.

For the second quarter, we reported a GAAP net loss of \$0.35 per share, while Distributable Earnings and Distributable Earnings prior to charge-offs were \$0.49 and \$0.56 per share, respectively. A few weeks ago, we paid a dividend of \$0.62 per share with respect to the second quarter. Additionally, our Board of Directors declared a dividend of \$0.47 per share with respect to third quarter and authorized a \$150 million common stock repurchase program. The dividend is payable on October 15th, 2024, to stockholders of record on September 30th, 2024.

Please let me know if you have any questions following today's call. With that – I'll now turn things over to Katie.

Katie Keenan: Thanks Tim. Since the onset of this credit cycle, we have strategically positioned BXMT to navigate a volatile period driven by the steep rise in interest rates and secular shift in office demand. Entering 2024, we saw the pillars of the recovery taking shape, with the stabilization of rates and thawing of capital markets. Greater transaction flow has created greater liquidity and greater transparency on reset values, accelerating repayments, resolutions, and in some cases reserves, all of which we saw this quarter. Portfolio resolutions, of course, impact earnings, but are a necessary transition point to move through the cycle and free up capital for reinvestment and rebuilding of earnings power. This remains our primary focus as we position BXMT to maximize stockholder value over the long term.

This quarter, we made significant progress. With a 90% performing portfolio at quarter-end, and the continued healing of the capital markets, much of our portfolio is well-positioned for refinancing. Through the first half of the year, we've collected \$1.7 billion dollars of repayments through a variety of takeout lender profiles. We see increased acquisition and financing activity broadly across the market, and while office liquidity remains challenged, it is re-emerging, with over \$700 million of office repayments year to date. And repayment momentum is accelerating. We've collected more repayments so far in July – over \$700 million – than we did for the entire second quarter, and we are tracking over \$1 billion of incremental repayments across nearly 20 individual loans.

And we see ongoing commitment from borrowers, supporting their assets where they continue to have equity value, even at today's reset valuations. To that end, in the last several months, we have closed on three major office modifications, in London and West LA, bringing in significant Borrower equity commitments totaling over \$100 million subordinate to our basis. We had 9 upgrades this quarter, mostly hospitality, industrial and multifamily loans on the way to refinancing. And of the \$5.1 billion of performing loans that reached a maturity or extension test in the first half – \$4.6 billion either repaid, satisfied their extension tests or were extended with new equity commitments or economics.

Multifamily and industrial loans are 99% performing, given favorable sector fundamentals. Credit issues remain concentrated in US office, which away from three pre-Covid hotel loans, represent virtually all the considerable

specific reserves we carry in book value. Altogether, we have specific reserves representing 29% of our impaired office assets, implying asset values down more than 50% from origination. And despite the substantial challenges in office, we are in a different environment today than we were last year. Our risk rated 1-2 office assets – 26% of our US office portfolio – are well-positioned for takeout with several assets currently in market for refi. Across most major US markets, availability levels are stabilizing. Leasing activity is up this quarter – in the US, in New York City, our largest market, and within our own portfolio. These dynamics do not preclude the need for capital structure resets to reflect today’s values, but they do lay the groundwork for more transparency, liquidity, and therefore, expedited resolutions.

Resolving challenged assets remains a key priority for the business. We provide no free options, and exercise remedies when it is in the best interest of our shareholders. This approach brings forward decision points, resulting in periods of loan non-performance, and in some cases reserves. But it also allows us to utilize our deep real estate expertise to maximize value and exit outcomes. This quarter, we sold a Brooklyn office building with no seller financing, 14% above our mark. We impaired this asset last year, collected on a guaranty, facilitated the execution of a de-tenanting plan we determined would maximize exit value, and ultimately completed a sale to recover 85% of our pre-impairment OPB. Through the first half of the year, we resolved 5 non-performing assets altogether, and we are on track for several more in the coming quarters.

While we have made significant progress, we expect near-term earnings to continue to be encumbered by assets on non-accrual as we work to maximize recovery. At the same time, we are highly focused on allocating capital to capture the historically attractive investment environment before us. Values have reset lower, affording a more attractive entry point. Emerging transaction activity is creating demand for new loans, while a pullback in bank capital has created a structural shift in the competitive landscape. Lending standards are therefore more conservative, and spreads are wider. And of course, base rates remain high, supporting strong all-in returns for lenders. We also see compelling valuations in our own capital structure, effectively buying into a largely-performing loan portfolio at a significant discount, which our Board has recently authorized through a \$150 million stock buyback plan.

Delivering current income continues to be an important priority for BXMT. But stockholder return is also well served by balancing current payout with optimization of book value and long-term earnings potential through our capital allocation decisions. As we’ve commented previously, our Board evaluates the dividend each quarter, focused on the longer-term earnings power of the business, considering a variety of factors including interest rates, a range of credit outcomes, and the market environment. With this in mind, our Board has declared a third quarter dividend of \$0.47 per share, which we believe reflects a sustainable level relative to long-term earnings power. While we are likely to have quarters where Distributable Earnings vary from this level depending on the timing of asset impairments and resolutions, we also see many upside scenarios over time. This adjustment allows us to strategically deploy more capital, generating incremental earnings, while still delivering continued current income yield, which at our reset dividend remains a favorable 10% on our closing price yesterday.

With green shoots emerging in the market, a more predictable macro outlook, and increasing transaction flow – coupled with our capital allocation strategy – we expect the second half of 2024 to be more active on the investment front. We have already gotten started, with our recent new origination and capital structure buyback activity. And more broadly within the Blackstone real estate debt platform, we have originated or acquired over \$8 billion in the last six months. Our continued position as a market leader affords us differentiated insight and access to new loan opportunities across products and geographies. With BXMT’s strong balance sheet position and continued repayments, we expect to capitalize on these dynamics more actively going forward, planting the seeds to enhance our overall earnings generation.

To that end, we are also constantly evaluating ways to innovate our business model and leverage our market presence to benefit our investors and clients. This quarter, we announced a partnership with M&T Realty Capital

to provide borrowers access to multifamily agency loan execution through M&T's Fannie Mae DUS and Freddie Mac Optigo lending platforms. This is an important evolution in BXMT's business model, adding the potential for capital-light, long-duration income over time, with essentially no incremental cost. And at the same time, it is a natural complement to our bridge multifamily lending business. Many of BXMT's \$10 billion of bridge multi loans have been refinanced by Fannie Mae and Freddie Mac over the years. We had six in July alone. And given Blackstone's vast multifamily portfolio, we have deep knowledge of market fundamentals. This partnership affords BXMT the ability to capitalize on our multifamily market presence and generate fee and servicing income, while partnering with the highly experienced team at M&T. While it will take time to accumulate a portfolio that drives meaningful earnings impact, we are excited about this investment in the long-term positioning of the BXMT business.

Looking out to the back half of the year, we are encouraged by the direction of travel. Inflation is decelerating, with lower rates the base case. Markets continue to heal, with corporate debt and CMBS issuance both up meaningfully year-over-year. And the steep drop-off in new supply across real estate sectors is a strong catalyst for long-term fundamental performance. With these tailwinds in place and the competitive advantages of our platform as strong as ever, BXMT is well-positioned to continue navigating the cycle and capturing the market opportunity going forward.

Thank you and with that, I'll turn things over to Tony.

Tony Marone: Thank you, Katie, and good morning, everyone.

In the second quarter, BXMT reported a GAAP net loss of (\$0.35) per share and Distributable Earnings of \$0.49 per share. We also reported Distributable Earnings prior to charge-offs of \$0.56 per share, which excludes realized losses related to non-performing loan resolutions. Our earnings continue to be encumbered by the interest expense from our financings of non-performing loans – \$0.20 per share this quarter – with no related interest income recognized. Many of these loans are in fact generating current income. This quarter we collected \$0.11 per share of cash interest related to loans on cost recovery, which was instead applied against our loan basis. And over time we expect to generate incremental earnings as non-performing loans are resolved and this capital is redeployed at our target returns. In the near-term, however, our earnings will face the headwind of incremental loans placed on cost-recovery – these generated nearly \$0.07 per share of revenue in 2Q – as well as portfolio contraction following the elevated repayments Katie mentioned earlier.

We continue to make progress on non-performing loan resolutions, which will ultimately grow our earnings to more stabilized levels over time. As Katie mentioned, we resolved an \$84 million Brooklyn office loan during the quarter at an exit price above our carrying value. Across our collective NPL resolutions to date, we have realized values at a modest premium to our basis, validating the accuracy of our CECL reserve process. And subsequent to quarter-end, we took title to the collateral assets backing two small, crossed San Antonio multifamily loans. We have not booked CECL reserves on these loans as we expect that, with proper management, the asset value can be maximized and sold at or above our loan basis. Looking out to the back-half of the year, we have over \$500 million of non-performing loans earmarked for near-term resolution. We expect these will be executed through a combination of marketed sales processes and taking assets REO in situations where we see upside potential over time. We will continue to provide periodic updates as we make further progress on this important initiative for BXMT.

Another initiative for BXMT, as Katie mentioned earlier, is our recently announced partnership with M&T Realty Capital to provide our multifamily borrowers access to agency loan execution through their agency platform. While it will take time for this venture to grow in scale, it requires virtually no capital investment or expense outlay from BXMT, protecting against downside considerations. And with the majority of our revenue share recognized upfront upon the sale of loans through M&T to the GSEs, BXMT will be able to retain earnings and generate book value from these transactions.

Our portfolio was 90% performing as of June 30th, with 9 upgrades this quarter and strong repayment activity demonstrating continued business plan execution and the refinance-ability of our institutional collateral. We also downgraded 12 loans, including 3 impairments. Virtually all our incremental impairments relate to two New York City office properties – assets that have been impacted by sector headwinds and a re-rating of office values. We are actively working on resolutions for both of these assets, capitalizing on the more positive capital markets backdrop we see today. The third impairment is a small multifamily asset currently in the market for sale, representing just 0.1% of our portfolio. Across the multifamily sector more broadly, we see healthy fundamentals and valuation trends, with increasing liquidity driving positive outcomes in our portfolio, including 3 upgrades this quarter and 8 full loan repayments during the second quarter and July to date.

Our CECL reserve stood at \$906 million at quarter-end, up \$130 million from the prior quarter – largely reflecting impairments on new non-performing office loans, somewhat offset by 2Q resolutions and repayments. As we have mentioned on prior calls, we determine our CECL reserves through a robust quarterly process, informed by the real-time data and experience from across the Blackstone Real Estate platform. These aggregate reserves of \$5.21 per share are embedded in our book value, which was \$22.90 as of June 30th.

Turning to the balance sheet, we continue to maintain a best-in-class liability structure, with term-matched financings and zero capital markets mark-to-market provisions. Debt-to-equity was 3.9 times at quarter-end, up slightly from 3/31, but that was largely due to the timing of loan repayments. If you applied the repayments received in just the first few days following quarter-end to the June 30th debt balance, our debt-to-equity ratio would have been flat quarter-over-quarter. Importantly, our balance sheet is supported by substantial liquidity – \$1.6 billion at June 30th, or about 40% of book equity, in line with the historically high levels maintained throughout this cycle. And we see additional liquidity sources via the acceleration in repayments Katie mentioned earlier.

Year to date, we have deployed over \$700 million of capital, largely towards existing loan commitments in our portfolio, but also selectively towards new investments and discounted repurchases of our senior secured notes. We have maintained elevated liquidity while repaying debt and funding loan commitments, which we have seen come down over time, and now stand at only \$1 billion net of committed financing. Importantly, these fundings are scheduled to occur over an average term of 2.3 years – a very manageable commitment for BXMT. As we progress further through the credit cycle and move into a more attractive investment environment, we would naturally expect our liquidity to settle at a more normalized level.

Throughout the history of BXMT, we have consistently strengthened our capital structure as our business and markets have evolved. And with our platform's strong track record and unique relationship with our counterparties, we have maintained market-leading terms. As another example of this dynamic, we improved the uniform covenant package under our credit facilities to more appropriately reflect the current rate environment and provide incremental flexibility for our business.

Reflecting our strong balance sheet and with visibility into near-term loan repayments and resolutions, we have plenty of capital to strategically deploy with accelerating investment momentum across our platform, or to selectively execute on further repurchases across our capital structure.

Thank you for joining the call. I will now ask the operator to open the call to questions.

Operator: We'll take our first question from Steve Delaney with JMP.

Steve Delaney: Good morning, everyone, and thank you very much for taking the question. Katie – the portfolio now about \$21 billion, has come off about 16% from the recent high in late 2022. Given what seems to be a slightly more balanced view towards obvious runoff, but some new lending green shoot lending opportunities, can you give us some sense of, on a net basis, how much additional shrinkage we might see? I realized just a rough range, but are we nearing the bottom of the size of the portfolio? Thank you very much.

Katie Keenan: Thanks, Steve. I think it really comes down to relative value in terms of our capital allocation. So, if you think about buying into our capital structure at a discount, that obviously has one impact. New originations would have a different impact, and we're really going to be allocating our capital where we see the best potential for risk-adjusted returns. So, I think that's really the primary driver. The result will be where the portfolio ultimately settles out.

I think we're getting, as I mentioned on the call script, very significantly elevated repayments, which is obviously a very positive sign about the refinance-ability and credit quality of the portfolio. And so I think you could see sort of a local decline in the size of the portfolio as we get those repayments and position that capital for reinvestment. So I think that there is a possibility that we'll see that trend continue a bit over time. But as you picked up on, and as we mentioned, we're really focused on redeploying that capital in an accretive way and certainly new loans are going to be part of that.

Steve Delaney: Great. Thank you. And a quick follow-up from me – on your recent M&T Realty acquisition, some of us on the call are familiar with that due to Arbor and Walker & Dunlop. It's an excellent business model. Can you comment on whether at some point Blackstone (BXMT) might acquire the entire business? I don't know if you have an option to do that. Or is it, do you think it'll just stay as sort of a JV for the next five years or whatever, but do you have any optionality there to acquire that and build it out to make it a much larger business?

Katie Keenan: Yeah, no, I mean, this is really a partnership with M&T Realty Capital. They have a fantastic business, a great team, a lot of business away from this. We've looked at this business for a long time and we agree that it's a very interesting and complementary business for our transitional lending platform and evaluate it different ways. And we really think that this partnership is the best way, at this time, for BXMT to participate in the market. And, as we mentioned, gives us the optionality to provide agency execution via our partnership with M&T, think creatively about those loans and benefit economically in an appropriate way without any initial or overtime incremental expense. So we like this model. We think the M&T platform is phenomenal. And the partnership, we think is really the most accretive way to pursue this business.

Steve Delaney: Appreciate the comments. Thanks.

Operator: Thank you. We'll go next to Stephen Laws with Raymond James.

Stephen Laws: Hi, good morning. Katie – want to talk about the – first – the new dividend level. I think, as Tony mentioned, about \$0.07 per share in Q2 of interest income from new non-accrual loans and then some runoff in the portfolio, especially given the July repayments. I mean, it seems like those two things would point to earnings next quarter around the current dividend level. So kind of what gives you confidence earnings stay there? Are we going below the new dividend level? What were the considerations that you guys used to decide that \$0.47 is the right place to be?

Katie Keenan: Yeah. So, you know, I think as we talked about in the past, we're always very focused on the sustainable long-term earnings level of the business. And, you know, we're obviously moving through a relatively volatile period in terms of the market and sort of ins and outs within the portfolio. And as a result, you know, as we mentioned, we think that individual quarters might vary from the dividend level, but this level really is based on what we think is sustainable over time. And also very importantly, focused on continuing to balance near term current income for our shareholders with the ability to allocate capital to new investments that we think will ultimately enhance and drive better long-term earnings over time.

Stephen Laws: Okay. And then as a follow up, I want to touch on the reserve level. You know, we've seen kind of four pretty big increases in a row, especially the last two quarters. Kind of what gives you comfort in the current level? When I look at four and five-rated loans, even adjusting for repayments, the absolute amount is up 25% in the first half of the year. Backing into the general is one to three is about 100 basis points, or 1%. The total of

fours and fives is about 15%. So we see a really big reserve increase when something moves out of the three bucket. Can you talk about your expectations in the back half of the year for additional negative loan rating, migration, and what your expectations are for the reserve build going forward?

Katie Keenan: Sure. So I think that we've really tried to be ahead of what we see in the credit markets, obviously moving a lot of loans to our watchlist to transparently identify what we're seeing in that part of the market. And I think importantly, this is really concentrated in US office. That's where we're seeing the challenges.

I think when we look at our US office at this point, we have 55% of our US office loans watchlisted or impaired. We have significant reserves against our impaired assets and against that portfolio of loans, and the rest of that is about \$2.4 billion – of that 60% is risk-rated one and two. Those are new construction loans, primarily very low LTV. As I mentioned on the call, a number of them are looking at refi, we feel very good about the one's and two's. And the other 40% is risk-rated three US office, which is about a \$1 billion – that's also about 50% new construction and 50% Sunbelt, where we're seeing – with like pretty well leased and good cash flow. So, I think that the best way to think about it is we've tried to proactively move things into the watchlist and into impairment. We've mentioned on past calls a lot of the impaired loans and obviously all the watch list loans are performing, paying current interest. We're really trying to get ahead of this, and there's really a diminishing amount sort of left in that three bucket in terms of our US office exposure, which is where we're really seeing the credit pressures.

Away from that, obviously, now we're really seeing the market turn for the rest of the asset classes. Values are recovering, much more liquidity – the repayments are a very direct crystallization of that – and so, you know, we think away from US office, the credit quality of the portfolio is doing well and improving, given the tailwinds that we see in the capital markets and in valuations, with rates coming down and with liquidity returning.

Stephen Laws: Great. Appreciate the comments this morning, Katie.

Operator: Thank you. We'll go next to Doug Harter with UBS.

Doug Harter: Thanks. As you think about the ability to redeploy, how should we think about the level of liquidity that you're going to hold? How much does future credit migration play into that? If we see more credit migration, do you slow that down? Just how are you thinking about the pace of deployment?

Katie Keenan: Sure. I think as Tony mentioned, we have maintained near-record levels of liquidity really over the last year, more than a year, as we've positioned the business to be really well fortified in the face of volatility. Now, we feel like we have more visibility on what's going on in the capital markets. Obviously more repayments, future fundings have come way down. And so, you know, maintaining that very significantly elevated level of liquidity feels like not the best use of the liquidity – we were sort of trading optionality against investment opportunities.

Obviously also over the last 12 months, 18 months, there really weren't a lot of investment opportunities. Transaction volumes were down, you know, 40%, 50%, 70%, depending on what you looked at. We kept the pipeline very active and obviously we're active across our business. We really didn't see a ton of very interesting opportunities. Now, both of those dynamics have shifted, and so maintaining the optionality of the liquidity was really meant to position us to be able to capture the opportunity that we're seeing now in terms of a better pipeline and a bunch of different investment opportunities that we see across the capital structure and across the market.

So, I think that we wouldn't necessarily expect liquidity to stay at these sort of record levels because we think the liquidity is better served by investing. You know, we'll have to see how that tracks quarter to quarter. Again, it's obviously there's lumpiness with repayments, redeployment, etcetera. But, we think we have a very comfortable sort of excess level of liquidity today, and obviously we look forward and look at all the potential scenarios around and credit migration and others, as you mentioned, and even with that, we think that it's the right time to be reinvesting some of that liquidity.

Operator: Thank you. We'll go next to Jade Rahmani with KBW.

Jade Rahmani: Thank you very much. Securitization markets are pretty wide open and there's been a healthy amount of issuance. Coming out of distress cycles, there typically is access to securitization as a way to bifurcate risk and therefore accretively unlock capital. Do you see there that market providing any potential opportunity for such a strategy?

Katie Keenan: Yeah, I think it's a great point. I mean, we are a very active player all around the securitization markets as an issuer, as a buyer, as obviously looking at what's going on across, various geographies and, CMBS, CLO, etcetera. So, I think that the resurgence of the various securitized markets has a lot of positive impacts on our business. Obviously, the most direct one is repayments. A lot of the loans we're getting repaid are getting refinanced in the CMBS market – that is where a lot of capital is coming in, including for office.

Beyond that, I think in terms of CLO issuance or other ways we can directly continue to improve our balance sheet. We've obviously been an innovator and done a lot of that over time. And I think it's something that we'll continue to monitor very closely in terms of strategically using all the financing options we have to put our balance sheet in the best position. So, I do think it's a really relevant trend for our business in a lot of ways and something that we spend a lot of time thinking about how to maximize the impact of.

Jade Rahmani: In terms of new investment. Do you see doing anything differently for BXMT coming out of this? For example, could you take smaller pieces of large transactions and really hone in on the risk tranche you want to take, which would allow the company to be very targeted with its use of capital. Also, are you seeing a pickup in loan portfolio sales from banks and other legacy asset holders?

Katie Keenan: Sure. So, on your first question, I think that what we're always very focused on is – our North Star – is the credit profile of the assets we're investing in – so leverage, institutional-quality borrowers – that will not change. But I think in terms of looking at how to access that tranche of risk-return, we have a very diversified business here, we have really great people across the spectrum looking at various parts of the capital markets. And I think we're going to be very strategic about accessing that risk-return tranche of lending. However, we think best benefits the balance sheet in the company. So, I do think that that's something that we're obviously thinking about.

We've talked about preferred equity behind multi in the past. We talked about other aspects of the business, and I think that innovating on the origination side and also on the capital market side, which is really how you get to the ultimate equity investment in these deals, that's something that we constantly look at to try and optimize for where the business is at a given moment in time. In terms of bank sales and loan portfolios, you know that's something that is episodic. Obviously, we've obviously been a very big participant in that market across our business.

We think it's something that Blackstone, our real estate debt platform as a whole, has a real competitive advantage in because we're able to have a lot of these touch points, underwrite portfolios quickly, have a very specific view on credit, and obviously we have the scale capital to invest in them. And so, I think it's a really attractive investment opportunity. In terms of volume, I think it's really going to be episodic and there's a lot of sort of individual things that drive whether those deals come to market. But I think that to the extent we see them, you know, that's obviously something that we'll be looking at investing in.

Jade Rahmani: Thank you.

Operator: We'll go next to Don Fandetti with Wells Fargo.

Don Fandetti: Yes. Katie, can you talk on how you think the markets, the CRE finance markets, are going to – and equity markets – will respond to Fed cut? Is that going to potentially drive some more liquidity, make it easier

for refinancing? I guess, maybe not so much for office, but can you talk a bit whether or not you think that's kind of priced in or you think that's a material event?

Katie Keenan: So, I think that the timing and pace of rate cuts is clearly a very material – will have a very material impact on the financing markets and sort of capital markets liquidity. I think that obviously the expectation and really looking at the macro indicators of inflation, you know, that is already driving, you know, the five-year, the ten-year, and those rates are pretty impactful in terms of refinancing and in terms of capital markets, more so than sort of 30 days over. So, we're already starting to see that.

But I think that as it really comes to fruition over time, you know, of course it's going to have an impact. And I would say, by the way, including on office, you know, I think that when we observed over the turn of the year, really the start of 2024 was a narrowing range of outcomes about rates. It was pretty clear that we were sort of at peak rates and that the next direction was sort of flat to down. And the result of that was a resurgence in capital markets, activity in the CMBS market and in the transaction market, and we're seeing sort of a continuation and acceleration of that. Rates coming down more is just, I think, more tailwind to that dynamic.

And, I think the thing that's also really important is, spreads continue to be attractive and wider on a relative level, but the cost of capital is really most materially impacted by base rates. And so that's all to say that as the base rates sort of move, and if they do come down in the back half of the year in a faster trajectory than perhaps we were expecting a while ago, I think that's going to have a very positive impact. And I do think we're already seeing that, but I don't think it's all priced in.

Operator: Thank you. We'll go next to Tom Catherwood with BTIG.

Tom Catherwood: Thank you and good morning, everyone. Katie, you had mentioned \$700 million of office repayments year to date. Outside of the Brooklyn loan sale that you detailed, what was the makeup of the remaining resolutions and how much office is included in the \$1 billion of incremental repayments that you're currently tracking?

Katie Keenan: So, the office repayments to date have been a mix. We've had definitely activity in the CMBS market. We've obviously had some sales. We've also had some, you know, balance sheet repayments. We had an office construction loan that leased up, and, you know, our sponsor just kind of took us out. So, it's a pretty good mix. I mean, obviously, you know, we've talked about how banks have pulled back from real estate lending generally, and they're certainly, you know, similarly pulled back from office. But I think when we look across CMBS debt funds, some of those parts of the market, we are seeing some liquidity, and even to some degree from smaller relationship banks. A lot of the liquidity for the small office today is coming from long-term owners, high net worth, and that's a different part of the capital markets. We're also seeing office liquidity in Europe, where we have debt funds, and even some banks are coming back into the market there.

So, office liquidity in general is certainly less prevalent than across other parts of the market. And the liquidity we're seeing is obviously either in the highest quality assets, one's and two's, as we mentioned, or situations where people are coming in at what they perceive as a big discount in the case of the impaired assets that we're selling. But I think it is – it's more than just one source.

I don't have the number and the \$1 billion exactly, of office, but there's a couple of larger ones in there that we're tracking for refi. Obviously, the capital markets have been volatile over the last year, and so we'll be watching closely to see how those come to bear. But the trend in repayments is very clear. And obviously seeing another \$700 million in repayments just this far in July is a very specific indicator of what we're seeing in the portfolio.

Tom Catherwood: Appreciate those details, Katie. And then maybe as a follow-up, Tony – you had previously noted expectations for \$70 million to \$80 million of realized losses in the first half of the year, and you performed

within that range with the \$500 million-ish of challenge loans that are earmarked for near term resolution. What are your expectations for realized losses to the balance of the year?

Tony Marone: I don't have a specific number that I would guide you towards at this time. I'd say when we provided that metric previously, we had a pretty clear line of sight to specific resolutions for those assets, whereas this \$500 million there's a little more variability. I would say most importantly is if you look at our history of resolutions being slightly above our marks, you could assume that the realized losses that we take would be in line with our CECL reserves.

Tom Catherwood: Understood. Thanks everyone.

Operator: We'll take our next question from Rick Shane with J.P. Morgan.

Rick Shane: Hey guys, thanks for taking my questions this morning. I don't think this is going to be a surprise given it's been a topic we've discussed a lot, but can you delve in a little bit more to the \$150 million repurchase authorization? The dividend reduction equates to about \$100 million a year. Stocks now trading at a 20-plus percent discount to book. How aggressively should we expect to see you repurchase shares, given where stocks trading? Is this sort of a reallocation from dividend to repurchase, and you'll do it systemically or systematically, I should say? Or how should we think about it?

Katie Keenan: Yeah, I think it's. I wouldn't say it's one-for-one in any way. I think it's really two separate things that are somewhat related in that our dividend decision is really about balancing continued current income with capital allocation and the incremental capital, obviously, that we are going to be able to invest, we're going to direct that to where we see the best relative value.

We want to have all the tools in the toolkit in terms of being able to access wherever we see the best relative value and obviously buying into our largely performing loan portfolio, which is producing strong current income even at the adjusted dividend level, where we have visibility, where we're seeing a resurgence of repayments and credit performance at a big discount, is one of the tools we want to have in the toolkit in terms of investments. But we're going to balance that against, debt buyback, which we've been active in, and obviously new investments. So, I think it's going to be a very dynamic decision. I think it's really going to come down to what we see as the best balance for long-term earnings power of the company and our balance sheet composition. And again, it's really about making sure that we have max optionality to make the best investment decisions.

Rick Shane: Got it. Now, understanding that deploying \$100 million of capital into your lending investment business generates a levered return and repurchasing shares doesn't necessarily. I guess in some ways it does. But what types of hurdle rates would you need to see on loans to make them compelling in the context of where the stock's trading versus book?

Katie Keenan: Yeah, I mean, I think that it's hard to give a specific number because again, it really comes down to relative value, and what is the profile of the loans we're looking at relative to the return and then the profile of the new lending opportunity, the values.

And as I mentioned, I do think we are in a very attractive lending environment – values have come down significantly, but generally now on the upswing, we're coming in at better attachment points, lending standards are better, spreads remain wide, we have a very strong competitive positioning and obviously absolute return is, a lot higher than it has been historically. So with all of that, the new loans we're looking at are probably in that sort of mid-teens return level on sort of a levered basis, which is where our business has performed through cycles on sort of a net interest margin basis. So that's kind of a benchmark we would start from, and then we would really be looking at a lot of different considerations around how to balance that against buying into our capital structure from a return and relative value perspective.

Rick Shane: Okay, great. Thank you.

Operator: Thank you. We'll take our final question from Eric Dray with Bank of America.

Eric Dray: Hi, Katie. Good morning. Just wanted to stick with office real quick. Do you guys think that if we get 50 basis points of fed cuts in the back half year, even if it's 100 basis points of cuts in the next twelve months, does that really change things for office loans? And kind of, what do you guys think it'll take to see that sector stabilize and improve?

Katie Keenan: Yeah, I don't think – obviously lower rates are helpful on the margin – but I think that what we're seeing in office is really a secular reset that is not really rate related. And obviously, again, rates obviously have an impact, but I don't think that 100 bps lower rates are going to significantly change what's generally going on in the office market. I think that the things to watch are really where rents settle out, where cap rates settle out, and liquidity coming back in, in the form of new capital.

And I think that where we've gone from a year ago to today in terms of office, it's really about increasing transparency, values settling out, and people feeling a level of conviction to come back in and invest in office at reset values. And there's sort of a third derivative impact of rates on that. I think, because I think more certainty about where rates are going just creates a stronger level of conviction about investing in real estate as a general matter. But I think that the challenges impacting office are really about demand and kind of a reset in demand and a reconfiguration of where that demand is going. And I think what we've seen in markets is that where the demand is going is to high-quality office in the right locations. And the assets that aren't that are obviously having a very material shift in sort of their viability in the market. And so for those office assets, the more challenged older office assets, the ones that were in sort of second-tier compression locations – if that's not a rate story, that's sort of a fundamental story. And so I think that, the impact of rates on that sort of segment of the office market is probably not the main driver.

Operator: Thank you. That will conclude our question-and-answer session. At this time, I'd like to turn the call back over to Mr. Hayes for any additional or closing remarks.

Tim Hayes: Thank you, Katie, and to everyone joining today's call – please reach out with any questions.