

**Blackstone Mortgage Trust Third Quarter 2024 Investor Call**  
**October 23, 2024 at 9:00am ET**

**Operator:** Good day and welcome to the Blackstone Mortgage Trust Third Quarter 2024 Investor Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Tim Hayes, Vice President, Shareholder Relations. Please go ahead.

**Tim Hayes:** Good morning and welcome everyone to Blackstone Mortgage Trust third quarter 2024 earnings conference call. I am joined today by Katie Keenan, Chief Executive Officer, Tony Marone, Chief Financial Officer and Austin Pena, 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 third quarter, we reported a GAAP net loss of \$0.32 per share, while distributable earnings and distributable earnings prior to charge-offs were \$0.39 and \$0.49 per share, respectively. A few weeks ago, we paid a dividend of \$0.47 per share with respect to the third quarter. 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. Third quarter brought the long-anticipated commencement of the rate cut cycle in the US. Across major developed markets, short rates are coming down, driven by cooling inflation. At the same time, economic indicators remain strong, supporting the prospect of a soft landing.

For real estate, the combination of lower rates and a more benign outlook has created an inflection point in the cycle. Liquidity has returned to the market, normalizing cost of capital and bringing transaction activity off the sidelines. Real estate valuations have bottomed, with three consecutive quarters of increasing values. And with new supply down 40% to 75% across major sectors, longer-term tailwinds are in place.

This recovery is driving strong forward momentum in BXMT's business, accelerating portfolio turnover through repayments, resolutions, and redeployment. With \$1.8 billion of payoffs, 3Q was our fourth-highest repayment quarter ever and double the average pace of the first half of this year. Capital coming back can be redeployed into today's attractive investment environment, with a basis, credit lens, sector view, and spread profile all reset to current levels. With plenty of liquidity and a fruitful origination environment, we are squarely in new investment mode.

Year-to-date, we have nearly \$700 million of new originations closed or in closing across favored sectors, including multifamily, industrial, self-storage, and resort hotels. And the environment today supports lending at a lower basis with stronger cash flow coverage and higher returns. Our largest in-closing deal is a case in point. This is a \$450 million senior loan backed by a portfolio of stabilized self-storage assets.

Elsewhere in BREDS, we've participated in the capital structure of this investment before. It's always been a great portfolio, a credit to the solid real estate and skillful sponsorship. But in this vintage, wider market cap rates mean that our 62% LTV loan sets up to a debt yield 20% higher and a levered return nearly double the 2021 iteration, a factor of both wider spreads and higher base rates. This dynamic extends beyond one loan.

The weighted average origination LTV of year-to-date loans closed or in closing is 60%. The weighted average debt yield is over 9%. And collectively, these deals set up to mid-teens ROIs at today's base rates, highly attractive relative value.

These deals also exemplify our competitive edge in sourcing pipeline and driving differentiated investments. All are with repeat borrowers, several many times over. All were sourced directly or in limited competition. And all have generated strong appetite from our financing relationships, with marginal pricing moving squarely into the mid-to-high 100's spread levels.

We expect more activity from here. U.S. Transaction volume is up 20%, the largest sequential increase since the fourth quarter of 2021. More deal activity has spurred greater demand for new loans, and our pipeline continues to expand. Our future deployment outlook is underpinned by the repayment dynamic of our existing loans.

We have a relatively short duration portfolio. Our loans are typically five years in term, repaying after two to three. In periods like the last few years, loans stick around longer, with borrowers preferring to extend their hold periods and existing financing, notwithstanding strong performance from underlying collateral. But when capital markets reopen, there's a catch-up, which is what we're seeing now. The CMBS market, agencies, insurance companies, and debt funds are all active. And borrowers are refinancing into the next phase of their business plan.

Going forward, we expect an accelerated repayment period for our 1 to 3 risk-rated loans, which today account for around \$15 billion of the portfolio. As we look out over the next 12 months, we have \$2.7 billion of total 1 to 3 risk-rated loans with scheduled final maturities, the largest of which is the Spiral – a new-build, trophy, New York City office building located in Hudson Yards, and our top loan commitment. This asset is squarely a winner in today's office market, having leased up from 28% when we made the construction loan to over 90% today, and attracting the premier tenants in the market: Pfizer, Debevoise, Alliance Bernstein, and HSBC. While we would be delighted to keep this loan in our portfolio, it is definitively refinanceable, and we expect it will repay in the coming quarters.

The turning of the credit cycle and increased capital markets liquidity is rippling through our more challenged assets as well. While we completed just one resolution in 3Q, we were busy lining up a number of deals for the fourth quarter. Post-quarter end, we have completed or agreed terms to resolve over \$600 million of our impaired assets, and have clear visibility on the path to resolution of a further \$500 million plus. Altogether, this means that in the coming quarters, we believe we can resolve over half of the \$2.3 billion of impaired loans we carried at the end of Q3.

These resolutions will come through a combination of full cash sales, AB note restructurings, and in limited cases, REO. We have two assets under hard contract for sale at prices above our reserve levels, including a \$250 million office deal in New York City that drew a highly competitive bidding process and a final sale price equating to a high-4's in place and high-5's stabilized cap rate. We closed a recapitalization of an office deal earlier this month, bringing in substantial new equity commitments subordinate to our reset A note basis and have several other large office restructurings in the queue. We plan to take two assets REO in 4Q, a hotel in San Francisco, and an office in D.C., where we will pursue longer-term value recovery strategies.

And while not included in the numbers I just quoted, we are in the market for sale or negotiating deals on several other resolution candidates, which may add to the total as we move into 2025. And finally, our specific CECL reserve, averaging 28% of impaired loan balances, continues to prove appropriate, with the resolutions closed or in closing to date expected to shake out at or above our carrying values. The progress we are making is a crucial step toward repositioning the portfolio for sustained performance and an indication of the broader credit trends we see in our portfolio today. Every single performing loan that reached maturity this quarter repaid, satisfied its performance test, or extended with over \$400 million in new equity commitments or additional economics to BXMT, and this includes over \$1 billion of office loans.

Rate cap renewals are a non-issue. Multifamily is 99.5% performing, and lower short rates support stronger debt service coverage ratios going forward. We collected or agreed paydowns on three of our four watchlisted multi-loans, with the fourth slated for repayment. We had over \$650 million of repayments across large portfolios of hotels in Australia and Europe.

And even in office, we've collected over \$675 million in repayments thus far in the second half, bringing the year-to-date total to \$1.4 billion through today. This includes full repayment of our \$286 million loan on Colony Square in Atlanta, and an €115 million paydown on our Irish office and industrial portfolio loan, the

second in two years, as we continue to support the build-out of highly accretive industrial collateral within the asset base while improving our credit position. While credit outcomes can take time to play out, as evidenced by two additional impaired office loans this quarter, we see the balance shifting from here, with resolutions outpacing impairments. Therefore, based on what we see today, this quarter's non-performing loan measure at 12% should be the peak, with improvement over time as we move forward.

As resolutions crystallize, we will realize one-time losses through DE, but unlock the earnings potential of this capital. 4Q will be a rebuilding period, but looking forward to 2025, the combination of resolutions and redeployment should provide a tailwind to earnings power and coverage of our recess dividend. And we believe this transition period is more than priced in.

BXMT today trades at 0.84 times post-CECL book value. The market is pricing in another \$600 million plus of credit losses, beyond the \$1.0 billion dollars already reserved for in our book value – a punitive scenario based on what we see today. While a subset of our watchlisted office continues to be a focus for potential credit deterioration, we also see the emerging potential for market value recovery to translate through to our impaired assets. Embedded optionality that shareholders today own for free.

And our stock currently offers a 10% dividend yield, providing an attractive stream of current income that becomes increasingly valuable as global yields decline. More importantly, no firm is better positioned to capitalize on the current market opportunities than Blackstone. We have 150 real estate debt professionals around the world covering 600 plus borrowers with deep, repeat customer relationships. Our scale and global footprint provide differentiated access to attractive investments, allowing us to pursue the best relative value across markets.

Our deep capital markets expertise drives superior cost of capital, allowing us to take less credit risk to achieve attractive returns. And as the largest owner of commercial real estate globally, Blackstone's deep knowledge and experience underpins it all. The market has historically valued these advantages at a premium. Rational, given their translation to generating premium risk adjusted returns.

Today, we traded a steep discount – an attractive entry point as we capitalize on the cyclical real estate recovery and reignite our core investment business. Thank you. And with that, I'll turn the call over to Tony.

**Tony Marone:** Thank you, Katie, and good morning, everyone. In the third quarter, BXMT reported a GAAP net loss of \$0.32 per share and distributable earnings, or DE, of \$0.39 per share. DE prior to charge-offs, which excludes a \$17 million realized loss from the resolution of a not performing office loan this quarter, was \$0.49 per share and above our third quarter dividend of \$0.47 per share. Before expanding on our results for the quarter, I'll first spend a moment discussing the earnings trajectory of our business.

As Katie outlined, BXMT is well positioned for future growth. We have a strong pipeline of new investment opportunities, providing an outlet for accretive deployment of our current excess liquidity, which is expected to further increase with anticipated repayments next quarter. Equally important, we have a strong pipeline of non-performing loan resolutions with a clear path on more than half of our impaired assets. As a reminder, we do not recognize any income from these investments through DE given our accounting policy, despite many of these loans continuing to pay interest or generating positive cash flow at the property level.

While the economic impact of the individual resolutions will vary depending on the size, structure, and execution, we expect these near-term resolutions will ultimately increase our run rate quarterly DE by an aggregate \$0.07 to \$0.10 per share once they close. In the near term, we expect these resolutions will crystallize \$225 million to \$275 million of realized losses, which are already embedded in our book value, but will be recognized through DE upon closing. We expect most of these losses to flow through our 4Q results in advance of the subsequent expected earnings uplift following their resolution.

For the remaining NPLs, we continue to pursue strategies to maximize our outcomes. While the strategies and timelines of these resolutions will vary, with some taking shape as medium-to-long-term holds to maximize our ultimate recovery value, we are highly focused on unlocking the earnings potential of this capital over time. In the meantime, our earnings with respect to these longer-term NPL resolutions will remain encumbered by approximately \$0.08 per share of interest expense per quarter with no offsetting recognized income. We also expect that 4Q results will reflect the temporary earnings drag from the timing mismatch of

when repayments and resolutions complete relative to when such capital is subsequently redeployed, as well as the two incremental loans we impaired this quarter. But importantly, we see this dynamic reversing course in 2025 as we move through more NPL resolutions and benefit from the deployment of capital into new, accretive investments.

In establishing our dividend level last quarter, we considered this near-term earnings variability, as well as our view on ultimate long-term earnings power, among other factors. Since that time, we believe the range of potential earnings scenarios has narrowed, with capital markets continuing to recover, bolstering demand and values for institutional real estate assets, including office, and supporting loan resolutions at constructive levels. These trends reinforce our view that the current dividend level is sustainable relative to our long-term earnings power.

Turning back to the quarterly results, we reported third-quarter book value of \$22.17 per share, which includes \$1.0 billion, or \$5.89 per share of CECL reserves, up from \$906 million last quarter. The increase in our CECL reserve was largely attributable to two office loans that were downgraded to a risk rating of 5 during the quarter.

We also added two new REO assets, which were brought onto our balance sheet at levels consistent with prior quarter carrying values, with virtually no impact on book value. Looking ahead, we see support to book value through the execution of near-term NPL resolutions at or above current carrying values, and the and a strong credit performance for the majority of our loans. Outside of U.S. office, our portfolio was 95% performing and we had no risk-grading downgrades aside from one mixed-use loan with a meaningful office component.

We also upgraded three multifamily loans and recognized stable performance broadly across multifamily, industrial, hospitality, and non-U.S. office sectors. The performance of our multifamily portfolio was further highlighted by strong repayment activity with over \$350 million collected across seven full loan repayments this quarter, predominantly through agency takeout. With rates lower and transaction activity picking up, we see increased activity from the GSE's, a natural next step and source of capital for many of the stabilized assets in our portfolio. We also see this dynamic providing a tailwind to our agency lending partnership with M&T that we announced last quarter, and we are pleased to have our first three loans closed with M&T subsequent to quarter-end, formally launching this new capital-light business for BXMT.

In total, we collected \$1.8 billion of repayments this quarter, our fourth highest quarterly repayment volume ever, and bringing our 3Q year-to-date total to \$3.6 billion. And so far in October, we've collected nearly \$400 million of additional repayments, demonstrating the continued liquidity in our portfolio and increased transaction volume we're seeing in the market generally. Reflecting this elevated repayment activity, we maintained strong liquidity of \$1.5 billion, while reducing debt to equity to 3.8 times from 3.9 times quarter over quarter. We feel comfortable sitting with our target leverage range of three to four times and expect the continued repayment activity and NPL resolutions as capital markets recover to be supportive of maintaining leverage levels within this range. Further on that point, we repurchased \$41 million of corporate debt at discounts in the quarter, which contributed to our leverage reduction and generated a modest book value gain.

We also repurchased \$11 million of our common stock at a discount to book, reflecting our long-term view of BXMT's equity value. And with our net future funding commitments down nearly 30% since last year to \$850 million today, with an average term of 2.3 years, we have plenty of capital to allocate to additional new investments in loans or debt and equity buybacks. In closing, we look forward to the next chapter of BXMT as we push through legacy loan resolutions and deploy capital into new investments, supported by improving market fundamentals, our well-structured balance sheet, and the strength of Blackstone's real estate platform.

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

**Operator:** Thank you. As a reminder, please press star-1 to ask a question. We ask you limit yourself to one question and one follow-up to allow as many to participate as possible. We'll take our first question from Don Fandetti with Wells Fargo.

**Don Fandetti:** Hi, good morning. A couple questions. First, I just wanted to clarify, I understand that the resolution of non-performing is supportive of book value, but are you saying that you think the kind of quarterly hits to book are behind you? Or do you still see migration to four and five rated that could drive

negative book value hits?

**Katie Keenan:** Thanks, Don. So, I think as we look at it, as we mentioned in the script, we see the universe of potential challenges shrinking down.

As we've highlighted in the past, the main focus is really on the non-modified 4-rated office loans. This is about \$700 million today, down from \$1 billion last quarter, and we're making progress on a lot of these. We actually have deals on some of them post-quarter end, but this is really where the sort of universe of potential challenge going forward could be confined. As far as the impaired loans resolution, that's obviously a positive for DE as we bring that capital back and either reinvest it or bring it back to earnings power, and we see the reserves we have existing on those impaired loans as appropriate, given the resolutions that we have negotiated to date and what we're seeing in the market.

**Don Fandetti:** Got it. And in terms of what's driving the sort of higher level of resolutions, is the market more supportive on the refinancing side? Can you dig in a little bit more on that?

**Katie Keenan:** Yes, absolutely. I mean, I think that what we saw this quarter is really a market acceleration of liquidity in the real estate market generally. You can see it in the CMBS market very clearly where issuance is up four times year-to-date.

You can see it in particular in office issuance in the CMBS market. You can see it in transaction activity, which is up 20% quarter over quarter. So I think that as people have realized that the range of outcomes for real estate has narrowed, they've then focused in on the fact that relative value for real estate is really attractive versus other alternatives, and the fact that their portfolios are generally underweight real estate, and therefore they're kind of flowing back into the real estate market supported obviously by the race dynamic and the new supply dynamic. So, the overall balance of increased liquidity in the space has benefited our performing loans obviously through repayments, but I think also the resolutions through increased value transparency, increased liquidity, increased urgency to get these deals done, and more capital coming into the space that enables them.

**Don Fandetti:** Thank you.

**Operator:** We'll go next to Tom Catherwood with BTIG

**Tom Catherwood:** Thanks, and good morning, everybody. Maybe, Katie, to start. On the origination side, obviously as you get repayments back in, putting that capital back to work is kind of paramount to maintaining earnings. Has kind of--I know obviously BXMT's originations have been low but have started to ramp, but has kind of Blackstone parent been originating the kind of transitional loans that would traditionally be in a CM REIT book, kind of in its fund business, and then you can just step into that now? Or is there a ramp process you have to go through as you look to put more money to work?

**Katie Keenan:** I think the fact that we have over \$500 million of loans closed and in closing is sort of a good indication of the fact that we can turn it back on pretty quickly. I mean, we have 150 people around the world actively originating these loans. We cover the waterfront in terms of risk-return for loan origination. We're talking to all these borrowers constantly with all of the different pools of capital that we have, so it is a huge advantage in terms of being able to identify what the targeted investment is for BXMT and drive really attractive pipeline quickly in terms of getting our capital invested. And again, I think the fact that we've really turned it on just in the last couple of months is an indication of that.

**Tom Catherwood:** Got it. Appreciate that, Katie. And then Tony, this is a dividend question, but it's got a couple parts and pieces here. Coverage was tight in Q3. I got your comments that there's something like \$0.07 to \$0.08 uptick from the near-term loan resolutions and putting that capital back to work. But there is that timing mismatch between repayments and new investments, and then there's also the drag to distributable earnings as the Fed cuts rates further – and again, that all depends on the pace of rate cuts. But as you put all these pieces together, do you get to the point where you're below that \$0.47 dividend level for some period in 2025? And when do you think you get back above that? Is that a year-end thing, or can you put enough money to work early on that becomes more mid-year '25?

**Tony Marone:** Thanks for the detailed, multi-part question. You hit on a couple points there.

Maybe I'll start high-level, and then I want to hit on a couple points that you mentioned. So, firstly, when we think about our \$0.47 dividend, I think we said last quarter and also I said mentioned this quarter, we think about that similar to the \$0.62 dividend. It's a level that we think is appropriate over the long-term. Just like when we had \$0.62, we had periods where we well out-earned, we had some periods we were below. You should think of \$0.47 the same way. So that's one just sort of backdrop point.

As relates to the different push-pulls on earnings, the headwind from rates declining is actually relatively modest at this point, given the fact that we have some of our non-performing loans that are not generating earnings and we have floating-rate debt. The drag on earnings from rates going down, and to your point, it depends on the pace and magnitude of those rate cuts, is much more modest than it was previously.

More importantly, or more to the point, the benefit of the lower rates is actually more significant over time because that facilitates our resolution of these NPLs and ultimately redeployment of that capital into new loans that are generating earnings. So, I think net-net, although you may see a short-term decline from rates coming down, it's net-net a positive thing for us over the medium term.

All that sort of coming together to your point to your point, or one of your last points, is you do have a timing element here where we have loans that are going to be resolved in the near term. We think a lot of those will be resolved in the fourth quarter. That will be a downward pressure on earnings – the two loans we impaired will be downward pressure on earnings in the fourth quarter. We will be redeploying that capital; Katie mentioned in our pipeline. And so we think that the dip, if you will, will be relatively short. And we look to 2025 as a period where earnings will rebound and start to generate pretty strong performance. But there will be a short-term dip. But we don't think it's going to be a very long-term recovery because we've got some good tailwinds behind us.

**Tom Catherwood:** Got to appreciate those thoughts, Tony. That's it for me. Thanks, everyone.

**Operator:** We'll go next to Harsh Hemnani with Green Street.

**Harsh Hemnani:** Thank you. So first, maybe repayments have accelerated quite a bit. And so how are you thinking of deploying those, right? The first avenue, as you mentioned, would be deploying it into new loans. The other would be buying back more shares. How do you weigh those today in an environment where it seems like, yes, the risk-adjusted return on commercial real estate loans might be better, but it seems like the threads have been coming in a little bit. I noticed in the presentation that now the target investment moved from SOFR plus 325 to SOFR plus 275. So, how are you weighing new originations versus perhaps returning capital?

**Katie Keenan:** Sure thing. Thanks, Harsh, and welcome to the call. So, I think that one of the things we like the best about our business is our ability to be very strategic as we think about how to allocate our capital. And obviously in the last quarter, the answer was all of the above. And I think we're going to continue to look across the avenues that we have to invest and be very thoughtful about the relative value of what we're seeing.

I do think on the new origination front, we do today see a very attractive investment opportunity. Most importantly, the credit profile of the new loans we're doing, 60% LTV, above a 9% debt yield, very strong fundamental asset classes. And obviously investing at a mid-teens levered return is very attractive. And we're going to try and continue to expand on that. That is something that is core to our business. And we think creates long-term, durable, strong current income, which is a goal of our business and the shareholders. Obviously, we're also going to look to be strategic in terms of buying back in the capital structure where we see the opportunity.

I do want to comment on the spread dynamic in general because I think it's a really important nuance. So, our business is obviously a levered spread business. So, one of the dynamics that's driving the recovery in the real estate market for in the real estate market is base rates coming down a bit. We've also seen spreads come down a bit, but critically for our business, first of all, I think spreads are wider than they have than they were in sort of the tight historical levels. That's definitely borne out by the data. But critically for our business, it's really about the difference between where we lend and where we borrow and where we borrow is also coming

in very significantly.

So, the spread between those two levels is as good or really better than it has been historically. And as a result, we see the opportunity between credit being better and returns being attractive. We see that combined relative value opportunity as something that we really want to lean into because on an absolute and relative basis, it's just a very attractive setup for investment.

**Harsh Hemnani:** Got it. That's helpful. And then maybe as you mentioned in the prepared remarks, right, we're, we're going, we started the process of lower rates and sort of, it still remains uncertain though, where we'll end up the path of these rate cuts, et cetera. So, in sort of this environment, have you been seeing perhaps higher SOFR floors on newer loans that you're originating or you having those conversations with borrowers and how are those going?

**Katie Keenan:** It's a great question. I would say SOFR floors is a huge focus of ours on both the investment side and on the modification side. So we can add floors to our portfolio, both in terms of putting on new loans at reset SOFR floors today, and in terms of when we're touching loans, sort of along the way, incorporating SOFR floors to today's levels. And I think that is one of the things that over time will become a more important dynamic relative to rates.

**Harsh Hemnani:** Got it. Thank you.

**Operator:** We'll take our next question from Steve Delaney with Citizens JMP

**Steve Delaney:** Hey, good morning. Thank you, everyone. So, you resolved \$500 million of MPLs in the third quarter and indicated another \$600 million closing, hopefully in the, in the fourth quarter. So, with that \$1.1 billion, how much do you expect will be left in either the five do you expect will be left in either the five rated loan bucket or in REO as of the end of 2024? Thank you.

**Katie Keenan:** Sure. So, I think to, on the numbers, just to clarify, so \$500 million, we have closed in and closing post quarter-end. So, we closed a couple of deals or one deal in the last couple of weeks. We have hard contracts in place on a couple of others, et cetera. And then we have another \$600 million that we have very firm visibility on. So yes, net that adds up to about \$1.1 billion relative to the \$2.3 billion of impaired loans that we have on the books as we look forward, sort of towards quarter end. Obviously, the timing of closings can be a little bit lumpy. We think those are all near term and we're going to try very hard to get them all done in the fourth quarter, but could a few slip to the first to slip to the first quarter? Possibly.

I would say that in terms of what's left at the end of that, that is really the math on the impaired loan. The REO assets are really small and we actually have some good action on a couple of those as well. So I don't think it's going to meaningfully change the numbers.

**Steve Delaney:** Okay. And Katie, just so we understand the magnitude of, and I know things are fluid quarter to quarter, but I believe 5-rated loans at September 30 were \$3.2 billion. Is that correct?

I think that \$3.2 billion you're mentioning is the gross OPB amount, but we've obviously taken a very significant amount of reserves against those. So we sort of think about it as how much is in our book value, which is about \$2.3 billion.

**Steve Delaney:** Okay. Very good. Okay. Thank you for the comments.

**Operator:** We'll take our next question from Jade Rahmani with KBW.

**Jade Rahmani:** Thank you very much. How confident are you that the problem set is squarely focused on the risk 4 to 5-rated bucket and we won't see further migration from 3's to 4's? You know, in this quarter, there were a couple of downgrades, I believe three from 3's to 4.

**Katie Keenan:** Thanks, Jade. I think, as you know, we go through the portfolio with a fine tooth comb every quarter and we are, we've tried to really get ahead of it. I think there's a lot of loans, as you know, that have been 4-rated for years. And so we, anytime we see something that like could be an issue, has a question mark,

we try and be very transparent with our investors about where we think there's a question mark. And that's really what exists in the 4's.

Many of those loans have been modified subsequently, have been very stable, have been performers for years. And so, when we think about the universe of what's in that bucket it can be a bit sticky, but there really are a few different subcategories within that bucket, which we've outlined in the past and today.

I think as far as the 3 to 4 potential downgrades, again, we go through the portfolio with a fine tooth comb. I think really the big picture element there is that the momentum has really shifted. What we have, U.S. office has been the primary issue. When we look at what's in the 3-rated category of US Office, it's like 95% new construction or high-cash flow sunbelt. We've got some European office in there, which is a completely different dynamic. And then everything else is sort of non-office category.

So, we look at the composition of what's in the 3's, there's really very little left in there of sort of non-high quality, either European or well-performing U.S. office. And anything that kind of didn't fit those categories, we downgraded. And that's really why you see what happened this quarter as far as 3's to 4.

So, we have 149 loans in the portfolio. Could we have some idiosyncratic thing happen? It's possible. But I think that we try and go through with a fine tooth comb. The momentum has really shifted. And that is, that is really the critical dynamic is that things I think going forward things I think going forward from here are much more likely to be positive surprises versus having things that we're not looking out for and deterioration.

**Jade Rahmani:** Thank you very much. And can you give an update on the Spain and Australia deals, just because we haven't heard much about those lately?

**Katie Keenan:** Sure. So, the Spain deal I think you're commenting on the large portfolio of individual loans from pre-COVID in Spain. That loan really continues to just pay down in minor, in small increments over time. I think it's paid down by about 50% since we originated it. And there continues to be liquidity for those deals. Europe obviously has lower rates at a more clearly lower rate picture, even than the U.S. And so I think that's a positive.

And then as far as Australia we've invested a tremendous amount of capital in that portfolio to make it the safest place to play in Australia. And it's really sort of on a positive trajectory and obviously a very high focus deal that we feel good about for the firm.

**Jade Rahmani:** Thank you.

**Operator:** We'll take our next question from Doug Harter with UBS.

**Doug Harter:** Thanks. Katie, you mentioned that you're seeing attractive spreads on returns net of financing costs today. If you could just kind of quantify how that sort of translates into a return on capital on a new dollar that you're putting to work today and how you think that compares to kind of '21 vintage of loans that you wrote?

**Katie Keenan:** Sure. So, I would say that today, what we're seeing, as I mentioned, the 2024 origination 60% LTV, over 9% debt yields, and they're basically setting up to 1000 over base rates from an ROI perspective. So today, that means mid-teens return on our invested equity.

And I would say that that is the credit metrics are obviously more attractive versus kind of the swath of the market in 2021, especially because we're talking about reset values. And then I think that on a return basis, we're kind of a little higher than where we've been for similar credit quality product. We look at our portfolio across the board – in the past, we've done some construction, which has been a really good credit profile, but obviously on the face of it has wider spreads. We've also done a lot of more stabilized assets on the multi-family side, et cetera. So when we look at the returns on a same store basis, they're better today, and we think we're at reset values. So, all in risk-adjusted return is better.

**Doug Harter:** Great. Thank you, Katie.

**Operator:** We'll go next to Rick Shane with JP Morgan.

**Rick Shane:** Thanks, everybody, for taking my question. Look, there's a lot going on here. And what I take away, and this has been our thesis a bit, is that it feels like you guys have greater confidence in dimensionalizing the risk.

But we're now entering a period where resolutions are really going to accelerate. Katie, you made the point that the difference between the stock price and the fully reserved book value. We always kind of look at that as a burndown value, and realistically that's not what you guys are striving for. And that the discount reflects that the DE is probably on an ROE basis 2 or 3 points above SOFR, which is well below your historical hurdle rate of 7% to 8% above benchmark.

Is that still a realistic target as we emerge from this period?

**Katie Keenan:** I think a couple of ways to approach the question. I mean, I think when we look at the dividend yield that we're paying today, and obviously we thought about the dividend with respect to the long-term, ROE earnings power of the business. I think it's pretty attractive, especially when you look at it relative to longer-term base rates. I mean, I think you can look at it relative to SOFR. You can look at it relative to the 5-year or the 10-year.

I think people coming into the stock today, one of the attractive things is you're buying in at a yield that has as much duration to it as you want. And so I think for that reason, it's more appropriately compared to longer-duration alternatives. And I think that, to your point, the other really critical thing is this isn't a burndown company. This is a company that is backed by the largest owner of real estate in the world, by one of the strongest real estate credit businesses in the world, and our ability to create the next generation of the portfolio here and produce very attractive new investment opportunities and sort of think through what this is going to look like a year from now, two years from now. That's really not priced in at all today.

And so I think that is something that people really need to think about in terms of getting a very attractive current income yield, obviously, along the way, continued portfolio turnover. So, the overall scope of the existing portfolio that's being invested in is obviously shifting and improving. And then what are sort of the prospects going forward?

**Rick Shane:** Totally agree. Look, and it dovetails into the second part of my question, but I would disagree slightly in terms of what the benchmark is, because when I think of your earnings model, and given the asset sensitivity charts that you guys have shown over the years, I'm thinking not of return to shareholders from a dividend perspective, but your ROE is a function of short rates, which is, frankly, is kind of the way you guys have always shown it.

But to your second point, and I think this is really the key here, based on Tony's comments about the resolution and redeployment, is it realistic to see to see BXMT returning to those hurdle rates, sort of exiting 2025? Is that what the target is? That, because again, to your point, it's the potential. And the question is, how long does it take to realize that potential?

**Katie Keenan:** I think that is exactly the question. And I think that if we sit here today, we think that the path towards that potential has gotten shorter or it'll happen more quickly because obviously the acceleration in the capital markets is really the key dynamic there. And we're focused on getting there as quickly as we can.

**Rick Shane:** Okay. Thanks. And clearly one of the things that's happened is that as the bid-ask spread has narrowed, that drives transaction volume. And I think that that's really contributing to what's going on.

**Katie Keenan:** Yes, I completely agree.

**Rick Shane:** Thanks guys.

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

**Eric Dray:** Hi, Katie, just one more on credit. Was just curious how you guys think about the rate backdrop

and how that can impact – you talked about kind of a shift in the market – is there any risk to kind of credit deterioration or just, I don't know, like this pickup just kind of stalls if we don't get the rate cuts that we're seeing in the forward curve right now, or how do you guys think about that?

**Katie Keenan:** Yes, I think it's a good question. I mean, I would start by highlighting the fact that obviously 30% of our portfolio is outside of the U.S., in Europe, where I think the trajectory is even clearer than the U.S. But I also think when you look at the U.S., while it's never quite linear in terms of rates, the direction of travel is pretty clear, especially when we look at our kind of inflation indicators and look at overall what's going on in the market. So, it might be certainly the curve has moved a bit between last quarter's call and this quarter's call with the drop in the middle, but I think that the direction of travel is pretty clear.

I also think it is really about that narrowing of range of outcomes. So when you think about what impacts credit, where we were sitting a year ago, people did not know where rates were going to peak. People did not know sort of quote unquote, how bad it was going to be in terms of the real estate market. I think really a lot of those questions have been answered at that point, and you can see it in the capital markets today and the indicators, whether it's the REIT market, whether it's what's going on in the CMBS market. There is a reset clearly that's come as rates have been higher, but the range of outcomes is much, much narrower, and that's really what's driving the liquidity, the transaction activity, the reinvestment of capital. I think that if rates kind of are at the current curve or kind of meander a bit around, I don't think that's going to meaningfully change the answer.

**Eric Dray:** Okay, great. That's helpful. And then one more on the pipeline kind of moving to 2025, are there any areas that you guys are really targeting that we can kind of expect to see some outsize growth in, whether that's collateral type or geography, just kind of what you guys are seeing in the pipeline?

**Katie Keenan:** Sure I think on where we see really good, interesting investment opportunities, clearly multifamily in the U.S. I think has very strong long-term drivers. We continue to like industrial, data centers are a huge focus, we see a lot of growth there. And I think geographically we really like the relative value in Europe. It's an area where we've always had a very strong competitive advantage.

We have a very deep kind of long-term presence in the market and understanding of the different countries and different jurisdictions there. And I think that competitive advantage will continue to hopefully produce good investments there as well. So, we do see a lot of opportunity around our markets, US., Europe, Australia as well. I think there could be more to do there.

So I think right now sectors are sort of where we've seen the tailwinds as they have been and markets we see opportunities in various geographies.

**Operator:** Thank you. With no additional questions in queue, 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 for joining today's call. Please reach out with any questions.