Granite Point Mortgage Trust Inc.
Second Quarter 2023 Earnings Call
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Presenters
Jack Taylor, President and Chief Executive Officer
Steve Alpart, Chief Investment Officer and Co-Head-Originations
Marcin Urbaszek, Chief Financial Officer
Steve Plust, Chief Operating Officer
Peter Morral, Chief Development Officer and Co-Head of Originations
Chris Petta, Investor Relations

Q&A Participants
Steve DeLaney—JPM Securities
Stephen Laws—Raymond James
Doug Harter—Credit Suisse
Jade Rahmani—KBW

Operator
Good morning. My name is Robert, and I will be your conference facilitator. At this time, I would like to welcome everyone to Granite Point Mortgage Trust's Second Quarter 2023 Financial Results Conference Call. All participants will be in listen-only mode.

After the speakers' remarks, there will be a question-and-answer period. Please note today's call is being recorded. I would now like to turn the conference over to your host, Chris Petta with Investor Relations for Granite Point.

Chris Petta
Thank you, and good morning, everyone. Thank you for joining our call to discuss Granite Point's second quarter 2023 financial results. With me on the call this morning are Jack Taylor, our President and Chief Executive Officer; Marcin Urbaszek, our Chief Financial Officer; Steve Alpart, our Chief Investment Officer and Co-Head of Originations; Peter Morral, our Chief Development Officer and Co-Head of Originations; and Steve Plust, our Chief Operating Officer.

After my introductory comments, Jack will provide a brief recap of market conditions and review our current business activities. Steve Alpart will discuss our portfolio, and Marcin will highlight key items from our financial results and capitalization. The press release, financial tables, and earnings supplemental associated with today's call were filed yesterday with the SEC and are available in the Investor Relations section of our website, along with our Form 10-Q.

I would like to remind you that remarks made by management during this call and the supporting slides may include forward-looking statements, which are uncertain and outside of the company's control. Forward-looking statements reflect our views regarding future events and are subject to uncertainties that could cause actual results to differ materially from expectations. Please see our filings with the SEC for a discussion of some of our risks that could affect results. We do not undertake any obligation to update any forward-looking statement.

We also refer to certain non-GAAP measures on this call. This information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. A reconciliation of these non-GAAP financial measures to the most comparable GAAP measures can be found in our earnings release and slides which are available on our website.

I will now turn the call over to Jack.

Jack Taylor
Thank you, Chris, and good morning, everyone. We would like to welcome you and thank you for joining us for Granite Point's second quarter 2023 earnings call.

Granite Point had another strong operating quarter as our pre-loss distributable earnings of $0.20 per share, again, covered our common stock dividend. Returns from our floating-rate senior loan portfolio continue to benefit from higher short-term interest rates, despite our maintaining the company's leverage meaningfully below our longer-term target levels because of the market uncertainty. As the commercial real estate sector continues to adjust to higher costs of capital, lower liquidity in the market, and reset property valuations, the majority of the loans within our well-diversified and granular portfolio have been performing well and supporting our operating results.

Our balance sheet remains defensively positioned with low leverage, a diversified funding mix, and strong liquidity in advance of the anticipated repayment with cash of our convertible bonds maturing in October. As we navigate this challenging environment, our lending partners remain very supportive of our business and our proactive asset management efforts. To that end, in recent months, we have extended the maturities on three of our large financing facilities that total over $1.2 billion in borrowing capacity, demonstrating our lender's alignment with us and support of our platform. In fact, our lenders are looking to expand with us and participate as Granite Point grows over time.

We continue to focus on bolstering our balance sheet given the stresses of the increased cost of capital for floating-rate-based borrowers and the associated refinancing and sale challenges for properties in this market. Our proactive and constructive asset management strategy has been facilitating win-win resolution as we realized over $200 million of repayments and pay-downs during the quarter, some of which were on loans that were previously modified to give borrowers more time to effectuate their exit strategy through either a sale or refinancing.

Despite some early signs of developing stability in select areas of the real estate capital markets, we believe that property values and liquidity will continue to be under pressure for the foreseeable future, and given this backdrop, we are maintaining our conservative approach to new loan originations. One of our top priorities is resolving our non-accrual loans, given their meaningful impact on our profitability and the timing of when we can go back on offense once signs of greater market stability emerge. We estimate in the second quarter, non-accruals loans impacted our interest income by over $5 million, not even taking into consideration the higher cost of funds associated with the financing of these assets. We are actively pursuing a range of resolution strategies for these loans and, as in the past, we intend to employ a variety of tools available to us, including modifications that include principal pay-downs or other credit enhancements, taking title to the properties via a foreclosure or deed-in-lieu and loan sales as we determine the best course of action to maximize the economic outcome for our shareholders. During the second quarter, we made the decision to take title to the office property in Phoenix through a negotiated deed-in-lieu of foreclosure, which had previously collateralized our $29 million senior loan that was risk-rated 5. We believe that the optimal resolution path for this investment will be achieved by our having taken ownership of the property and then an ultimate future sale of the property to a new owner. As we mentioned last quarter, this property lays out favorably for potential alternative use as multifamily. We are currently working on a potential sale, and we are encouraged by the progress so far. However, given the continued overall market uncertainty, it is difficult to predict the timing of the potential resolution for this property.

High interest rates continue to be a major headwind for the commercial real estate industry, keeping downward pressure on asset values, and it remains unclear for how long rates will remain elevated. Fortunately, the U.S. economy is surpassing expectations, and fundamentals across most sub-sectors of the commercial real estate market remain resilient. Despite the broad negative sentiment around commercial real estate, in general, our borrowers remain supportive of their properties and continue to protect their investments while they wait for the environment to normalize and transaction activity to begin to increase so they can effectuate their exits and repay our loans. We are keenly aware of the headwinds in the office market, but it is not monolithic, and loan performance depends on specific market fundamentals and the particulars of any given asset. It remains to be seen what impact the regional banking developments will ultimately have on the commercial real estate market, though it is likely to result in continued lower liquidity and a longer recovery time frame. Accordingly, in light of these factors, we further increased our CECL reserve on our portfolio in the second quarter to about 4.1% of total commitments, from about 3.8% last quarter.

In the near-term, we intend to maintain our conservative approach to managing our business and protecting our balance sheet, while emphasizing liquidity and focusing on resolving our more challenged assets, to over time improve our run rate profitability and close the gap between our stock price and our book value. Over the course of our long careers in real estate lending, our team has successfully managed through multiple credit and interest rate cycles, and we will do so again this time, getting to the other side of the current disruptions and taking advantage of attractive investment opportunities in the future for the benefit of our stockholders.

I would now like to turn the call over to Steve Alpart to discuss our portfolio activities in more detail.

Steve Alpart
Thank you, Jack, and thank you all for joining our call this morning. I'll provide portfolio highlights, updates on our four 5-rated loans and one REO property, and our current view on capital deployment.

We ended the second quarter with a total portfolio-committed balance of $3.3 billion, and an outstanding principal balance of about $3.1 billion, with $172 million of future funding, accounting for only about 5% of total loan commitments. Our portfolio remains well-diversified across regions and property types, and includes 82 investments, with an average size of approximately $38 million. Our loans continue to benefit from higher interest rates and deliver an attractive income stream with a favorable overall credit profile, with a weighted average, stabilized LTV origination of 63%. Our realized portfolio yield for the second quarter was about 8.2%, which accounts for the impact of the non-accrual loans. During 2Q, we funded about $17 million of existing loan commitments, and so far in the third quarter, we have funded approximately an additional $10 million.

Turning to credit. Despite some of the challenges and headwinds that Jack just discussed, we are very pleased that the vast majority of our borrowers are protecting their equity and carrying their properties where additional capital is necessary as they continue to progress on their business plans. We continue to see liquidity in our conservatively underwritten middle market loans, with over $200 million of repayments and paydowns realized during the second quarter, and approximately an additional $23 million so far in the third quarter as our borrowers are able to either sell or refinance properties even during these challenging market conditions.

We continue to see pressure in the office sector, and that's reflected in our risk rankings. As of June 30th, our portfolio weighted average risk rating ticked modestly higher to 2.7 from 2.6 last quarter, mainly driven by the change in portfolio mix due to repayments and a few rating downgrades. Two of these downgrades involve moving loans from a rating of 3 to 4, mainly due to the ongoing office leasing challenges in those particular markets. A $37 million first mortgage loan collateralized by a mixed-use office and retail property was downgraded to a rating of 4, given local market dynamics and a significant slowdown in leasing activity in downtown Los Angeles. During the quarter, we also downgraded a $79 million first mortgage loan located along the magnificent mile in downtown Chicago. The retail portion of the building is fully leased, however, the office component has been lagging, given the leasing market slowdown in Chicago. We are in active discussions with both borrowers regarding next steps.

With respect to our non-accrual assets, we have discussed the transfer of the Phoenix office property to REO during the quarter through a negotiated deed-in-lieu of foreclosure, and we are actively working to sell the property. The borrowers on the four non-accrual, 5-rated loans continue to work collaboratively with us on a variety of resolution strategies as we look to maximize shareholder value. The four loans total about $245 million in principal balance and have $62 million in specific CECL reserves, implying an average estimated loss rate on those loans of about 25%. We are working with the sponsor of the Minneapolis Hotel on a potential short sale process. The property is currently being marketed for sale by a national brokerage firm. The marketing is in the early stages, and we will reevaluate next steps with the borrower once they have some more feedback from their process in the coming weeks and months. We have been working on a potential sale of the Dallas office loan. The process is ongoing, and we are hopeful that we can come to a potential agreement in the coming months. With respect to the San Diego office loan, we mentioned on our prior call that the property is a good candidate for alternative use, either as a hotel or multi-family asset. Discussions are ongoing, and we hope to potentially resolve this asset by the end of the year while the timing and ultimate outcomes remain hard to predict. Regarding the $93 million office loan in Minnesota, this property is well located in the CBD and historically performed well. While the local economy continues to be stable and healthy with low unemployment, the challenge in the near term is that the Minneapolis CBD office market has seen a delayed recovery in leasing and employers return to office policies compared to many other large cities. It's harder to predict when the recovery in this market will occur, but some of the key variables include more employees returning to the office, increased leasing and investment sales activity, and the commercial real estate capital markets thawing some for office properties. We continue to be constructive with the property's institutional quality sponsor as we work toward a resolution and will keep you updated as the situation progresses.

We remain focused on resolving these assets given the magnitude of their impact on our returns and will provide more information as these situations develop over the course of the coming months and quarters. As we have discussed in the past, over many real estate and economic cycles, our team has used a variety of tools to resolve challenge assets, including modifications, restructurings, recapitalizations, loan sales, and taking title via foreclosure or deed-to-lieu, and we intend to use all the tools available to us as we determine the most optimal paths to maximize economic outcomes.

Turning to capital deployment. We have been maintaining our cautious stance on new loan origination and continue to have a preference to carry higher liquidity levels given overall market uncertainty and our upcoming convertible note maturity in October. Therefore, we anticipate our portfolio balance will continue to modestly decline for the remainder of the year.

I will now send a call over to Marcin for a more detailed review of our financial results in capitalization.

Marcin Urbaszek
Thank you, Steve. Good morning, everyone, and thank you for joining us today.

Yesterday afternoon, we reported our second quarter GAAP net income of $1.4 million or $0.03 for basic share, which includes a provision for credit losses of $5.8 million or $0.11 for basic share. Compared to the prior period, our GAAP results improved mainly due to a lower provision for credit losses as the increase in our CECL reserve, driven by continued unsettled market conditions was more muted than in the first quarter.

Pre-loss distributable earnings for 2Q were $10.2 million or about $0.20 for basic share, largely in line with the prior quarter, and again, covered our $0.20 common dividend, as the portfolio runoff was mostly offset by higher interest rates and lower expenses. Our distributable earnings to common stockholders were about $6 million or $0.12 per share and reflect the realized loss of $4.2 million or $0.08 per share related to the transfer of our Phoenix office asset to REO during the quarter. Going forward, we anticipate results from the real estate operations to be largely breakeven from a distributable earnings perspective, while the GAAP results will include expenses related to depreciation and amortization on the REO asset.

Our second quarter book value declined by about $0.15 per share or about 1% to $13.93 per common share and was mainly affected by the loan loss provision. We did not repurchase any shares in 2Q after being very active, buying back about 1 million shares in the first quarter. As we have done in the past, we intend to remain opportunistic with respect to our buybacks, given our flexible and shareholder value-focused capital allocation strategy as we navigate the uncertain environment and evaluate our liquidity and other factors.

Our CECL reserve at quarter ends stood at about $134.6 million or $2.61 per share, representing about 4.1% of our portfolio commitments as compared to 3.8% last quarter. The increase in our CECL reserve quarter-over-quarter was mainly related to a higher general allowance driven by assumptions of further declines in property values and other micro factors. As disclosed in our earnings supplemental, slightly less than half of our CECL allowance is allocated to the four non-accrual loans.

Turning to liquidity and capitalization, we ended the quarter with over $235 million of unrestricted cash, which represented about 25% of our total equity. Our total leverage modestly declined to 2.3 times from 2.5 times in 1Q, driven by loan repayments, and remains meaningfully below our target levels. We believe carrying lower leverage to be prudent given market conditions in our upcoming Convertible Note maturity in October, which we intend to satisfy with cash on the balance sheet. Our funding mix remains well diversified and stable, with continued strong support from our lenders. Over the last few months, we extended the maturities on our financing facilities with Morgan Stanley, Goldman Sachs, and JP Morgan, totaling over $1.2 billion in borrowing capacity, highlighting the strength of our long-standing relationships with our lending partners and a generally favorable credit quality of our portfolio. Additionally, post-quarter end, we announced through an 8-K filing two amendments to our covenants within our financing facilities. The amendments are part of our active balance sheet management and are designed to better reflect the high interest rate environment and better align the tests with the current market conditions. This step further reinforces our good standing with our lending partners.

Thank you again for joining us today, and now we would like to open the call for questions.

Operator
Thank you. At this time, we'll be conducting a question-and-answer session. If you would like to ask a question, please press “*” “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “*” “2” if you would like to remove your

question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the “*” keys.

One moment, please, while we poll for questions. Our first question comes from Steve DeLaney with JMP Securities. Please proceed with your question.

Steve DeLaney
Good morning, everyone. Thanks for taking the questions, and congrats on a very solid quarter. Gosh, always nice to see that page in the deck of 5-rated loans not widen, to shrink. I realize that you have a property in REO, and it's just a reclassification, but strategically, you have more control now. So, I look at that, maybe not as a win, but extending the game. On that point, could we just get a little color now that you own a real estate asset? And I was a little late joining the call. I apologize. But could you give us a sense of where leasing stands at this point? And also, have all the improvements that the former borrower contemplated through that property to prepare it for leasing, have they all been completed? Thank you.

Steve Alpart
Hey, Steve. Good morning. It's Steve Alpart. Thanks for joining the call this morning.

Steve DeLaney
Hi, Steve.

Steve Alpart
Good morning. So, with respect to leasing, we've mentioned in the past and on this call that the property is well located. It's in a convenient pedestrian downtown location. It's near light rail, mass transit, and it lays out well for residential. So as far as leasing goes, that's not been the focus on this asset, given that the highest and best use is likely conversion to residential versus maximizing office occupancy and office cash flow. So that's the current focus right now. It's really on selling the asset with the highest and best use being multifamily.

Steve DeLaney
Okay. So, this is an existing building that had been an office, and the plan, the thought is the highest and best use is to convert it to condo or apartments for rent, is that what I'm hearing?

Steve Alpart
Yes, it's currently an office building. There are only office tenants in the building, but because the highest and best use is likely to be rental apartments, the focus recently has not been on increasing office occupancy. The focus has been on converting this asset to residential rental use.

Steve DeLaney
Makes sense now. Thank you so much for clarifying that.

Steve Alpart
Sure.

Steve DeLaney
And I guess you're obviously looking for probably a developer partner, either someone who would take it over or someone to partner with you all to make that strategic change in the positioning of the property?

Steve Alpart
Yeah, that's correct. So just to recap, a sales broker has been engaged. We're working on a sale. Currently, it's not our expectation that we would convert it, but that we would sell it to a residential converter.

Steve DeLaney
Okay.

Jack Taylor
If I could just add, we're not yet in the formal process of marking it. We've had reverse inquiry from outside parties about this, and it works either as an office or as a residential, but it seems that it might be to our benefit to respond and pursue the residential conversion reverse inquiry we've had. And I'll just say, to answer your earlier question, our former owner did complete their renovation of the property. It's in fine shape.

Steve DeLaney
Okay, great. Thanks for those comments, Jack. Switching over to the comment, the potential sale of the Dallas office loan that is 5-rated, are you seeing—well, let me ask you this. I mean, are you seeing activity on distressed buyers, private debt funds? Are you seeing transactions out there and are there brokers, if you will, that are actually reaching out to you or other commercial mortgage REITs or banks? I guess I'm trying to get a sense of how active the sale of CRE loans in sort of the private markets, private debt markets, how active that business is from a transaction standpoint around the country right now. Thanks.

Steve Alpart
Hey, Steve. Steve again. There is clearly a market. There are transactions taking place. The activity obviously varies by market. So there is a market out there and as we said on the call, we're talking to potential buyers on this particular asset about selling the loan. So, there is a market out there. The amount of activity really varies market by market, deal by deal.

Steve DeLaney
It's good to see. I think TRTX sold the loan last quarter as well. So I'd like to see that pick up. Okay, well thank you all for your comments.

Steve Alpart
Thank you, Steve.

Operator
Our next question comes from Stephen Laws with Raymond James. Please proceed with your question.

Stephen Laws
Hi, good morning. Steve, I appreciate the color on the loans you ran through. And I wanted to kind of generally follow-up on that. Also, Jack, I believe, it kind of tied some numbers together. I think you had mentioned there was a $5 million drag on earnings in Q2 from non-accruals, and as I think about those non-accruals, obviously Phoenix is now in REO, but you've covered that. It sounds like the other four, I think a few of them you mentioned hope to have a sale or resolution in the next couple of months or by year end. So, it sounds like the hope is a number of those get cleared up. So, can you talk about as you think about the relative weighting or your knowledge on the reserves against each of those individual assets, how do we think about the incremental earnings power in the first half of next year, given your outlook on some of these potential second half resolutions?

Marcin Urbaszek
Hi, Steve. It's Marcin. I'll answer the second part of your question and flip it back to Steve Alpart. I think on the resolutions and the earnings impact, obviously, as you've heard us say this quite a few times now, it's a meaningful drag and we're really focused on resolving these assets. The $5 million that Jack quoted is sort of just as if these loans were sort of earning for a quarter. That's what the impact would be. Obviously, they are financed at pretty expensive levels as well. So, there would be some impacts potentially from that as well.

It's going to come down to timing, right? If we're successful, which hopefully we are, resolving a couple of these by the end of the year, that could be several cents a share in earnings per quarter. But it's really hard to predict as to when these things are going to happen and exactly what the structure of the potential resolution is. But I think it's safe to say that once these assets sort of leave the balance, you'd get sort of restructured, whether they are sold or we provide self-financing to a new owner, the earnings pick up on a runway perspective could be quite meaningful here. But it's really going to come down to timing as to when that actually can happen.

Stephen Laws
Great. And Steve, it seemed like that Minne office was really the only one that had more of a longer-term resolution path. Is that fair, or how do you view the timeline on the other three?

Steve Alpart
Yeah, we'll have to see how it plays out. Look, we just talked about the Phoenix REO. The Minneapolis Hotel is currently being marketed. As we said, it's early stages, we'll evaluate it over the next couple of weeks and months. We just spoke about the Dallas deal, the San Diego office deal. We're hoping to resolve that over the next one or two quarters. It could go into early 2024.

And then as you alluded to, as we said, the Minneapolis office is probably the most delayed, just given what's happening in that market. You heard us talk about delayed recovery in the downtown Minneapolis market. So, these are all hard to predict, but that one, if we had to predict right now, is probably the longest timeline. But look, as Marcin was just talking, our clear goal right now is to resolve all these assets as expeditiously as possible.

Stephen Laws
Great. Appreciate the comments. And it certainly seems like as some of those are resolved, could potentially provide us a tail end in earnings as we see that occur. So, appreciate that.

Steve Alpart
Thank you.

Marcin Urbaszek
Thank you.

Operator
Our next question is from Doug Harter with Credit Suisse. Please proceed with your question.

Doug Harter
Thanks. Shifting to liquidity, how do you think about what the right or the necessary level of cash to hold will be once you kind of get through the October convert maturity?

Marcin Urbaszek
Morning, Doug. It's Marcin. Happy to answer the question. Look, I think we've always wanted to be sort of 10% to 15% of our capital, plus or minus in liquidity. Obviously, in this type of environment, we'll probably want to be a little bit more than that. We've done a good job sort of letting the portfolio run-off a little bit and build the liquidity. And obviously, fortunately, unfortunately, we had that two sort of back-to-back converts that we had to pay off and within 10 months of each other. So, we're proud of the fact that we'll be able to sort of satisfy both of them with cash on the balance sheet from our own resources, and obviously, we are quite de-levered. I think there may be some opportunities to re-lever certain areas of our portfolio, but it will really depend on sort of what's going on within the market, what's going on within the portfolio, if we believe we need additional liquidity to sort of protect the balance sheet to manage the assets. We'll always be opportunistic, as it sort of relates to our capitalization, as we've done in the past. So the focus will remain on building some more liquidity, and we'll sort of see where we are over the next several quarters, sort of depending on what the market and portfolio is doing.

Doug Harter
Great. And as you guys mentioned, you renewed three of your credit facilities kind of in recent months, was there any significant change in any of the terms, whether that's advance rates or the cost or the spreads on those debts?

Marcin Urbaszek
Nothing really meaningful. There’re always some adjustments almost on a monthly basis, but those are sort of more related to just sort of assets that are sitting on these facilities, but nothing really material with respect to extensions. Our lenders, we've done business with them for many, many years. They remain very supportive. They want to do more business with us.

As you've heard us say in the past, right, we've refinanced two of our de-levered CLOs with two of our largest banking relationships. We've just amended a couple of our covenants without any issues. So, we have really, really good relationships with these parties, and they continue to want to do more business with us, which to me keeps pointing to the overall credit quality of our portfolio and our relationships and our asset management capabilities.

Doug Harter
Great. Thank you, Marcin.

Marcin Urbaszek
Thank you.

Operator
Our next question comes from Jade Rahmani with KBW. Please proceed with your question.

Jade Rahmani
Thank you very much. When I look across the portfolio, and thank you for providing the disclosure, stratifying by origination dates and original term, a large share of the portfolio seems to have past maturity, something around 50 loans. So, I'm wondering, could you just provide some insight? I know the terms can be flexible in transitional loans and there's constantly modifications, extensions, et cetera. But just can you talk to maybe aside from the loans that you've called out where there's resolutions being sought near-term, those loans that are past maturity, but not yet risk-rated 4 and 5?

Steve Alpart
Sure. Hey, Jade. Good morning. It's Steve. So look, we're constantly looking out at loans coming up on extensions. Some loans have gone past their maturity. We expect that, as a lot of these loans will pay off in the normal course, and other loans will extend as of right. And then to the extent that loans don't extend as of right, they don't meet the debt yield extension test, whatever the condition may be, we're working, as you've heard us say in prior calls, we're working with those borrowers. It's always case by case.

The playbook has been, and a lot of this is on the office loans, but not just the office loans, where if someone comes up on an extension or more recently on a final maturity, if the borrowers doing everything right, if they're investing more capital into the deal, that could take the form of pay downs or filling up debt service reserve buckets or additional structure. We are open to creating win-win loan modifications and extending those out to give borrowers more time. And that has been the general theme that we're seeing across the portfolio.

And then, for the smaller cohort of loans that borrowers don't want to put more money in, those are the ones that we can finish talking about. But yes, we have some loans that have gone where we've granted an extension in exchange for pay downs and structure, and we'll likely continue to do that as we work through the next coming quarters.

Jade Rahmani
Thank you for that. So, we shouldn't be alarmed by necessarily loans having been past maturity. Not necessarily an indication of deterioration.

Steve Alpart
I think the best thing to look at is the risk rankings. When we do the quarterly risk rankings, we look at a lot of factors. It's a very robust process, but clearly loan term extensions and maturities are also factored into that. So, I would guide you to or point you to our risk rankings is probably a good place to look.

Jade Rahmani
Okay. And then, just broadly speaking, maybe yourself or Jack, I would say that reviewing the bank results, life insurance, and the mortgage REITs this quarter, my main takeaway is probably credit deterioration is continuing, but at a decelerated pace. And there have been no big new shoes to drop. The major losses we've seen have been loans generally that have been known as distressed in the mortgage REIT space. So, are you surprised by that? Do you agree with that? And overall performance, in fact, have you viewed it as better than expected?

Jack Taylor
Hi, Jade. This is Jack. Good to speak with you and thank you for the question. I would say that we've not been surprised, and this really is a bifurcation that there's ongoing stresses in this market induced primarily, I believe, by the Fed's elevated level of interest rates and the intentional withdrawal of liquidity. So, though there are secular changes in various property types, including office that I think are over-emphasized by the market, but are there. And so, we're experiencing and watching this market a continuation of stress against it, but we're not that surprised by some of the improvements, if you will, or what I'll call the resilience and durability, particularly in our own portfolio, because we're aware of those assets and what they're doing. And some of them, for example, we have one of our quite aged loans. You were just talking about that, we expect to repay in the next quarter or so, because of all the things that Steve was citing. We've worked with them. They've paid it down. They've repositioned it, and it's ready to go.

But really, I think inherent in your question is whether or not we're expecting to see further negative credit migration. I think there will be in the industry as a whole. We're a year into this cycle of increasing rates and several years into the pressure on office leasing. So hopefully, as an industry, most of the challenges are known, but ultimately, it's largely a function of the overall economy, the interest rates, capital markets, leasing markets.

So, we expect to have upgrades and downgrades in our portfolio in the normal course of the business. And to the extent we see further pressure, it's certainly possible we could experience further downgrades. But we'll also expect to have upgrades. and I’ll just remind you that when we went into the pandemic, we downgraded almost all of our hotels to a four, defensively, principally, because of what was going on, many of those came up to three rating or two rating over time. So, it's part of the normal process, and I agree with what Steve said, we should guide you to look at our risk rankings as our overall feeling about where things are. So, I don't want to say that there won't be in the industry or for us any further credit migration downwards and there will be upwards.

Jade Rahmani
Thank you. WeWork made a disclosure about going concern risk in their 10-Q and earnings release. Their liquidity has diminished and they continue to burn through cash. So it looks like there's a reasonable probability of a bankruptcy. Can you quantify, if you have it, any exposure to WeWork? Some of your peers, it's about 1% of office square footage. Not sure what it is for GPMT. And also, if a failure of WeWork changes anything in your mind about office risk in the outlook.

Steve Alpart
Hey, Jade, it's Steve again. We have a de minimis co-working risk and de minimis we-working risk.

Jack Taylor
I think if they fail, I think it'll have an effect on office just as any major tenant that's dispersed throughout the country would as well. I think most owners have been girding for that, if you will, and trying to figure it in, but it'll have some effect and it just won't directly affect our assets.

Jade Rahmani
Thank you very much.

Jack Taylor
Thank you, Jade.

Operator
We've reached the end of the question-and-answer session. I would now like to turn the call back over to Jack Taylor for closing comments.

Jack Taylor
Well, thank you, and I'd like to thank everybody for joining us today. We really appreciate your time and attention. I would like to thank our team for all the hard work that you've been putting into maintaining our portfolio and the quality of it. I especially want to thank our investors for the ongoing support you've shown to us. Thank you again.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.