

Granite Point Mortgage Trust, Inc.
Third Quarter Earnings
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Presenters

Jack Taylor - Chief Executive Officer

Stephen Alpart - Chief Investment Officer and Co-Head of Originations

Marcin Urbaszek - Chief Financial Officer

Chris Petta - Investor Relations

Q&A Participants

Steve DeLaney - JMP Securities

Jade Ramani - KBW

Operator

Good afternoon. My name is Diego, and I will be your conference facilitator. At this time, I would like to welcome everyone to Granite Point Mortgage Trust's third quarter 2023 financial results conference call. All participants will be on a listen only mode. After the speaker's remarks, there will be a question-and-answer period. Please note, today's call is being recorded.

I would now like to turn over the call to Chris Petta with Investor Relations for Granite Point.

Chris Petta

Thank you, and good afternoon, everyone. Thank you for joining our call to discuss Granite Point's third 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 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 the risks that could affect results.

We do not undertake any obligation to update any forward-looking statements. We also refer to certain non-GAAP measures on this call. This information is not intended to be considered in isolation or a substitute for 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 afternoon everyone. We would like to welcome you and thank you for joining us to discuss Granite Point's third quarter 2023 earnings call. We are happy to report ongoing progress on our business objectives, as we continue to proactively manage our assets and liabilities, in light of the uncertain market environment. The continued strength of the U.S. economy, supported by the strong labor market and consumer spending has surpassed many expectations, notwithstanding the dramatic rise in interest rates.

Despite this positive economic backdrop, there remains a high degree of uncertainty about the macroeconomy, and the commercial real estate market remains challenged. High interest rates and fundamental performance across property types contribute to limited market liquidity and a greatly reduced overall volume of property sales and refinancing transactions. Accordingly, we intend to maintain our conservative position, emphasizing the maintenance of higher liquidity and one of the lowest leverage ratios in the sector, as we believe that property values and liquidity will continue to be under pressure.

Our granular and over 99% senior floating rate loan portfolio, in general, continues to produce attractive returns, benefiting from higher rates and diversification, plus 77 investments in mostly middle-market loans. In general, our borrowers remain supportive of the properties, and continue to protect their investments. Although transaction volumes are down across the commercial real estate market, reflecting higher cost of capital and associated reset property values, our portfolio continues to experience repayments across various property types and asset resolutions.

Since the beginning of the year, we have realized over \$500 million in repayments, paydowns, and sales, many of which were from loans that were previously modified, to give borrowers more time to progress on their business plans. The pace of repayments remains volatile and uncertain, but we have been pleased with the trends and will continue to manage our business accordingly. The run rate operating results generated by our portfolio over the last few quarters have generally been around our dividend level, including the third quarter pre-loss distributable earnings of \$0.18 per share, which was reduced by a couple of pennies per share, due to onetime items, which Marcin will discuss later.

Our GAAP results include additional, CECL reserves, mainly related to the 5-rated loans, and reflect the ongoing market challenges, especially for office properties in certain markets that

have been particularly affected by work-from-home trends and other factors. Steve Alpart will discuss the progress we are making on our 5-rated loans. Our overall CECL reserve increased in the third quarter, to about 4.9% of total commitments, from about 4.1% last quarter.

As we discussed on prior calls, our defensively positioned balance sheet, with a diversified funding mix, low leverage, and higher liquidity provides optionality in an uncertain market. As planned, we redeemed the \$132 million convertible note that matured in early October, with cash, leaving no corporate debt maturities remaining. In less than a year, we have repaid over \$275 million of corporate debt.

We are very pleased to have accomplished that, without needing to access the capital markets during this time of elevated volatility and uncertainty. We believe this outcome further illustrates the liquidity embedded in our portfolio, as shown by the level of repayments and the effectiveness of our strategy, by proactively lowering our leverage during times of market dislocations, which creates opportunities to increase financing levels on certain assets later.

Since quarter-end, we are happy to report that, consistent with this strategy, we have successfully upsized our borrowings on our JPMorgan facility in October, generating an additional \$75 million in proceeds, with the potential to increase them up to \$100 million, illustrating our lending partners continued support of our business and desire to expand those relationships as we navigate this challenging environment.

Our priorities in the near to medium term remain centered around maintaining higher liquidity, working with borrowers to facilitate repayments, and resolving our nonaccrual loans, giving their meaningful impact on our profitability, which is estimated to be an over \$6 million drag on interest income during the third quarter. We are actively pursuing a range of resolutions for these loans, each of which may have a different strategy, depending on individual circumstances, as we determine the best course of action to maximize the economic outcomes for our shareholders, over the long-term. We believe that these actions, over time, will help improve our run-rate profitability and close the gap between our stock price and our book value. They will also provide us with great opportunities to redeploy our capital into attractive investments and meaningfully grow our portfolio as the real estate market stabilizes.

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 afternoon. I'll discuss our portfolio activity and will provide updates on our risk rated 5 loans and one REO property. We ended the third quarter with total portfolio commitments of about \$3.1 billion and an outstanding principal balance of about \$2.9 billion, with \$142 million of future fundings, accounting for only about 5% of the total commitments. Our portfolio remains well diversified across regions and property types, and includes 77 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 at origination of 63%. Our realized portfolio yield for the third quarter was about 8.4%, accounting for the impact of the non-accrual loans, which we estimate to be about 85 basis points. During the third quarter, we funded \$20 million of existing loan commitments, and upsized one loan by about \$0.5 million. So far in the fourth quarter, we have funded approximately an additional \$5.5 million on existing commitments. We continue to see liquidity in our conservatively underwritten middle market loans, with over \$177 million of repayments and paydowns realized during the third quarter. So far in the fourth quarter, we have realized an additional \$79 million in repayments, including one loan sale. For the year, we have realized over \$500 million of loan repayments, paydowns, and sales, which we view positively, considering that overall real estate transaction volume is down dramatically over the last year or more.

We anticipate receiving additional repayments in the coming months and quarters, though the exact timing and volume remain difficult to predict. Turning to credit, the office market remains challenged, but it is not uniform and loan performance depends on specific market fundamentals and the particulars of each property. Work-from-home trends impact different markets and specific properties to varying degrees, while high interest rates and the pull-back in commercial real estate lending from the banking sector continues to pressure available liquidity in the market, likely extending the recovery timeframe.

These market trends and individual property challenges are reflected in our quarter-end risk ratings. As of September 30, our portfolio, weighted average risk rating remains stable, at 2.7. During the third quarter, we downgraded the risk rating of a \$37 million senior loan, collateralized by a mixed-use office and retail property located in downtown Los Angeles, from a 4 to a 5. This downgrade resulted from the office leasing challenges and other dynamics in this local market.

We are in active discussions with the borrower as we consider potential next steps with respect to this loan. We continue to work collaboratively with our borrowers on the three other risk-rated 5 loans on a variety of potential resolutions. As Jack mentioned earlier, we have made progress on our 5 rated loans. During the quarter, a \$31.8 million, risk-rated 5, senior loan, collateralized by an office property located in Dallas, Texas, was transferred to held for sale, which resulted in a write-off of \$(16.8) million. Subsequent to quarter-end, the loan was resolved through a cash sale, with no additional loss recognized. The borrower on the San Diego office loan has reached an agreement to sell the property, and we anticipate the resolution of this asset in the near-term. The borrower on the Minneapolis hotel is continuing with their process to potentially sell the property, though the ultimate result and timing remains uncertain.

The four loans that are risk rated 5 total about \$250 million in principal balance and have established an \$85 million specific CECL reserve against them, implying an impairment of about 34%, on average. Regarding our one REO asset, an office building in Phoenix, we are actively engaged with our property manager, and the building continues to generate modestly positive

operating income. We are in the process of responding to various reverse inquiries about a potential sale of the property which we believe may be a good candidate for alternative use as multifamily. We continue to believe that the optimal resolution path for this investment is through a future sale, though it is difficult to predict the ultimate timing.

I will now turn the call over to Marcin for more a detailed review of our financial results and capitalization.

Marcin Urbaszek

Thank you, Steve. Good afternoon, everyone, and thank you for joining us today. Yesterday afternoon, we reported our third quarter GAAP net loss of \$(24.5) million, or \$(0.48) per basic share, which includes a provision for credit losses of \$(31) million, or \$(0.60) per basic share, mainly related to certain risk-rated 5 loans. Pre-loss distributable earnings for 3Q were \$9.5 million, or \$0.18 per basic share, and included about \$1 million, or \$0.02 per share, of one-time items, related to one of our repayments and one new non-accrual loan.

Adjusting for those items, pre-loss DE for 3Q was largely in line with prior quarters, and around our \$0.20 common dividend, as the portfolio run-off was mostly offset by higher interest rates and lower expenses. Our distributable loss to common stockholders was \$(7.3) million, or \$(0.14) per basic share, and includes a write-off of \$(16.8) million, or \$(0.32) per share, related to the transfer to held for sale of our risk-rated 5 Dallas office loan, which was subsequently sold in October, at our carrying value, as of September.

3Q was the first full quarter of operations for our Phoenix office REO asset, resulting in modest operating income, adjusted for depreciation and amortization, which is excluded from distributable earnings. Our third quarter book value declined by about \$(0.65) per common share, or about 4.5%, to \$13.28 per share, from \$13.93 per share in 2Q, and was mainly affected by the loan-loss provision.

Our CECL reserve at quarter-end stood at about \$148.9 million or \$2.89 per share, representing about 4.9% of our portfolio commitments, as compared to 4.1% last quarter. The increase in our CECL reserved was mainly related to a specific reserve on one new risk rated 5 loan and a couple of other 5 rated loans driven by assumptions of further declines in estimated property values, and additional information gained from the ongoing resolution process related to certain of these loans. As Steve mentioned, more than half of our CECL reserves, or about \$85 million, is allocated to the four non-accrual loans, as of September 30.

Turning to our liquidity and capitalization, we ended the quarter with over \$257 million of cash, and our total leverage declined to 2.2 times in 3Q, from 2.3 times in 2Q, due to loan repayments. Our low leverage provides us with more balance sheet flexibility, as evidenced by our recent upsizing of the borrowing capacity on our bank facilities by up to \$100 million, of which we have so far realized \$75 million in proceeds.

Our funding mix remains well diversified and stable, with continued support from our lenders, highlighting the strength of our long-standing relationships. As planned, we re-paid with cash our \$132 million convertible notes that matured in early October. Following this repayment, we have no corporate debt maturities remaining, and as Jack mentioned earlier, we repaid both of our corporate bonds, totaling \$275 million, by proactively managing our liabilities and without needing to access the capital markets at an inopportune time. As of a few days ago, we carried about \$178 million in cash, which reflects the bond repayment.

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

Operator

Thank you. Ladies and gentlemen at this time, we will conduct our question-and-answer session. If you would like to ask a question, please press * 1 on your telephone keypad. A confirmation tone will indicate that 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 star key.

One moment, please while we poll for questions. And our first question comes Steve DeLaney with JMP Securities. Please state your question.

Steve DeLaney

Hey, good afternoon, everyone. Thanks for taking the question. Look, in a challenging credit market, it's nice to see the convert getting cleaned up, and just further improves your balance sheet. So, glad you're able to take care of those things, from a financial standpoint and condition, knowing how much time you have to put into the credit. Flipping over to the comments that Steve made on the San Diego office loan you mentioned, I believe, there was possibly a contract for sale. I didn't get all the details. Can you just clarify that, please?

Steve Alpart

Hey, Steve. Good morning. It's Steve Alpart. Thank you for joining the call. Yeah, so we have this resolution we've been working on. As we said on the call in the past, the building's physical and locational attributes make it well suited for conversion to other uses. We talked about hotel, residential, and mixed use. As we ultimately said on the call, the property is now under contract. We anticipate resolving it in the next couple of months.

But, just given market conditions and timing, it's hard to predict the exact timing. But we are pleased to see that there was good interest in this asset for alternative uses from a bunch of buyers. So it's under contract, and hoping to resolve in the next few months.

Steve DeLaney

All right. And it sounds like the buyer is a property operator, I mean, a real estate professional and not just a debt fund. In other words, they're working with you, looking at this property, because they have a vision of what it might become. Is that accurate?

Steven Alpart

Yeah, that is accurate. It's a buyer who would like to own the property and convert it into another use.

Steve DeLaney

Okay. In that transaction, and maybe you can't comment on this right now, but let me put a hypothetical. When you sell a property that's a 5 and it's a work-out, is there a situation where you would write a new loan for the new buyer? Or would you prefer that it be cleaner, and that individual find their own financing, just given the fact that it is on your books as a problem asset now? Curious how guys would handle that if that was a requirement of the sale?

Steve Alpart

Sure. It's a great question. It's always going to be case by case. So, we have the ability, if we think it's beneficial to Granite Point to facilitate a sale to provide stable financing, as we refer to it. Whether we do that or not will be very case specific. We did not do that, for example, on the Dallas asset, which was an all-cash sale. In other cases, we have provided stable financing. So, I would say, Steve, it's something in the tool kit that we'll look at case by case.

Steve DeLaney

Got it. Okay. Well, thank you for the comments.

Steve Alpart

Sure.

Operator

Thank you. And another reminder, to ask a question, press * 1 on your telephone keypad. To remove yourself from the queue, press * 2. Our next question comes from Jade Ramani with KBW. Please state your question.

Jade Ramani

Thank you very much. Wanted to ask you about multifamily. Just looking at the locations, it doesn't jump out at me as Granite Point having significant exposure to some of the markets that are under a lot of pressure, with respect to where new leases are heading. In places like Phoenix and Austin, we've seen down nine, down 10% new lease growth in October. So just scanning the geographic exposure, I'm not seeing those markets. But, overall, what are you seeing in the multifamily book?

Steve Alpart

Hey, Jade. Good morning, it's Steve. Thanks for joining the call. The multifamily properties in our portfolio, I would characterize as having generally healthy fundamentals. We feel good about these loans. We have a very diverse portfolio of multifamily properties, which I would generally classify as class A and class B properties. They were in a lot of markets, as I think you've noted, with a concentration, not only, but a concentration in the Southeast and Southwest.

The business plans here typically involve a renovation, a CapEx plan, pushing rents to market, where we're trying to get rents up to the competitive set. It's well known, and we've seen deceleration in rental growth rates that were not underwritten, but we were seeing double-digit rent growth. And we've seen that come down to single digits, mid-single digits, low-single digits. In a few cases, it's gone a little bit negative. But we're seeing that, even in this environment, our borrowers are still able to, in many cases, most cases, still able to get rent bumps, keeping occupancies pretty strong. And I would just point out that we did not originate a lot of loans at the peak of the market in '21 and '22. We did not underwrite a lot of rent growth. We mainly underwrote that a borrower could push rent to the level of the property next door.

We are seeing some cases where it's a little bit harder to get the rent bump, or at least get the full rent bump. But we're generally seeing that rents are still trending upward. We're seeing some pressure on operating expenses. I think that's been well reported. We're seeing it particularly on property taxes in a few markets, and insurance in certain markets, particularly coastal markets. So that's just something to watch.

There's elevated, new supply in some markets, but it's not everywhere. And, as we look out and talk to our sponsors, it feels like, when you get out beyond the next 12 to 18 months, that supply pipeline should come down. So, the way we're thinking about it now, is that it might take another one or two turns of the rent role to get to stabilization. But generally, we feel generally good about these loans. And we are seeing generally good demand, just given home affordability. So just overall, we're positive on the fundamentals in this sector, as we look out the next 12 to 18 months and we haven't seen any general signs of weakness, so far.

Jade Ramani

Okay. That's good to hear. Sounds like multifamily is not a cause of concern for you all right now. Wanted to ask about some of the older loans in the portfolio. When I scan the loan sheet it doesn't show risk rating next to it. But for example, there's an origination date of December 2018, \$96 million is the maximum commitment. It's a New York, mixed-use loan. Can you give some color on what's going on there? And then, I also see a few that are 2015, 2016, 2017 originations, just making some assumptions for maximum term, these loans should have matured already. So, it'd be helpful to get an update on at least a few of the larger ones.

Steve Alpart

Okay. So, in terms of some of the older loans, in many of those cases, those were loans that we made over five years ago. At some point, a couple years into the loan, things were going in a good direction. A borrower had an opportunity to potentially upsize the loan or get cheaper cost of capital, and they would come to us, good sponsor, and we would do an offensive loan modification, where we would intentionally want to keep the loan on longer, and we might give more term. We found those to be kind of win-win loan mods, and what we refer to as offensive loan mods. So that's what a lot of those older loans are. You mentioned, specifically, about New

York, mixed-use property that one is ground-floor retail, upper floor office. The retail is fully leased. The sponsor is still working on the business plan. They put a lot of capital into it.

They have a lot of equity invested and that particular loan was moved to a 4, I believe, late last year and that was mainly due to softness in the office market in New York.

Jade Ramani

Are there any of the other, larger ones that jump out at you, of the older vintage?

Steve Alpart

We have a property in Baton Rouge, it's a high-quality, open-air center, where the sponsor, as we speak, is working on a property sale.

Jade Ramani

Okay. You might want to add a column for an updated, origination date, or something, because when investors scan this and they look at the term, they're just adding the number and making some assumptions that many of these might be past due. So, it would be helpful to see that.

Steve Alpart

Great. Okay. That's a helpful comment. Thank you for that.

Operator

Thank you. There are no further questions at this time. I'll hand the floor back to Jack Taylor for closing remarks.

Jack Taylor

Well, thank you. We want to extend our thanks and appreciation to our investors for supporting us and for all of you attending. I also would like to thank our team for all the great work they're doing in the process of working through these assets and facilitating all the repayments that we've had. I wish everybody a good day. Thank you very much.

Operator

Thank you. This concludes today's conference. All parties may disconnect. Have a good day.