Q1-2023 Results from the Giliberto-Levy Index (G-L 1) are Released

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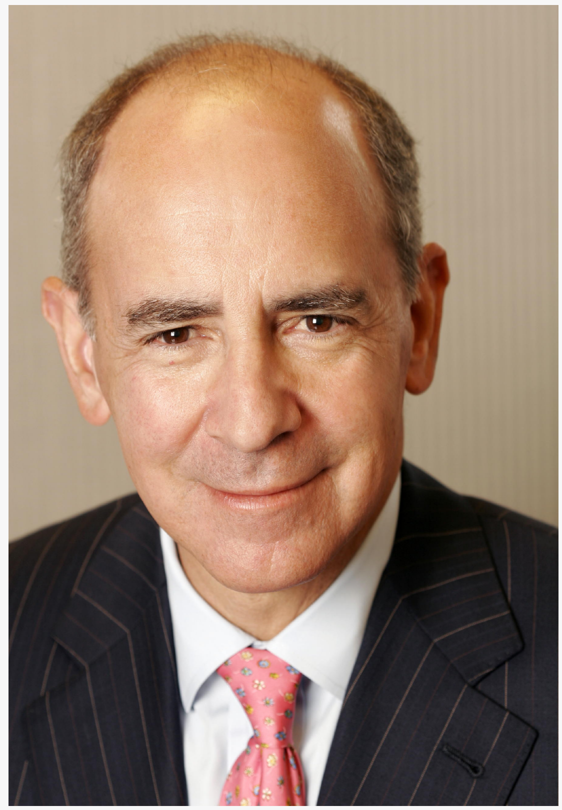

John B. Levy

RICHMOND, VIRGINIA, USA, June 7, 2023 /EINPresswire.com/ -- (The following is adapted from the Q1-2023 results from the Giliberto-Levy Index (G-L 1). For more information, or to subscribe to the index, please visit https://www.jblevyco.com/giliberto-levy-research#gl-1 or contact Julia Grant at 804-500-9026).

The G-L 1, the leading, nationally-known measure of total returns for pension fund and insurance company fixed-rate, first-mortgage loans, demonstrated exceptional performance during Q1-2023. Across all sectors, the total return stood at an impressive 3.13%, outperforming Baa intermediate bonds, which recorded a markedly lower total return of 2.66%.

Notably, commercial mortgage spreads exhibited minimal fluctuations, despite some upward movement following the failures of Silicon Valley Bank and Signature Bank. Such developments are not surprising to seasoned analysts. However, by the end of the first quarter, spreads had settled back to only slightly higher levels than those observed on December 31, 2022.

As Treasury rates moved lower, mortgage rates on new investments also experienced a downward adjustment and currently stand below 6%. It is worth noting that mortgages with loan-to-value ratios in the 50-60% range may benefit from an additional reduction of 10 basis points. Concurrently, real estate values continued declining, with a 3% decrease in Q1-2023, as the National Council of Real Estate Investment Fiduciaries Property Index (NPI) reported.

While values have declined across various sectors since their peak, the magnitude of the decline has been less than anticipated. For instance, industrials witnessed a 6% write-down, whereas offices experienced a more significant reduction of 13%, with further declines expected in the latter category. Regarding credit tracking, the annualized credit effect for Q1-2023 remained at five basis points, consistent with the four-quarter trailing credit effect at four basis points. Our proprietary credit tracker, which identifies loans in the amber and red risk zones, has shown a modest increase. At the end of Q1-2023, 5.9% of loans fell within these zones, and by the end of the first quarter, this proportion had risen to 6.5%. Declining property values have led to higher loan-to-value ratios and an elevated percentage of loans deemed "at-risk."

A noteworthy shift has occurred in the landscape of full-term, interest-only loans, which decreased from approximately 63% in Q4-2022 to 47% in Q1-2023. Developers no longer adopt a "lock-in and go long" mentality, considerably reducing the average loan term. The prevailing wisdom suggests that a five-year term is "just perfect."

As always, we welcome and look forward to your comments and suggestions.

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