Blackstone

Mortgage Trust

Final Transcript

Blackstone Mortgage Trust, Inc.: 2Q 2018 Earnings Call

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SPEAKERS

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Anthony F. Marone – Chief Financial Officer

Weston Tucker – Head of Investor Relations

ANALYSTS

Douglas Harter – Credit Suisse

Don Fandetti – Wells Fargo

Steve Delaney – JMP Securities

Jade Rahmani – KBW

Benjamin Zucker – BTIG

Stephen Laws – Raymond James

Kenneth Bruce – Bank of America Merrill Lynch

Coordinator Good day, ladies and gentlemen, and welcome to the Blackstone Mortgage Trust Second Quarter 2018 Investor Call. My name is Derek, and I'll be your operator for today. [Operator Instructions]. As a reminder, this conference is being recorded for replay purposes. At the time, I would like to turn the conference over to Mr. Weston Tucker, Head of Investor Relations. Please proceed.

W. Tucker Great. Thanks, Derek, and good morning, and welcome to Blackstone Mortgage Trust's Second Quarter conference call. I'm joined today by Steve Plavin, President and CEO; Tony Marone, Chief Financial Officer; and Doug Armer, Head of Capital Markets.

Last night, 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 uncertain and 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 our 10-Q. This audiocast is copyrighted material of Blackstone Mortgage Trust and may not be duplicated without our consent.

So a quick recap of our results: We reported GAAP net income per share of $0.66 for the second quarter, while Core Earnings were $0.83 per share, up sharply from the prior comparable period. Last week, we paid a dividend of $0.62 with respect to the second quarter, and based on today's stock price, the dividend reflects an attractive yield of 7.5%. If you have any questions following today's call, please let me know. And with that, I'll now turn things over to Steve.

S. Plavin Thanks Weston, and good morning everyone.

Continuing the strong momentum from 1Q, BXMT originated $3.9 billion of loans, and generated $.83 of Core Earnings in the second quarter, both record results. Originations through the first half of 2018 total $5.8 billion, exceeding all of last year and again demonstrating the strength of our loan origination team, the benefit of our relationship with the Blackstone real estate franchise and our ability to outperform, even in a competitive market environment.

We closed 14 loans in this highly productive quarter highlighted by the Spiral: the $1.8 billion construction financing, our largest loan to date, for Tishman Speyer's world class, $3.6 billion office development in the Hudson Yards market of New York City. The 48% of cost loan will be supported by $1.9 billion of cash equity in the project that is 28% preleased to Pfizer. The Spiral is our third construction loan for Tishman Speyer, one of the top developers in the world and a great client of our real estate platform.

In another 2Q highlight transaction, we participated with JPMorgan in a 43% LTV, 17% debt yield, $1 billion senior portfolio loan in conjunction with the formation of a new public REIT, CorePoint Lodging. CorePoint, spun from LaQuinta, is an independently managed public company 30% owned by Blackstone funds, so we have great familiarity with the company and its hotel portfolio. Post quarter-end, we contributed our participation in the loan to a single asset securitization as a means of permanently financing our origination. BXMT retained the junior $99 million in the securitization, achieving a very attractive yield on our investment in the loan.

The Spiral, CorePoint and the other large loans we originated in the first half of the year demonstrate BXMT's superior capability to access and execute on the largest and highest quality lending opportunities. And in 3Q, we have $1.2 billion of additional loans closed or in the closing process.

Our record quarterly Core Earnings reflect the strong net interest margin contribution from our growing loan portfolio as well as from some very beneficial add-ons. BXMT earned $14 million from the early repayment of a loan secured by a San Francisco office building that was sold by our borrower. Although the amount in this case was extraordinary, prepayment fees have been a regular source of earnings for BXMT. This income is unpredictable in timing and magnitude, but produces upside potential to our earnings.

Also during the quarter, we reversed the GE Core Earnings reserve, reflecting that the $5 billion dollar, 77 loan portfolio that we acquired in 2015 is now more than 85% repaid, including the previously "4" rated GE loan on the Pittsburgh hotel. We expect 100% credit performance for the remaining loans. Tony will take you through the accounting details of the reserve reversal. Our asset management group played a vital role in delivering this great credit result on the GE portfolio, taking on the 77 loans and successfully working with these new borrowers on an ongoing basis.

The credit quality of our portfolio remains strong overall. The average LTV of the $3.8 billion of Q2 originations was 54% and the overall portfolio LTV stands at 63%. Our $557 million dollar Miami retail loan was repaid in Q2 and retail loans now only account for 3% of our portfolio. We had $1.4 billion of repayments in the quarter, a relatively high amount- but we funded $2.2 billion and grew the portfolio by $779 million, both very strong results.

To help fund our growing portfolio, we financed $3.5 billion of loans in the first half, at an average rate of Libor plus 168. While we have expanded and improved our bank financing, we also continue to utilize our CLO, large loan CMBS and syndications to assure the most efficient senior execution for our loans. The scale and quality of our best in class capital markets initiative matches our origination capability, and it also benefits from the Blackstone platform and its great track record as a borrower and banking client.

Our focus remains on dividend quality and stability, which is well supported by our large-scale portfolio of floating rate, match funded senior loans. And this quarter, with the Spiral origination, the San Francisco office loan prepayment, and the GE portfolio credit performance, we demonstrated an ability to deliver even more than our very compelling baseline. Since the inception of BXMT, we have generated a 12.2% return for our shareholders and the stock still yields a very attractive 7.5%. We are proud of that performance and appreciate your support of BXMT. And with that, I will turn the call over to Tony.

T. Marone Thank you Steve, and good morning everyone.

I would like to start-off by unpacking our results for the quarter, with GAAP net income of $0.66 per share, up 18% from 1Q, and a record Core Earnings of $0.83 per share, contributing to a $0.13 increase in book value per share during the quarter. Our business exhibited strong performance overall during 2Q, drafting off the record originations Steve mentioned earlier, however I would like to highlight three items in particular that contributed to our results.

First, we recorded $0.13 of prepayment income and fee acceleration during the quarter, as a San Francisco office loan repaid with over a year of remaining call protection, which was set to expire in 3Q 2019. While we typically generate some amount of quarterly prepayment income, generally in the $0.01 to $0.03 range, this particular fee represented a unique situation that allowed us to generate significant additional earnings for our stockholders during the quarter. Net of incentive fees, this transaction generated $0.10 of incremental GAAP net income during the quarter.

Looking at Core Earnings, in addition to this fee revenue, we also recorded a $0.06 Core Earnings adjustment, again net of incentive fees. This adjustment represents our recognition of $8.7 million of previously deferred purchase discount related to the GE Portfolio we acquired in 2015. At that time, we elected to defer amortization of purchase discount for a sub-set of relatively smaller loans (those with a principal balance of $35 million or less) until such future date that the collection of all of these smaller-balance loans was reasonable assured. Following the successful resolution this quarter of the one previously “4” risk rated loan in the GE portfolio, we are now comfortable there will be no credit losses in the deferral pool, and have recognized this purchase discount for

Core Earnings purposes. To clarify, this income has already been recognized in GAAP interest income over the past three years, but has been excluded from Core Earnings until this quarter. So, effectively, this is Core Earnings catching-up to GAAP, and going forward, we will no longer have any adjustments between GAAP net income and Core Earnings related to the GE purchase discount recognition.

Turning to our third operating highlight for the quarter, our book value per share benefitted from the incremental GAAP net income I mentioned earlier, as well as our issuance of 3.3 million shares of Class A common stock at 1.19x book value, generating $104 million of fresh equity during the quarter. This capital was efficiently raised through our At-The-Market program, which allows us to sell primary shares directly into the market over time, thereby reducing the “J-curve” earnings impact generally associated with raising new capital.

As Steve mentioned earlier, we put this and other capital to work funding a record $3.9 billion of originations in 2Q, bringing our six-month origination total to $5.8 billion, roughly the amount we originated during our first six quarters of operations post-IPO. Net fundings were positive during the quarter, with $2.2 billion of fundings outpacing $1.4 billion of repayments, bringing our total loan portfolio to $12.8 billion, up 6%, and a record portfolio size for the third consecutive quarter.

As always, our portfolio growth is supported by the right-hand side of our balance sheet, financing our floating-rate assets with floating-rate liabilities, and preserving our positive correlation to increases in floating rates. We continue to focus on term and currency matched financing at low interest rates, with no capital markets mark-to-market provisions, allowing us to generate stable ROIs for our assets. In addition to our regular-way financings, as Steve mentioned earlier we securitized our $518 million dollar senior CorePoint loan alongside JP Morgan, providing another source of stable, accretive capital for our business and reducing our outstanding credit facility balance immediately following quarter-end.

Our debt-to-equity ratio at June 30th was 2.6x, up from 2.3x last quarter as we financed our growing portfolio during the quarter. However, adjusting for the $414 million of debt we repaid following the CorePoint securitization, all else equal we would have a debt to equity ratio of only 2.4x at quarter-end. Lastly, our available liquidity remains healthy at $844 million, reflecting additional capital we can deploy into future investment opportunities.

Thank you for your support, and with that I will ask the operator to open the call to questions.

Coordinator [Operator Instructions]. Our first question will come from the line of Douglas Harter, Credit Suisse.

D. Harter I was hoping you could talk about prepayment income and on new loans you're underwriting. Is the prepayment income you're getting remaining constant? And when you look at the duration of loans in the portfolio, and how that’s trended over time, what has been your experience on all-in yields in the portfolio?

D. Armer That's a great question. We have experienced a good deal of prepayment income over the history of the company. There are two components to it, there are prepayment penalties, and obviously we had a big penalty this quarter. There are also accelerations of the amortization of origination fees and discounts that come regular way with our loans. Our loans do tend to repay a little bit sooner than their stated term, and so that does create an increase in terms of the stated ROI or ROA on those assets. In our experience, that ranges between 50 and 100 basis points in terms of ROI to our bottom line, and that translates to the $0.01 to $0.03, that Tony referred to, in terms of quarterly Core Earnings.

I would say, it's sort of the other side of the coin, in some sense, to the repayments that we experienced and the pressure on deployment that that generates. So in a spread compressing environment where there may be some elevation in terms of repayments, this is a bit of an offset to that dynamic, and it's something that goes to the resilience of our business model overall.

Coordinator Your next question will come from the line of Don Fandetti, Wells Fargo.

D. Fandetti BXMT has been positioned to do some unique deal flow despite a pretty competitive market. Are you seeing transactions or loans in the marketplace that you describe as very aggressive and things that raise your eyebrows? And then lastly, can you talk about your appetite to raise the dividend, given the higher Core Earnings run rate?

S. Plavin I think we are not seeing aggressive or irresponsible lending, nothing that compares to what we saw in the 2006, 2007 time frame. And the market is very competitive. People are competing primarily on rates, and to some extent on structure, but not in an irresponsible way, I think, within the balance of what we would expect. We're still able to win deals that we like in the marketplace, with what we think are very compelling terms.

But this spread competition is pretty fierce out there. We really are benefited from some of the proprietary deal flow that we were able to access through the platform here, seeing deals that maybe others won't see, and also having the ability to do larger deals. They're synergistic with what we own on the equity side, and as our capital base and liquidity grow, we're even better suited than we have been in the past to do the larger deals, which are less competitive.

D. Armer I think with regard to the dividend, LIBOR is up and we have seen the impact of that in our Core Earnings. It's been offset to some degree by spread compression on our newly originated loans. That's a dynamic that will play out really over the medium term as our portfolio turns over. We've also made strides in terms of our cost of capital, keeping in step with the spread compression that we see on the asset side, and so that's another dynamic that's playing out over time. As we get more clarity on how those tradeoffs will shake out, we'll be in a position to make a decision about a dividend increase. That's a future date as opposed to a position that we're in now.

Coordinator Your next question comes from the line of Steve Delaney, JMP Securities.

S. Delaney Looking at the G&A expenses on page 12 of the supplement, the $8.7 million is up about 18% year-over-year. And I'm curious, Tony, are there components of that figure that are more variable than fixed, such as professional fees, and do you consider the $8.7 million as a good run rate for us to consider for the next few quarters?

T. Marone Sure. I would say, one variable component that runs through G&A is the stock compensation expense, which is a non-cash item, that varies based on the vesting provisions of the awards that are outstanding at any given period of time, as well as the different stock price impact that you have on that expense recognition for our GAAP net income and Core Earnings so that, that does create some variability there.

As far as a cash G&A number, it hasn't grown quite as much, and I'd say really those were things that are just scaling to some degree with the size of the company, but I don't see a real overall growth in G&A going forward. I think where we are is a pretty good baseline for where we expect to be.

S. Delaney Okay, that's helpful. And Steve, I am looking at the top 16 loans, on page 10. I don't see the Spiral loan shown in that table, if I look for second quarter '18 origination date and the New York office is -- is it in there or NY, if not, why not?

S. Plavin It's not in there, and that's because the table ranking is based on the outstanding loan balance as opposed to the commitment side. So from a commitment side standpoint, it is our largest commitment. We've funded $185 million of it and we funded the subordinated components, we funded the high-yield component of the loan. But we're in the phase now the project where the equity gets invested. And so there is no loan funding until the sponsor completes that equity investment, then the loan resumes funding at that point, and then you'll see our balance be in the grow, again.

S. Delaney Okay, got it. Yes, for some reason, I had $300 million in mind just the initial funding. So, obviously $185 million, it doesn't make the cut. So thank you for that.

And just one final thing from me, $2.1 billion of loans apart from the Spiral in the second quarter, and we can see a couple, the hotel loan and a New York industrial loan. Were any of the other loans in the quarter also construction loans?

S. Plavin No. None of the others were construction loans. The Spiral was the only construction loan in the period.

S. Delaney Okay. Well thank you, all for the comments.

S. Plavin Yes, and Steve, you can sort of get a feel for that when you compare what we funded in the quarter versus the commitment total because the construction loans tend to fund less in the current period and more in the subsequent periods.

S. Delaney Yes.

S. Plavin We had about $200 million of funding in this quarter from previously originated loans. So it's really a nice boost to our run rate portfolio that we get from the construction loans, which fund less initially, but more over time.

S. Delaney Right, right. Kind of fills the gap for some quarter for sure.

S. Plavin Yes, it's nice.

Coordinator Your next question comes from the line of Jade Rahmani, KBW.

J. Rahmani On the CorePoint Lodging, CMBS loan, is that going to show up as a senior loan asset with financing against it to reflect the $99 million B-piece risk-retention position or will the risk retention position be the asset, and so that'll have probably a double-digit yield?

T. Marone On the balance sheet that we're looking at here, which is before the securitization, it just shows up as a senior loan with our loans and then the financing on the credit facility is with our liabilities. We're working through the accounting for next quarter as far as whether that'll be consolidated or not. It's a fairly nuanced analysis around the different control provisions. So, we'll have to stay tuned on next quarter for the final conclusion as to whether it is on balance sheet or off.

D. Armer One thing I would add to that, to your second point on the double-digit yield, the answer is yes. Our net investment will be a LIBOR plus 10% return. And as a securitized financing, that's a very high integrity LIBOR plus 10%, term-matched, index matched, obviously non-recourse and non-mark-to-market. This is a great investment for us and a big win in terms of earnings power.

J. Rahmani Okay. And so back to Don's question: considering that investment and the high yield on the mezzanine construction component of the Spiral loan, don't those two elements plus continued spread compression on your credit facilities give you enough confidence to consider raising the dividend?

D. Armer They certainly do give us confidence in our business model and our ability to grow earnings and cover the dividend. I think we want to be very conservative and prudent about the dividend thinking long-term about stability. And so I think ultimately a decision about a dividend increase is, as I said, is going to be made in the future. And we're monitoring very closely all those dynamics. There are a lot of dynamics that argue in favor of dividend increase and growth in earnings, and there are some headwinds as well. And so it's a picture that will play out over time.

S. Plavin And in the meantime, Jade, we're enjoying retaining some of the excess earnings that we've realized over the recent quarters. This is not such a bad result. And the stock is still delivering a relatively high yield. So we like the mix now, but we're obviously constantly thinking about what the right payout level is.

J. Rahmani And I wanted to ask you about construction costs. There have been significant increases in building materials costs on the lumber as well as steel. Do you think this is going to have any meaningful impact in terms of new construction projects, not penciling may be that increases the volume of transitional loans, that you'll see but reduces some of these opportunities you've seen in construction or has the increase not yet been meaningful enough?

S. Plavin I think it's a great question, Jade. And I do think that the cost of construction will impact it by really future developments. And it could impact land prices as well. So I think it's a good question, something very relevant to think about. We still look at construction loans or prospective construction loans, getting a handle on the cost of materials, the nature of the GMP, the analysis has been done on the cost contingency, they're all critical elements for us. And so there is definitely heightened awareness by us and our servicing of construction loans to make sure that costs are under control, and that these development projects are well-managed. We have the luxury of dealing with literally the very best developers in the world on many of our construction loans who are highly experienced and have great cost control and a great history of building on-time and on budget, and they guarantee completion. So we feel great about where we extended our loans, but definitely have a watchful eye in terms of what this could mean on a go-forward basis.

J. Rahmani And just lastly in the current investment environment, do you characterize ROIs overall as stable, where you've been able to offset spread compression with higher LIBOR and better execution on financing? Or would you characterize ROIs as lower than, say, a year ago?

D. Armer I would characterize them as stable. I think to your point, the increase in LIBOR and the decrease in our cost of debt capital has offset the spread compression that we've seen in the market. So we're earning low-double digit ROIs now as we were in proceeding periods. And I think we see the potential for compression going forward, so it's something we're mindful of. We have our work cut out for us in terms of keeping up with those marketing dynamics. We also have some corporate finance tools that help us address

ROE beyond ROI. And so the amount of corporate leverage that we have on the balance sheet is an example of that. So we were focused on that issue, obviously it's a central issue for us, and stability, again, is the watchword for us in terms of the dividend, in terms of our investment strategy overall.

Coordinator Your next question will come from the line of Ben Zucker, BTIG.

B. Zucker If I heard you correctly, it sounds like we will need to stay tuned on the final structure of that securitization, but either way we should be left with a good yielding piece of paper, whether that's a non-recourse, match-term financed senior loan or B-piece security, is what we're waiting to find out. Is that correct?

T. Marone In essence, that's correct. The only thing at issue is what the accounting treatment will be. It will be a matched term senior loan investment with a LIBOR plus 10% return, no matter what. We're just figuring out whether or not it'll be consolidated on our balance sheet or in GAAP terms or not.

S. Plavin Ben, the securitization is already closed, so the financing is complete. Tony was just addressing how it will appear in our 3Q financials.

B. Zucker Got you, perfect. Thinking about the prepayment penalties, could you just remind me of how those are structured? I know that they're embedded in all of your loans, but are they different for each loan and business plan, or is there a standard lockout period? And I only ask because for some reason I had it in my head that loans were prepayment protected for the initial 18 months, and I think that SF loan that repaid in the quarter was originated in August 2016, but it still obviously had the fee.

S. Plavin Yes, I think, Ben, the answer is, we get as many call protections we possibly can. It's a negotiated item on a loan-by-loan basis. And it's generally between 1 and 2 years. It varies depending upon the borrower, the duration of their business plan, and other economic items that we've been negotiating in the overall loan agreement. The way it typically works is they essentially owe us the interest or the spread through a date. If they repay before the expiration of the spread maintenance or call protection, they essentially owe us the remaining interest or the remaining spread, depending upon how the provisions are structured. The provisions are structured differently from time to time. That payment is due when the loan is repaid.

B. Zucker Perfect. And then lastly from a big picture perspective: I know you recently did that big Spanish portfolio earlier this year. What are your thoughts on the market opportunity in Europe and other parts of the world relative to the United States opportunity right now?

S. Plavin We think the opportunity in Europe is improving. We have a great team in London both debt and equity. We have a fully staffed origination team with asset managers based in London that cover Europe for us. We haven't seen the degree of spread compression on loans in Europe that we've seen in the U.S. We are now feeling, from a competitive standpoint, it feels a little bit better in Europe than it does in the U.S. right now. We've decided to see more opportunity, so I think we'll definitely do more this year than we did last year. We have a very good ability to finance the loans we do in Europe. We've made most of our credit facilities multi-currency and matched- currency and as well as index terms. We like the business and the business opportunity there and, although it'll never be as big as what we have in the U.S., it is going to be a meaningful part of the picture in 2018.

B. Zucker That's helpful. I think I've even seen some foreign currency denominated CLO's and CMBS's increasing in issuance volumes, which might help to take out opportunity there.

Coordinator Your next question is going to come from the line of Stephen Laws, Raymond James.

S. Laws I wanted to follow-up on a couple of questions, maybe on the competition front to go about from a different angle. When you guys lose a loan or lose an investment to competitor, what is that usually on? For example, is it due to specific terms, somebody that wants cheaper financing at a lower LTV elsewhere? Can you maybe talk about when you don't win the investment, what are the reasons for that?

S. Plavin I don't think there is any one reason that can point to this, as there are a variety of reasons. It's usually due to a bank or an insurance company that becomes very aggressive in terms of their ability to match our proceeds, and then they generally can beat us from a cost of capital basis. Sometimes, the borrowers will look for structural elements that we won't provide, things like assumability and other elements where we might be looking to a specific owner to complete the business plan where others might be willing to provide a little bit more flexibility that we think is inappropriate to give. So, sometimes it is due to price, sometimes it is due to structure, sometimes it is due to proceeds. We tend to be very mindful of the credit quality of everything that we do, and if we don't like any element of a loan that's material, we won't proceed with it. So we're very particular in terms of our view of credit, but when we do see things we like, especially with sponsors who know us, we compete very successfully and generally are able to win those deals.

S. Laws Great. And to follow-up on the question from Spiral earlier, looking into Q, it looks that initial piece was funded at an all-in yield plus 8.76%, as we think about the remainder of that loan funding in '19 and '20, I believe. Where should we think about the A note or the first mortgage piece of that funding as we roll that into our model?

D. Armer Stephen, that's a great question. The yield on our mezzanine piece won't change, so that'll be stable. There are some economics in the loan away from that yield. There's an unutilized fee on the first mortgage piece of the loan, which adds to our overall yield. Ultimately, where we syndicate that loan will determine what our all-in yield on our position is. So that is still to be determined. It'll be something higher than what we're experiencing right now, and it'll be a function of how successful that syndication actually is.

S. Laws Great. And then as a general housekeeping question on that the loan table. You do provide a maximum maturity, but I guess, not a scheduled maturity. Is there a term, should we assume two 1-year extensions are built in, or is every loan different with regards to that maximum maturity?

D. Armer Generally, I think if you had to make a blanket assumption, two one-year extensions is the best assumption that you could make. It does vary loan-by-loan.

S. Laws Okay, great. And then lastly, looks like retail sequentially declined from 7% of the portfolio to 3%. I know some of that, obviously, is just math, growing the portfolio and prepays. However, are you looking at any retail? Or is that an asset class? Or are there any others that you particularly don't like right now as you think about new originations and the mix of assets going forward?

S. Plavin Well, we continue to be very conservative on the retail asset class. We like the retail loans we have in the portfolio. The largest that we had was a retail loan in Miami that repaid. It was a very large loan that repaid during the second quarter, and that's what took the percentage down. And we haven't redlined retail, so we still look at new opportunities.

We're very cautious on the enclosed mall space, as we haven't made a single loan on the U.S. closed regional malls since the formation of BXMT. This is reflective of our negative view in general on the trends affecting those assets. We're obviously looking for high-value situations and opportunities to find unique situations that would be added in to our loan portfolio. In general, it's not a favored asset class. We still prefer office and multi-family assets; they work very well for our business. We've managed to fund some deals in the industrial and logistic space, which we also prefer. So, I think you'll see the investment themes of BXMT match what Blackstone Real Estate likes overall, which tends to be larger assets in primary markets. For us, that usually comes with top sponsors as well, and concentrated in primarily the office sector.

Operator Your final question is going to come from the line of Ken Bruce, Bank of America Merrill Lynch.

K. Bruce I really just have one remaining question to ask. You've heard this drumbeat of cautionary commentary coming out of the banks as it relates to commercial real estate. In many ways, this dovetails into what we've heard yourselves and some of other commercial mortgage REITs as well as the last few quarters. Is this something that is a function of competitiveness within their permanent loan space, or is this by and large awarded within the transitional loan and construction loans sectors? Do you think that this kind of combination of increased aggressiveness in the part of lending and alike ultimately drives a situation similar to 2006, in terms of getting overheated in the sector? If not, how long do you think this particular backdrop can persist?

S. Plavin It's a great question, Ken. We're always looking forward, in terms of developing our view of where we see markets going and the risks of things reversing. We're benefited by being a part of an organization with a huge ownership footprint, in almost all of the markets that we're active in as a lender. We feel like we have a unique perspective on what's happening. We're still seeing strong demand, both tenant demand and demand in general, for almost all of the asset types that we're active in.

The market feels stable; there is increased economic activity in a lot of the major markets post-tax reform. Hotel performance has improved this year. Multi-family continues to be a very stable and strong asset class. We've seen office absorption in almost all the major markets that we're lending in. So, the backdrop still feels good. I think people are concerned because we've been in this same economic cycle for a long time. Some make the case that the late '15 and early '16 was a mini cycle, but to me, it feels like a continuation of what's been going on post- crisis. We haven't seen the same kind of conditions, as we look through the market, which we saw in '06 and '07; we are not seeing super high LTV or irresponsible lending. We feel like it's still a good time to be active in the market, while obviously maintaining the appropriate degree of caution.

We also have the benefit of our business model really being built-in toward the cycle. We have very stable liabilities, we have low loan-to-value loans, and we have a lot of equity in the business and a great capability to anticipate, if problems are managed through them, given all the real estate expertise this past year.

K. Bruce Thank you. Just to follow up on that, these business models, yours in particular, are built around earnings stability and dividend stability over time. To the degree that you are witnessing or foreseeing issues in the market, would you be proactive to effectively divest of any assets that could be impacted by a changing view? Would we expect you to act on that?

S. Plavin I don't think we foresee a set of conditions where we would be selling loans. But I do think that we have a very engaged and active asset management team as part of our business. We do a very thorough review of our assets on a quarterly basis. It takes us about 2/3 of the day to get through the portfolio. I feel like I have a very good knowledge of all the loans inside of this company. If we felt there was an issue in any loan that was emerging that could threaten the collection of a loan, we would absolutely take action. However, at the moment, we just don't see those coming.

K. Bruce Right. Yes, and I'm just trying to anticipate what action you might take if you did so, maybe the answer is just depends on the situation.

S. Plavin Yes, I think that is the answer. But we would obviously do what we think is in the interest of the shareholders, and we would take whatever steps we feel are necessary to achieve that result.

Operator And at this time, I'm showing no further questions in queue. I would like to turn the conference back over to Mr. Weston Tucker for any closing remarks.

W. Tucker Okay. Thanks to everyone for joining us today and please let me know if you have any questions after the call. Thank you.

Coordinator Ladies and gentlemen, that concludes today's conference. We thank you for your participation. You may now disconnect. Have a great day.