Blackstone

Mortgage Trust

Final Transcript

Blackstone Mortgage Trust, Inc.: 3Q 2017 Earnings Call

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SPEAKERS

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Stephen D. Plavin – Chief Executive Officer

Douglas N. Armer – Head of Capital Markets

Anthony F. Marone – Chief Financial Officer

Weston Tucker – Head of Investor Relations

ANALYSTS

Doug Harter – Credit Suisse

Jade Rahmani – KBW

Jessica Ribner – FBR

Steve Delaney – JMP Securities

Rick Shane – JPMorgan

Kenneth Bruce – Bank of America

George Bahamondes – Deutsche Bank

Sajith Ranasinghe – Church Pension

Coordinator Good day ladies and gentlemen and welcome to the Blackstone Mortgage Trust Third Quarter 2017 Investor Call. My name is Lisa and I'll be the operator for today. At this time, all participants are in a listen-only mode and later we will conduct a Q&A session. [Operator instructions]. I would now like to turn the conference over to your host for today, Weston Tucker, Head of Investor Relations. Please proceed.

W. Tucker Thanks, Lisa. Good morning and welcome to Blackstone Mortgage Trust's Third Quarter Conference Call. I'm joined today by Mike Nash, Executive Chairman; Steve Plavin, President and CEO; Tony Marone, Chief Financial Officer; and Doug Armer, Head of Capital Markets.

Last night we filed our Form 10-Q and issued a press release for the presentation of our results, which are available on our website. 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 Factor section of our most recent 10-K.

We do not undertake any duty to update forward-looking statements. We'll refer to certain non-GAAP measures on this call and for reconciliations, you should refer to the press release and our 10-Q, both of which are posted on our website and have been filed with the SEC. This audio cast is copyrighted material of Blackstone Mortgage Trust and may not be duplicated without our consent.

So a quick recap of our results before I turn things over to Steve. We reported GAAP net income per share of $0.61 in the quarter and Core Earnings per share of $0.69, which was up sharply from the second quarter. Earlier this month, we paid a dividend of $0.62 with respect to the third quarter, and based on today's stock price, that reflects an attractive dividend yield of nearly 8%. If you have any questions following today's call, please let me know.
With that, I'll turn things over to Steve.

S. Plavin Thanks, Weston, and good morning everyone. BXMT had an excellent third quarter highlighted by Core EPS of $0.69. We have now earned $1.90 year-to-date, demonstrating the earnings power of our business. Strong originations, $1.1 billion for the quarter and $3.6 billion year-to-date, led to the portfolio growth that helped generate the increased quarterly earnings. We have added another $768 million of loans that have closed or are now in the closing process since quarter-end. In a highly competitive lending market, our 2017 originations are up 33% over last year. Our clients, primarily institutional sponsors of opportunistic and value-add real estate funds, are active, well served by the Blackstone Real Estate platform, and have had great experience working with our team.

We continue to focus our direct origination efforts on coastal markets with dynamic demand and high barriers to entry where the entire Blackstone Real Estate platform has had great success. The major markets are also where we believe asset and sponsor quality are the highest and property value most enduring. As part of that focus, earlier in the year we expanded our California regional office to better address West Coast lending opportunities and that strategy has paid off. Sixty-four percent of our 3Q loans are secured by assets in California, a testament to our high-quality team in LA and its origination success in top West Coast markets.

Construction loans in our target markets remain a very attractive opportunity for BXMT as the banks continue to struggle with regulatory challenges and capital constraints. Two of our third quarter originations totaling $284 million were construction loans in Northern California with an average LTV of 54% and interest rate of LIBOR plus 5.15%: one office building and one multifamily asset. Both projects are well conceived, with excellent sponsorship.

In addition to the contribution from new construction loans, we are now seeing the earnings benefit from the construction loans closed in prior periods. During the quarter we advanced $172 million in commitments related to construction and transitional loans that were made before 3Q. The funding of these commitments has been contributing to the equivalent of another loan per quarter to our asset base in recent periods.

During the quarter we also closed our initial loans in the Walker & Dunlop JV which, as you will recall, originates and finances middle market multifamily loans bridging to agency take-outs. We like the multifamily asset class more broadly and have established an excellent working relationship with our partner, Walker & Dunlop, the leading non-bank agency loan originator, to increase our multifamily lending. Of our $1.1 billion in originations in the quarter, seven loans totaling $146 million are JV assets or 13% of our total quarterly production. The JV complements our regular origination effort and produces nice additions to our loan portfolio. To finance the Walker JV loans, we closed two new credit facilities tailored to the existing and anticipated originations. These facilities should enable us to generate levered returns from the JV comparable to those in our direct portfolio.

All of our origination and funding activity has contributed to year-to-date Core EPS of $1.90 providing a very healthy 102% coverage of our dividends. Our focus remains on dividend quality and stability. BXMT stock is supported by a portfolio of match-funded senior mortgages originated by Blackstone that is 100% performing, with an average origination LTV of 61%, a powerful value proposition.

Investors in our re-IPO in May 2013 have earned a 13% compound return to date from our simple and transparent senior mortgage portfolio loan strategy. Our stock yields a very attractive 7.8% at its current price; with our loans 92% floating rate, our earnings would benefit from increased short-term rates.

In conclusion, BXMT is well-positioned to continue to execute its business model serving our borrowers and driving attractive risk adjusted returns for our shareholders. Thank you for your interest and support. And with that, I'll turn the call over to Tony.

T. Marone Thank you, Steve, and good morning everyone. This quarter we produced outsized operating results underpinned by robust originations, a strong senior loan portfolio, and our market-leading financing structure.

Starting with operating results, we reported GAAP net income of $0.61 per share and generated Core Earnings of $0.69, both up 15%, or $0.08 and $0.09, respectively from the second quarter. This increase was in part due to $0.03 of additional prepayment income as well as higher intra-quarter deployment.

We declared a dividend of $0.62 per share for the third quarter, which is covered 102% by our Core Earnings on a trailing 12-month basis. We remain comfortable with this dividend level as reflecting our medium-term earnings power, notwithstanding any quarterly peaks and valleys.

Our book value of $26.52 is up $0.14 per share for the quarter and $0.19 year-to-date, driven by the net appreciation in our pound sterling and euro-denominated portfolios and our outsized earnings this quarter. As we have mentioned on previous calls, our book value is not generally subject to significant fluctuation over time, as our loan portfolio is held for long-term investment and we do not own any mark-to-market securities or long-dated fixed-rate assets.

As Steve mentioned, our 3Q originations totaled $1.1 billion, bringing year-to-date originations to $3.6 billion, up 33% year-over-year. These loans are all floating rate senior loans with an average origination LTV of 63%. Loan fundings during the quarter totaled $860 million, including $172 million funded under previously originated loans, adding the equivalent of one additional new loan to the portfolio. Notably, we also closed our first seven loans in the Walker & Dunlop joint venture, totaling $146 million in new loans and providing an additional avenue for portfolio growth in our business.

We collected repayments of $871 million during the quarter, roughly equivalent to our 3Q fundings. However, these repayments were, on average, fairly late in the quarter. Therefore, other than the related prepayment income, these loan repayments had a muted impact on our 3Q earnings results.

Our total loan portfolio of $10.7 billion, up slightly this quarter, remains strong, with 100% performance and key metrics all in line with June 30th. Our average risk rating is 2.6 on a scale of 5, our average LTV is 61%, and our portfolio's all-in yield is 5.6%.

On the right-hand side of our balance sheet we continue to support the growth of our business with two new credit facilities totaling $450 million to finance loans originated by our Walker & Dunlop joint venture and a syndication of one of our construction loans originated last quarter.

In addition, we completed a $115 million follow-on offering of our May 2022 convertible notes. As we mentioned following the initial $288 million offering in 2Q, these notes have an initial conversion price of $35.67 with a coupon of 4.375%, down from the 5.25% coupon of our 2013 convertible notes. We are excited to capture the positive market view of our existing notes and execute this accretive upsize during the quarter.

We closed the quarter with a debt-to-equity ratio of only 2.6x, up slightly from 2.5x as of June30th, following our additional capital deployment during the quarter. Available borrowings under our revolving credit facilities comprise the majority of our $702 million of liquidity at quarter-end, which amount is available for us for future investment activity.

Lastly, one quick accounting note for the quarter. Our Walker & Dunlop joint venture is included in our consolidated balance sheet and statement of operations with Walker's 15% interest reflected in non-controlling interest as a reduction to arrive at our stockholders' equity and earnings per share.

We are pleased with our results for the quarter demonstrating the support and stability of our quarterly dividend over time. We remain favorably correlated to rising interest rates, with a 100 basis point increase in USD LIBOR adding $0.26 per share to our annual net interest income, and we look forward to generating continued positive results for our stockholders in the future.

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

Coordinator [Operator instructions]. The first question comes from the line of Doug Harter, Credit Suisse. Please proceed.

D. Harter Where was the liquidity position at the end of the quarter and what's the ability to grow the balance sheet on the existing equity base?

S. Plavin Thanks, Doug. The $702 million is a good liquidity number for us and we continue to have a flow of repayments. So, I think we're comfortable with the existing capitalization and liquidity as we look forward. We will always look to make sure that we have adequate capital to meet what we anticipate our future origination and deployment needs will be. That's a dynamic process depending upon what we see in terms of market opportunity, but we've been operating at a very nice level now for several quarters.

D. Harter And then just thinking about the capital structure, as you mentioned, you added additional converts this quarter. How do you think about your mix of capital now between converts, common equity, and whether there are any other structures that you're considering?

D. Armer We continue to think about that mix very carefully. Obviously, what we want to do is optimize our cost of capital. The convertible notes were a very efficient issuance for us, and Tony mentioned the 4.375% coupon, so that's highly accretive.

If you think about those notes in combination with the other notes that are on the balance sheet as our unsecured corporate debt, it represents essentially one turn of leverage on the balance sheet when fully deployed. I think that's probably about where we want to be in terms of the mix of common equity to corporate debt on the balance sheet. And we remain committed to the roughly 4x leverage at the asset level strategy for our secured debt.

I think what you'll probably see is more creativity in terms of the forms of that secured debt. We've added a bunch of new lenders. Over the course of the last year we've taken the total number of lenders up from six or seven to ten now, if you include Barclays with the 'swing-line' that we've added as a corporate revolver. The CLO market for commercial real estate loans is a very healthy market and there are other structured alternatives that we think could come into the mix to complement our credit facilities.

D. Harter Thank you.

Coordinator The next question comes from the line of Jade Rahmani, KBW. Please proceed.

J. Rahmani Thanks very much. Was there an acceleration of deferred financing fees in addition to the $0.03 of prepayment income?

T. Marone Jade, the $0.03 that I referenced is net, so that's the net acceleration of income on the assets and for financing fees on the liabilities. So, that's net to net income on our Core Earnings.

J. Rahmani And there's typically some level of prepayment income on regular repayments, so I guess excluding that $0.03 do you see the $0.66 of Core Earnings as a sustainable level, or is that also outsized due to the timing of repayments you mentioned?

D. Armer I think with regard to the look forward, what we point to is the dividend level. There are going to be ups and downs quarter-over-quarter relative to our average deployment, not just our point-to-point deployment quarter-over-quarter. Given the size of our portfolio and the leverage on our balance sheet, we feel comfortable with the $0.62 dividend and with the prospect for growth going forward, particularly as rates increase and as we grow the portfolio. So, those are the numbers that we would point to as opposed to the $0.66.

J. Rahmani Okay. Switching to the investment environment, can you comment on where you're finding attractive opportunities and perhaps what you're avoiding? You noted California as an outsized share of originations, and I'm wondering if you could comment on the investment environment.

S. Plavin The investment environment is very active. We're seeing a lot of opportunities. The market is competitive so we're working very hard for what we originate, but we're very focused on larger deals and larger markets, and I would say the multifamily asset class more broadly with Walker & Dunlop.

If you look at our originations, they are in office and multifamily primarily, those are the asset classes that we're seeing the most of. We're more cautious on hotel. We've done very little retail, and we're very cautious on retail as an asset class. But we're opportunistic, and as a lender with an equity investment, we always have the opportunity to finance things that might be contrary to the common view in terms of the attractiveness of an asset class or a market.

But, we're definitely coastal market focused. We like California. We continue to like New York. I think you'll see a lot of our future activity in those markets.

J. Rahmani Turning to competition, can you discuss trends in loan spreads which seemed quite stable in your actual originations, but are you seeing banks getting more aggressive? Are the pressure points on competition coming from other debt funds or providers of bridge capital, and are you seeing any compromise in deal structure or covenants and underwriting standards?

S. Plavin Let me take the last part of your question first. I think the quality of underwriting and loan structure has held up very well. We've been pleased that as pricing has gotten more competitive, loan structure has held up. We still have a lot of clients who don't want extra leverage, so the leverage requests that we're seeing now are still much lower than what we saw pre-crisis, so we take a lot of comfort in that. We don't see a lot of the warning signs that we saw in '06 and '07 in the current market.

The competition we feel is mostly run rate. Some is from other debt funds and other mortgage REITs, some is from the banks. We have our niche in terms of transitional loans and construction loans that we serve very well. We're better suited to these kinds of lending situations than the banks are.

If there's one aspect of our world where we're seeing improved conditions, it has really been in construction lending where the banks continue to have the regulatory challenges. The construction loan opportunity continues to be a very strong one; I talked about the two loans we did this quarter. But I think across a broader array of markets and activities including construction loans, refinancings, and acquisition activity, there is a healthy degree of lending to be done and we're competing very effectively for it.

J. Rahmani Are you planning to lever the construction loans?

D. Armer We are planning to lever the construction loans. We've got a portfolio of roughly half a dozen of construction loans which are levered. We tend to lever those through senior syndications or more non-recourse or one-off transactions as opposed to through our credit facilities typically used for the transitional loans. But we do lever those to basically the same low double-digit ROIs that we lever our transitional lending business to.

J. Rahmani I wanted to ask, aside from growth in LIBOR which I think expectations seem to be moderating somewhat, how do you look at prospects to grow earnings over the next year, and are there any new business lines that look interesting? I don't know if you're interested at all in CMBS conduits, special servicing, or any other parts of the CRE finance market. Also CLOs, I wanted to see if you could comment on whether that's an attractive source of capital.

D. Armer I'll take those in order. We do see a good prospect for growth in earnings that will come with the growth of our balance sheet. Having had issued the corporate debt over the last couple of quarters, I think we've got some deployment to do to grow the balance sheet by a couple of billion dollars. We have credit capacity in place to do that now. So, I think that–in addition to rising LIBOR–is where you're going to see the potential for growth in earnings.

We are also interested in complementary business models. We've looked, over the years, at those. We always judge whether they're accretive relative to our existing business and there's certainly the potential for some of those, given current market conditions, to be entered into in the medium term.

With regard to CLOs, our goal, particularly in the spread-compressing environment that we're seeing on the loan side, is to optimize our cost of capital. We've had a lot of success doing that with our credit facilities and with expanding capacity there, but in

2017 in particular, the CLO market has become very competitive. So, it's an interesting alternative for us. It's certainly something that we have the potential to tap. We've got a large-scale portfolio, and we have very well-performing loans. People are obviously interested in buying Blackstone affiliated or issued securities, so I think a CLO issuance is certainly a very real possibility for our financing strategy.

J. Rahmani Thanks for taking the questions.

Coordinator The next question comes from the line of Jessica Levi-Ribner, FBR Capital Markets.

J. Levi-Ribner Good morning, guys. Thanks so much for taking my questions. I just have one left here. Could you size the potential with the Walker & Dunlop JV, what the pipeline looks like, and what that opportunity set looks like for you guys on a go-forward?

S. Plavin This is the first quarter that we closed loans with Walker & Dunlop and we spent a lot of time with their team creating a joint process of looking at opportunities and getting them closed and funded. I think we've had great success and we have great mutual respect with the Walker team in terms of getting that process established.

We closed two new credit facilities on attractive terms that will enable us to create ROIs consistent with the loans that we're doing on a direct basis.

You saw the volume that we reported this quarter: seven loans totaling $147 million. So going forward, I think we hope to originate something in that general band of activity. This quarter's activity included a few loans that were originated prior to the formation of the JV that the JV acquired at its closing.

We're seeing a very nice pipeline of opportunities via the joint venture. I think it will be a meaningful contributor to loans as we go forward. I think the vast majority of our production will continue to be our direct, larger loan, and major market strategy, but I think the two combined will create a very nice picture for us going forward.

J. Levi-Ribner Can you give us an idea of the yield on those loans and also maybe talk a little bit about the multifamily backdrop right now? I know that you made comments that you're positively predisposed to office and multifamily, and maybe talk a little bit about the trends in the market.

S. Plavin Generally, there's been a housing shortage post crisis that has really benefitted the multifamily asset class. We're seeing strength in the multifamily asset class, particularly in Class B assets which is where more of the Walker JV is focused. Walker is helping us access markets and opportunities that we wouldn't ordinarily see in our direct origination activities which are focused on larger loans.

So, multifamily is unique in as you go down in asset size, you don't necessarily compromise on asset quality. There are a lot of strong multifamily markets that are not major markets in the U.S. We like the value proposition that comes with those loans in some of the smaller markets. We don't feel the same way about the other asset classes where you have a tendency to have quality go down with loan size.

On office, we're more focused on those markets with dynamic demand where tech tenants have tended to locate to where younger workers want to live and work. That's markets like California, New York, Boston, and Washington, which have had very good upticks from TAMI tenants. So, that's why we're trying to focus our lending activity there and trying to stay away from suburban markets and markets that have flat and no real growth in long-term demand.

Our lending tends to mirror where we want to be as investors and it's shaped by the magnitude and the breadth of our equity investing activity in these assets. We really have a unique perspective given the overall scale of Blackstone's real estate platform and it really comes across when you see the loans that we're originating and what they look like and where they're located.

J. Levi-Ribner Thanks so much.

Coordinator The next question comes from the line of Steve DeLaney, JMP. Please proceed.

S. DeLaney Good morning, everyone, and congratulations on a strong quarter. Most of my topics have been covered by now, so I'll try to be brief. I'm just curious on the construction loan product, are you comfortable commenting on the way you model that out, including the leverage that you have available for the senior syndications? With that product, do you see an incremental return on equity opportunity as compared to your traditional transitional loan business? Thanks.

D. Armer With that product, what we see is a higher ROA and a little bit less leverage resulting in an in-line ROI or ROE as compared to our traditional lending business. So, what's interesting about that product, and Steve mentioned it in his remarks, is that after we originate the loans, we layer in the benefits of the funding in terms of growing our balance sheet and the earnings power over time.

We think of those as forward earnings that are levered and financed to complement our quarter-by-quarter originations of the transitional loans. It's accretive because of additional deployment and growth in our total assets, but it's basically in line in terms of the ROI with a slightly different mix of financing.

S. DeLaney That's a great point about the forward funding. Could you roughly estimate on these office and multifamily projects? I assume you're looking at something maybe expanding over a year, would that funding, generally be over an 18-month to two-year period of time on this type of a project?

S. Plavin Yes. I think that's a good estimate, Steve. We view that on average the loans will be about half outstanding over the first two years or so. On bigger projects it's a longer period of time and on smaller projects it's a shorter period of time.

S. DeLaney That's very helpful. This ties into my next question. Doug commented on CLOs, obviously being strong, and we've seen that. Obviously, the fixed rate CMBS market spreads are really tight and supply continues to build, but the spreads don't seem to widen. Now we've got tax reform, the reflation trade, and we've had a spike in the ten-year. As you look at the … [indiscernible].

S. Plavin Steve, there's background noise on your end

S. DeLaney It's the headset; I think it was my mic. I'm not sure. Sorry, gentlemen. I guess my question is this. Are you sensing, with rates moving higher, the ten-year moving higher, the strong conditions currently in the CMBS market, are you sensing any type of increased urgency for some of your transitional borrowers to maybe move into their permanent financing more quickly than they may have otherwise?

S. Plavin We really haven't. Most of our borrowers are committed floating rate borrows and our loan typically bridges them from the acquisition of a property to the ultimate property sale. They're fund sponsors. They typically have a three to five-year life of any individual investment. What we try and do as originators and asset managers is be the lender through that entire period of time.

S. DeLaney Specifically, your private equity fund borrowers are more opportunistic, value-added, and the CMBS market with the ten-year financing, I think I'm hearing you say, Steve, that that loan product is of more interest to the core real estate investor that maybe buys the property from your borrower. Is that what you're suggesting?

S. Plavin Yes, I am. It's a product for people who are generational holders and longer term holders. But yes, that's correct.

S. DeLaney Thank you for the comments.

Coordinator The next question comes from the line of Rick Shane, JP Morgan. Please proceed.

R. Shane Thanks, guys, for taking my questions. Steve DeLaney has addressed most of them, but I just want to make sure that we understand what's going on here, which is that there has been, over the last three quarters, a pretty substantial gap between originations and fundings, and that's clearly being driven by the greater emphasis on construction loans. Is it fair to say that it's probably a 12 to 18-month lag, where if originations were to start to stay flat and you were to have that same sort of mix that originations and fundings would begin to converge?

D. Armer That's exactly right. I think this quarter you began to see that those lines come close to intersecting, so we had $172 million of fundings of previously originated commitments and $230 million of construction loans. So, those lines are beginning to intersect and something like 18 months to two years into the life of that origination cycle, given flat originations, you'd see them cross over.

A quick correction, Rick. It's $284 million of construction loans, so we're two-thirds of the way there.

R. Shane Got it. Just a quick refinement I had been thinking about as this becomes more significant within the model; are there commitment fees associated with those loans that are driving income on a quarterly basis that isn't tied to an asset on the balance sheet that we would normally be thinking about?

D. Armer There are commitment fees, but we account for them in the same way that we account for origination fees on our transitional loans. They're amortized in over time to create a level yield on the asset, so we have a relatively smooth ROI in line with funding as opposed to in line with the tenor of the loan.

R. Shane Okay. I think I want to clarify that a little bit. So, that would suggest that if you originate a loan but don't fund it for six months, during that first six-month period there would be no commitment fees accreted into income?

D. Armer That's right.

R. Shane Okay. Fair enough. Thank you.

Coordinator The next question comes from the line of Kenneth Bruce, BoA. Please proceed.

K. Bruce Thanks. Good morning, guys. Just a few follow-up questions. I'm sorry if you mentioned this before, but it's been a busy morning. Earlier in the year we saw some spread compression and I'm interested if you've seen anything incrementally that's occurred here over the course of the last quarter, what the general spread is relative, across, obviously, there's some mix shift here that we've been talking about, but if you look at it on a like-for-like basis, if there's been any further spread compression.

S. Plavin I think the spread compression we saw in the first quarter, which was really significant, definitely slowed as we hit the summer and rolled into the fall. We're still seeing it. The market's competitive and there is price competition for the loans, so spreads are, on the margin, still tightening but not in a really significant way anymore. I do think the worst of the tightening is over; that's certainly our hope.

We've been able to maintain the ROIs necessary to make our business model work well, so I feel that it's also made it more difficult for some of our competitors who have a higher cost of capital than us to compete. In some regard we've been a winner from the tightening environment although, in general, it's always nicer to see spreads higher than lower.

K. Bruce Are you finding yourself going into deeper transitional loans as you move through this point in the cycle? Obviously, going to construction itself or having more of that has suggested you are, but could you maybe give a sense as to within the transitional loan space if you're finding yourself going into deeper markets?

S. Plavin I think, Ken, that the business has really been relatively steady over an extended period of time. It varies from quarter to quarter and if you look at our loans, there are three general categories: acquisition loans, refinancings, and construction loans. The mix varies, but the opportunities have been consistent through the year. This quarter we saw more acquisition financing as our clients' level of activity picked up and they were more actively getting their funds invested in buying property, so it created some great opportunities for us.

With spreads tightening and some of these properties getting a little further along in their business plans, we'll continue to see good refinancing opportunities as well. Those will be less transitional and a little bit more stable from a property standpoint than the acquisitions that we look at, but the profile hasn't really changed and we continue to address the market opportunity as well.

K. Bruce My last question is just regarding scale, from a point of origination or just ability to generate investments on the current platform, is there significant upside from here? We've spoken over the years and we're always trying to gauge how much you can grow and what the capital formation needs to be in order to support that, and obviously, there's a lot of moving pieces in that, but I'm always interested in whether you think you're at the right level of origination activities, whether you look at it on a spot basis or in the context of construction loans, obviously fund in the future whether you're at scale or if you've got a lot more upside from here.

D. Armer One thing I'd point you to is the originations growth that we experienced year-over-year. We're up 33% in 2017 over 2016 at $3.6 billion versus $2.7 billion. I think you're seeing that originations growth manifest in a growing portfolio. We've been working through the GE repayments, during 2016 in particular, so the top line didn't change a whole lot, but you'll begin to see, and I think you saw last quarter, the top line in terms of total assets begin to change. We continued moving in that direction this quarter.

If you look at our capital base, including the convertible notes, there's room to support a portfolio that's up to 20%, round numbers, larger than it is currently on a fully deployed basis. I think in terms of growth in earnings and growth in the portfolio, we've got the capital in place to support that and we're seeing it in terms of our origination activity, particularly when you zoom out and look at the year-over-year periods as opposed to any individual quarter, which can be a little bit lumpy.

K. Bruce And maybe just to refine that a little bit, from here, though, do you feel like you've got a significant amount of excess capacity that you can continue to effectively leg into a larger portfolio?

D. Armer We do have $700 million of liquidity on the balance sheet. Now, not all of that is offensive and deployable, but using round numbers, $500 million of it is in theory.

K. Bruce I'm sorry. I'm not really referring to the capital set. I'm more referring to the capacity that the operation can produce from dollar amounts of investments. Do your people that you have in place, can you scale that part of the business up?

D. Armer Absolutely. That's part of being part of the Blackstone Real Estate platform. Our focus on larger loans is key in that regard. We've seen that number, our average loan size, go up year-over-year as well, and we've also continued to build out the team here. Steve referred to the increased presence in California. I think tracking for originations, as you've seen in 2017, over $1 billion a quarter as opposed to just under $1 billion a quarter is totally supportable from our platform.

S. Plavin We really do, Ken, have great investment capacity here. Blackstone, as an organization, is really built to invest. I talked about the new people in L.A., but we've also added people in London as well and expect to see more origination in Europe going forward than what we've seen in the past year or so. We have the people in place and we definitely have the ability, and we're seeing the opportunities.

We continue to also track, what we hope to be, very large opportunities as well. We benefit from an ability to do larger deals. We have a large balance sheet to absorb them, so we can continue to focus on larger opportunities that can significantly move the capital base. It's hard to predict a deal like a GE or something else that's going to come down the pike again, but I can tell you that we're better positioned than anyone for that sort of business should it arise, and we're looking for it all the time.

K. Bruce Thank you for all your comments, and congratulations on another good quarter. I appreciate it. Take care.

Coordinator The next question comes from the line of George Bahamondes from Deutsche Bank. Please proceed.

G. Bahamondes Hi, guys. Good morning. Most of my questions have been answered; this is more of a housekeeping item. Did you guys disclose the amount of loans you've closed or are in the process of closing in the fourth quarter?

S. Plavin We did. I will get you that number. It was $768 million. It's a combination of loans we've already closed and ones where we have signed term sheets that are in the closing process.

G. Bahamondes Great. That's it for me. Thank you.

Coordinator The final question comes from the line of Sajith Ranasinghe from Church Pension. Please proceed.

S. Ranasinghe Morning guys. For the loan exposure that you have in the refi cash out variety, have you guys ever disclosed that and are you willing to talk about what's in the books in terms of the third quarter, how much of it was a refi cash out?

S. Plavin When we talk about our loans, we really look at LTV and all the good qualities of the loans and the risks associated with them, so we're certainly mindful of situations where cash is coming out versus equity going in. But as it related to the quarter, other than the construction loans, every loan but one was a new acquisition, so this quarter was almost exclusively acquisition financing. Again, that varies quarter to quarter.

When we look at refinancings, we're certainly mindful of the sponsors' equity, cash equity, and implied equity in the deal, and we believe we can underwrite real estate on a refinancing just as well as we can in an acquisition. They're both important parts of our business, but in this most recent quarter, it was almost all acquisitions and the two construction loans.

S. Ranasinghe On the financing page or the balance sheet page, in the prior quarter you had shown the credit facilities with the all-in cost and now you show just the coupon. Were there some hedges taken off or what was the reason for the switch?

D. Armer The all-in costs versus the coupons are really just the amortization of fees and expenses of setting up the facilities. So the current incremental cost we think is better represented by the coupon, but the detail is in the 10-Q and we can point you to that specifically.

S. Ranasinghe Thank you.

Coordinator I'd like to turn the call back over to Weston Tucker.

W. Tucker Thanks, everybody, for joining us today. If you have any follow-up questions, please let me know.

Coordinator Ladies and gentlemen, that concludes today's conference. You may now disconnect. Have a wonderful day.