**BLACKSTONE MORTGAGE TRUST First Quarter 2021 Investor Call**
**April 28, 2021 at 9:00 a.m. ET**

**Moderator:** Good day, and welcome to the Blackstone Mortgage Trust first quarter 2021 investor call, hosted by Weston Tucker, Head of Shareholder Relations. My name is Jenny, and I'm your event manager. During the presentation, your lines will remain on listen only. If you require assistance at any time, please key star zero on your telephone, and coordinators will be happy to assist you.

If you would like to ask a question, please key star then one on your telephone, record your name, and press the pound or the hash key. If you then decide to withdraw your question, simply key star two. All other lines will remain on listen only.

I'd like to advise all parties this conference is being recorded. And now, I'd like to hand it over to Weston Tucker. Please go ahead.

**Weston Tucker:** Great. Thanks, Jenny, and good morning, and welcome to Blackstone Mortgage Trust's first quarter conference call. I'm joined today by Steve Plavin, Chief Executive Officer, Katie Keenan, President, Tony Marone, Chief Financial Officer, and Doug Armer, Executive Vice President, Capital Markets.

This morning, 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 10-K. We do not undertake any duty to update forward looking statements, and will also refer to certain non-GAAP measures on the call. For reconciliations, you should refer to the press release and our 10-Q.

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So a quick recap of our results. We reported GAAP net income per share at $0.54 for the first quarter, while distributable earnings were $0.59. A few weeks ago, we paid a dividend of $0.62 per share with respect to the fourth quarter. If you have any questions following this call, please let me know. And with that, I'll now turn things over to Steve.

**Steve Plavin:** Thanks, Weston. The first quarter marked the reinvigoration of BXMT originations and the resumption of growth in our loan portfolio. Over the nearly eight years of BXMT activity, our business has shown a remarkably consistent trajectory and strategic direction. We source and execute on great investments with top sponsors. We innovate on both sides of the balance sheet. We manage liquidity and risk prudently, and we create great returns for our shareholders.

2020 demonstrated the benefits of this approach, with our strong credit and earnings performance through an unprecedented period. In 2021, positive momentum within our business is again building. In Q1, we closed $1.7 billion of new originations, backed by very high quality properties in strong growth sectors and markets. We improved both the cost and structure of our funding, with multiple capital markets executions. And we grew the loan portfolio by nearly $700 million, a solid first step in deploying our substantial dry powder.

Our business has been consistently strong because of the fundamental advantages we realize from our management team being part of Blackstone. Blackstone's monumental scale across the real estate universe provides unparalleled access to proprietary information that is extremely beneficial in our sourcing and underwriting, and a deep talent pool and experience within Blackstone has led to a great track record of investment performance and access to capital throughout cycles.

Today, the emerging transaction environment provides a fruitful backdrop for our business. Borrowers are coming off the pandemic sidelines and executing on new investment opportunities, and with more widespread vaccine distribution and growing consumer confidence, we expect to see increasing economic activity that will benefit commercial real estate performance.

The BXMT business, drawing on the tremendous competitive advantages of the entire Blackstone platform, remains well-positioned for growth and outperformance. And with that, I will turn it over to Katie to address our activities in this quarter in more detail.

**Katie Keenan:** Thanks, Steve. With transaction activity in the market expanding, we are seeing strong momentum in our business. Our investment pace accelerated this quarter as we closed nine new loans and grew our portfolio to a record $18.7 billion. Our substantial liquidity as well as the increasingly efficient financing available to us provides the runway for meaningful accretive portfolio growth within our existing capital base, and we are on our way, with $2 billion of new loans closed during closing, include $600 million already closed so far in April.

Even more importantly, our new investment opportunities are highly attractive from a credit perspective. This quarter, we saw robust activity in sectors with strong tailwinds, like industrials, multi-family, life sciences, and growth market office. We continue to capitalize on areas where Blackstone is a market leader, affording us excellent insight into deal analysis, and the ability to build conviction quickly.

Most of our loans this quarter supported new acquisitions, where our ability to use this information advantage to provide speed and certainty is particularly important, and where our borrowers invested substantial new equity alongside our loans. $1.3 billion of our originations were with repeat sponsors, where our long-term relationships continue to yield differentiated access to opportunities. And we also closed loans with six new borrowers this quarter, indicative of our ever-growing client base.

We made new loans in growing sunbelt markets, like Austin, Texas, Durham, North Carolina, and Miami, Florida, as well as solid core markets like Boston. And we saw the strategic benefit of our deep experience investing in Europe, where the dominant position of the Blackstone platform, especially in the context of a less liquid market environment, has allowed us to consistently find attractive relative value opportunities over time.

Our business in Europe yielded our largest deal of the quarter, a $575 million portion of a $1.2 billion loan to finance the acquisition of a 91% occupied industrial portfolio in Sweden for the Blackstone equity business's best in class European industrial platform. This portfolio has strong in place cash flow, a high quality, granular tenant base, and powerful momentum from growing ecommerce penetration in one of Europe's most resilient economies.

Given the geography and nature of the acquisition, the situation required lenders who are capable of executing in the Swedish jurisdiction, and who could provide certainty and size, thereby creating a compelling lending opportunity secured by great real estate assets.

We value large scale transactions because they typically come with substantial equity from well-capitalized, experienced sponsors, institutional-quality assets, and deal dynamics that fit well with our core strengths. In addition to the Swedish logistics deal, this quarter we also closed a $491 million 65% loan to cost new acquisition financing for Davis and Principal on a life sciences conversion in East Cambridge, Mass, the best lab market in the world. As one of the largest owners in the market, we are deeply familiar with Cambridge life sciences, which allowed us to quickly develop confidence on credit, while at the same time using our scale to commit to the whole large loan and win in a competitive process.

As the capital markets pick up, we are seeing an increasing volume of repayments, a headwind on deployment, but a healthy sign for credit. The performance of our loans has remained very strong, consistent with our experience throughout 2020. We had seven upgrades and no downgrades this quarter, as business plans progressed across the portfolio in parallel with the reopening of the economy.

As we see transaction flow growing, we are also focused on optimizing our balance sheet to drive down our cost of capital and further diversify our funding sources. In February, we priced an add-on to our term loan B at LIBOR plus 2.25, in line with the record tight levels of our December 19 deal, and reflective of our status as a top quality issuer.

We continue to drive improved pricing and market-leading structure on our credit facilities, a testament to the quality of our assets and depth of our relationships. And earlier this month, we closed a $1 billion CLO, our fourth overall, and third in the last 14 months.

In addition to giving us access to attractive asset financing for newly originated loans, FL4 refinanced our first CLO, proving the long-term viability of this financing option as a permanent component of our balance sheet.

In an increasingly competitive spread environment, our ability to access capital markets on compelling terms is a critical advantage, allowing us to capitalize our business efficiently and maintain our focus on high quality assets, sponsors, and loans.

With more lenders entering the market as the worst of COVID recedes from view, our scale, relationships, creativity, and expertise are more important than ever. We are seeing and evaluating lending opportunities around the world, maintaining our characteristic credit discipline, and finding many attractive investments for our capital.

Our adherence to the simple business model of low leverage senior lending to great sponsors capitalized by a matched term, high integrity balance sheet, drove strong performance last year, and continues to be our north star. And our performing portfolio of first mortgage loans financed by a well-priced and ever-improving balance sheet, continues to produce attractive current income, a 9% return on book in a new zero LIBOR environment.

Thank you, and I'll now turn the call over to Tony.

**Tony Marone:** Thank you, Katie, and good morning, everyone. As Steve and Katie highlighted, this quarter's results kick off 2021 with a resumption of more typical BXMT activity, as we and the broader market continue to put the impacts of COVID 19 further behind us.

This quarter, we reported GAAP net income of $0.54 per share, and distributable earnings of $0.59 per share, in line with the fourth quarter of last year, despite continued low interest rates globally.

Our book value per share of $26.35 was also in line with 4Q, as there was only a minimal change in our CECL loan loss reserve, which is one of the largest potential drivers of variability in our GAAP book value.

We carried a $1.25 per share CECL reserve as of quarter end, so gross of this reserve, our book value would be $27.60, roughly the same level as reported in 4Q 2019, before the impacts of COVID and the new CECL accounting standard.

During the quarter, we originated $1.7 billion of new loans, driving our total portfolio to $18.7 billion. Although $1.3 billion of these loans closed in March, and therefore had a muted contribution to our 1Q results, they position us well for incremental earnings going into the second quarter.

Also, we received nearly $800 million of repayments this quarter, as overall transaction volume has resumed. However, we generated meaningfully less repayment income in 1Q than typical pre-COVID quarters. This reflects the seasoning of our portfolio, resulting from the lower volume of repayments and originations we closed last year.

Credit quality was stable this quarter, with only two percent of loans on non-accrual status, 100% interest collection, and as I noted earlier, no material movement in our CECL reserve. Our average origination LTV of 65% continues to be a source of strength and stability for us, as markets return to normal and our borrowers are even further incentivized to protect the significant equity capital they have invested in our collateral assets.

Our capital markets and portfolio financing activity also reflect a return to more normal markets and operations, as we continue to grow our dynamic financing strategy. Notably, we closed a $200 million add-on to our $737 million A1 secured term loan, matching the attractive LIBOR plus 2.25% rate from our 4Q 2019 transaction.

Similarly, although after quarter end in April, we closed a $1 billion CLO, our fourth transaction since we began this strategy in 2017. We continue to improve the structural flexibility of our CLOs with the ability to add incremental assets to CLO4 over the next six months, in addition to the dynamic replenishment and loan modification features we have utilized in our prior CLOs.

Lastly, but significantly, we closed $1.3 billion of new transactions with our credit facility lenders, who financed 55% of our portfolio as of 3/31. These large, diversified credit facilities provide an important source of flexible financing for us, as we continue to expand and improve our terms and structure. As an example, this quarter, we added Swedish kroner to one of our facilities to finance the $575 million equivalent loan Katie mentioned earlier, and to generally support the growth of our lending activities in Europe.

We closed the quarter with a low debt to equity ratio of only 2.6 times, coupled with significant liquidity of $1.1 billion. As transaction volume has picked up, we look forward to continued growth in our loan portfolio as we deploy our dry powder into the $2 billion pipeline Katie mentioned earlier, which will generate earnings for our stockholders and provide a larger platform from which to pursue further accretive investment opportunities.

Importantly, we continue to be vigilant with asset, sector, and borrower selection to protect our portfolio from any potential downside volatility as the global economy continues its recovery. Thank you for your support, and with that, I'll ask the operator to open the call to questions.

**Moderator:** Okay. And your first question comes from the line of Timothy Hayes, BTIG. Caller, you're live in the call. Please go ahead.

**Timothy Hayes:** Hey. Good morning, guys, and congrats on a very strong quarter. My first question, and it sounds like you're gearing up for some nice origination growth, the pipeline seems very strong. I know repayments can be difficult to predict, but as the credit environment improves, I imagine repayments will pick up as well. So just wondering if you can give us an idea of your expectations for net portfolio growth, given the pipeline you noted and expectations for repayments over the coming quarters.

**Katie Keenan:** Thanks, Tim, and great to have you on the call. I think as far as repayments, to your point, they are a bit unpredictable, but what we've seen consistently is that they're very well-correlated with our origination activities. And so we expect a similar trend as to what we've had historically pre-COVID, and with the existing capital base we have, we think we have a lot of runway for portfolio growth. So a little hard to predict specifically, but the correlation really should hold.

**Timothy Hayes:** Got it. Okay. And then on the pipeline, I think I saw – well, your weighted average portfolio yield I think actually ticked up a bit this quarter, and we've seen some of your peers note stress in terms of pressure on asset yield and seeing that come down with first quarter results. I'm just curious, with your pipeline, how all in coupons look relative to the portfolio average, and if you expect you're able to achieve similar ROE that you've been able to achieve, or maybe even relative to pre-COVID levels, given kind of what's happening on the financing side as well.

**Katie Keenan:** Yeah. I think what we're seeing in the market is ROA and ROE is pretty consistent on a spread basis from pre-COVID. Every quarter, there's obviously a little bit of idiosyncrasy, depending on which loans closed in which quarter, but we've held very consistent. And I think, to your point, we are seeing some spread pressure in the market on the lending side, but we're also a very significant beneficiary from that on the borrowing side. And we're always very focused on making sure that our capital sources are enabling us to continue accessing the loans that we want to lend on, even as we see spreads compressing in the market.

**Timothy Hayes:** Got it. Makes sense. And then just one more broad color for me. It's great to see stable credit trends in the portfolio. Maybe if you could just touch on maybe, you know, New York City office exposure in general, since you guys are pretty well-located there. Just wondering how underlying rent and occupancies have trended in those assets underlying your loans in that market, and to office specifically, and just on the market in general, if you've had any updated thoughts on how class A office will perform in gateway cities like New York City, and if there's any kind of range of valuation haircuts you're expecting broadly.

**Katie Keenan:** Yeah. I think as far as generally in the markets where we've been active, we're increasingly seeing corporations and CEOs comment on what we've seen for a while, which is that in person work is necessary for fostering culture, talent development, collaboration, ingenuity. These dynamics we think are particularly important in the industries that were creating office demand even before COVID, like life sciences and content creation, and where we've long been focused in terms of our lending activities. We like to lend on new quality office buildings, healthier, more flexible spaces, better amenities, the right sub-markets. These are the buildings that we saw tenants expanding in, and where demand was being created pre-COVID, and that trend is continuing.

So while the overall office market will take time to recover, and we think the work from home dynamic will have some impact on values and rents, the impact really will be uneven across office markets. There's a flight to quality. We're already seeing that in different markets. And we think our portfolio is in the right neighborhoods. Our office loan this quarter is a great example of the long-term office lending philosophy we've had in the portfolio. It's a brand new office building, East Austin, Texas, low leverage acquisition loan to an A+ sponsor in a market where we're seeing great fundamentals.

So overall, we feel like we've made the right asset selection in our portfolio, and we're seeing the types of assets we lend on being the outperformers.

**Timothy Hayes:** Right. Great. I'll hop back in the queue. Thanks for the color, Katie. Appreciate it.

**Moderator:** Your next question comes the line of Doug Harter from Credit Suisse. Please go ahead.

**Doug Harter:** Good morning. You mentioned that the income from prepayments was lower this quarter than pre-COVID quarters. I'm just wondering if you could size that, and then just help us understand kind of how that might look going forward, given the seasoning you mentioned, and kind of the thought process around when that might return to normal.

**Doug Armer:** Hey, Doug. It's Doug here. I'll take that one. Historically, if you look back over the last several years, we've had anywhere from $0.02 to $0.04 on a per share basis of prepayment income. I think on average, as a matter of fact, it's $0.04 – it tends to be lumpy, so that's not a regular number per quarter, but that's the average over the last several years. This quarter was significantly less than that, closer to $0.01. It's been between nothing and $0.01 in recent quarters. And that's a function, to your point, of the seasoning in the portfolio, decreased velocity in 2020, and then the resultant aging of the portfolio. The prepayment income obviously is a function of the aging of the loans.

As the portfolio turns over, as originations and repayments resume, and the portfolio turns over into the more typical demographic, so to speak, over the next several quarters, we'll see that velocity resume, and the potential for prepayment income resume, and that additional yield return to the portfolio.

**Doug Harter:** Just to make sure I understand, Doug, so you're saying it takes a couple more quarters of originating and having normal repayments, and then you'll probably get back to that $0.02 to $0.04, albeit lumpy, range?

**Doug Armer:** Yeah, I don't know whether we can put a specific number of quarters on it, because it'll really depend on the blow by blow of the originations and repayments. But over the next period, as the portfolio turns over and the demographics return to a more normalized level, we'll see that happen. So it's anyone's guess as to whether it's two quarters or four quarters, but it's some period of time in the intermediate term.

**Doug Harter:** Great. That's very helpful. Thank you.

**Moderator:** Okay. Just to remind you, if you would like to ask a question, please key star then one on your telephone. Record your name and press the pound or the hash key. And just a reminder, one question, one follow-up question. Thank you. And your next question comes from the line of Charlie Arestia, JP Morgan. Please go ahead.

**Charlie Arestia:** Hey. Good morning, everyone. Thanks for taking the questions. Were there any loan modifications that were executed during the quarter? I'm assuming you've seen a deceleration in those requests, but just curious to get your thoughts on how those conversations are going.

**Katie Keenan:** Sure. So we're really back in the mode of where we were pre-COVID with respect to loan modifications, where we actively go through our portfolio and look for opportunities to proactively modify loans to keep the good credits that we like around for longer. So we're seeing in the portfolio some restarted or expanded business plans. We're seeing assets progress in their business plans, where we want to right-size the rate of the loan to get more call protection. That's really the tenor of the loan modifications we have going on right now. The COVID impact modifications – we've turned the page for the most part on those.

**Charlie Arestia:** Okay. Got it. Thanks, Katie. And then if I could just get two asset-specific updates on some of your larger four-rated loans. First, the $360 million Maui hotel. Given the recent developments in vaccine progress, and I'd say stronger performance in leisure hotels, I would be curious to hear how things are progressing on that asset. And then second, the $920 million mixed use in Spain. Again, looking at sort of the reopening trends domestically versus what you read about happening in Europe, I'm wondering if we can get an update there, and if there's a possibility of any specific reserve build on either of those loans. I realize there's plenty of runway on the maturities there, but given the size of those and the risk ratings, I figured I would ask.

**Katie Keenan:** Sure. So on the Maui hotel, we're big believers in the post-COVID travel recovery across Blackstone. We're obviously investing in that theme. The combination of pent-up demand, accumulated savings, vaccine adoption, travel restrictions lifting, we think there's going to be a very powerful recovery, particularly in the leisure resort segment of the market. And that asset is extremely well-positioned. It finished its renovation plan during COVID. Hawaii has extremely positive long-term supply/demand fundamentals. This is right on the beach in Maui. So we're seeing this hotel be a big beneficiary from the trends that we're expecting.

The hotel is seeing some tick-up in occupancy. It'll take time, especially with a place like Hawaii. Obviously, it's a long flight. But once people have a better perception of safety, we think the Hawaii market is really going to perform very well.

On the other asset you mentioned in Spain, I think the broader reopening is also a benefit to that portfolio. We're seeing collections pick up. It's still a business plan that will progress over time, but no real material changes there.

**Charlie Arestia:** Thanks very much.

**Moderator:** And your next question comes from the line of Jade Rahmani from KBW. Please go ahead.

**Jade Rahmani:** Thank you very much. I was wondering if perhaps, Steve or Katie, you could share your thoughts on if there's any roll-back in 1031 exchanges, how you think it might impact the real estate market.

**Steve Plavin:** Hey, Jade. This is Steve. I think the 1031 exchange market will impact certain net leased assets and other assets that tend to be frequently traded in that marketplace. I don't think it'll have any real impact on our business. I don't see a vibrant 1031 market as being important for valuations to the kinds of assets that secure our loans. There'll be a tax headwind for certain investors, but I don't expect it to have any impact on our business.

**Jade Rahmani:** Thank you very much. And in terms of the nature of the originations, you mentioned multi-family as a bright spot. I'm wondering if you're seeing any changes from the GSEs. Perhaps they've tightened spreads in order to manage the recent uptick in interest rates. But wondering if they're less active, and that presents an opportunity.

**Katie Keenan:** Yeah, Jade, it's a great question. I think we are seeing a little bit of that on the margin. The GSEs have been a bit less active generally in recent months. And so on the margin, we might be picking up some loans that might have been ready for GSE execution a little bit earlier. But by and large, the loans we're making, they come from relationships. There's usually a little bit of a transitional element to them. So we're typically a lender leading up to a GSE execution. So not a huge impact, but I think maybe a little bit on the margin.

**Jade Rahmani:** Thanks very much.

**Moderator:** And your next question comes from Don Fandetti from Wells. Please go ahead.

**Don Fandetti:** I was wondering if you could talk about the competitive dynamic today in the US, and maybe also contrast that with Europe, and then, you know, just lastly, as you come out of COVID, are there any strategic changes or are you going to just kind of continue forward with the same strategy?

**Katie Keenan:** Sure. So I think as far as the competitive dynamic, I think what we're really seeing is pretty similar to pre-COVID. There are certainly other lenders out there, but our advantages continue to shine through. We've got great relationships with borrowers, obviously with our financing counterparties. We have the ability to act in scale that many others can't meet. We have really differentiated access to information that allows us to move quickly and find the loans that we like. So we've always operated in a competitive environment. We've always been able to find a really large volume of attractive investment opportunities.

Europe has also always been a little bit less competitive. It's just a bit of a less liquid market environment. There are fewer lenders over there that have the type of information advantage and scale that we have as part of the Blackstone platform. So we really like the Europe opportunity, and it's always been a fruitful ground for finding investments.

I think as far as the business model, our view of the last year was that it really was a validation of what we've always thought was a very strong strategy. Lending to well-capitalized sponsors, high quality real estate that proves resilient, having a very high integrity, match-funded balance sheet. All of those things I think really drove outperformance for our business in the last year, and we think that's the right place to be.

**Don Fandetti:** Okay. Thank you.

**Moderator:** And the final question comes from Stephen Laws, Raymond James. Please go ahead.

**Stephen Laws:** Hi. Good morning. A number of things have been covered, but can you touch on PIK income? How much PIK income was in the quarter, and how did that change year over year and sequentially, which I guess are somewhat fair comps to normal, since there was less portfolio turnover the last 12 months than typical.

**Tony Marone:** Hey, it's Tony. On the PIK income question, we don't have a specific number disclosed, but what I would say is important is we only have 2% of the portfolio, which is two loans, on non-accrual, and we're not deferring interest generally across any of our loans. So predominantly, the loans are all paying current. The receivables are all valid. And we're not building up any sort of big receivables or back-ended PIK that we're worried about collecting. So although I don't have a number to share, I would say it's nothing that we need to be concerned about.

**Stephen Laws:** Thanks, Tony. As a follow-up, a lot of things covered on the origination and pipeline, but just one more. It looks like no office origination in Q1. Can you talk about where that is in your pipeline? Are you less hesitant to do that, given more uncertainties around that asset class looking out? If that's at all the case, how should we think about your portfolio mix of property type changing if we look say 12 or 24 months forward?

**Katie Keenan:** Sure. So we did have the one office origination in the quarter in Austin, Texas, with one of our best sponsors, and really, I think that loan is indicative of what we're interested in the market, where we've been lending pre-COVID, and where we expect to continue. So we're seeing great opportunities in newer quality office buildings with strong sponsors, the types of buildings that have the amenities and the quality that tenants want to be in and that employees want to be in. A lot of activity in growth market office, in low basis office, in core markets.

So we continue to think that we've made the right asset selection in the office space, and that there are good opportunities as a lender there. So I'm not sure I would think there'll be a significant change over time. I think we're just going to keep adhering to our very disciplined approach to which office buildings we think will be the winners, and making sure we're making low leverage loans to the right sponsors in that market.

**Stephen Laws:** Great. So sounds like it stays about 50% then, just kind of roughly. Great. Thank you very much for your time.

**Moderator:** Thank you. Now I'll turn the call back over to Weston Tucker.

**Weston Tucker:** Great. Thanks, everyone, for joining us this morning. If you have any questions, please follow up after the call.

**Moderator:** Goodbye. Thank you. That concludes your conference call for today. You may now disconnect. Thanks for joining, enjoy the rest of your day, and take care.

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