December 2017

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At Long Last, The CRE Market Has a Mezzanine-Loan Index

There are multiple indexes that measure the performance of public and private commercial real estate, property types, different geographies and investor strategy. Examples include the NCREIF Property Index, which is the standard for assessing "core" real estate assets, or RCA's Commercial Property Price Index, which measures property values.

One key exception, however, has been mezzanine debt, an investment type that grew substantially during the last cycle. Mezzanine loans and other high-yield assets such as B-notes are difficult to measure, in large part because each is relatively unique and most investors are private entities that are loathe to share performance information.

Now, however, the market has its first third-party measure of high-yield commercial mortgage debt performance, created by John B. Levy & Company and S. Michael Giliberto & Company, which have been publishing a quarterly performance index for senior debt–the Gilberto-Levy Index–since 1993. Both indices were co-created by John Levy, president of Levy & Co., and Michael Giliberto, a Columbia University professor and former investment manager. The two companies worked with a group of investment managers to create the new Giliberto-Levy High-Yield Real Estate Debt Index.

The first GL index (GL-1) focuses on senior loans originated by portfolio lenders. The high-yield index–known as GL-2–tracks the performance of $8.5 billion of loans held by private entities dating back to January 2010. Mezzanine debt represents 53% of the GL-2 index collateral, with the rest a mix of senior loans and B-notes (32%), preferred equity, second mortgages and blended investments. About 60% of the loans carry a floating rate, while the rest are fixed.

High-yield debt racked up a 7.6% average annual return from 2010 through December of 2016, dramatically eclipsing the 5.3% return achieved by the firm's senior-loan index over that same timeframe. For 2016, investments tracked in the GL-2 produced a 9.4% return. Returns on mezzanine loans in 2016 were 10.4%. The high-yield index is available on a subscription basis, and the results will be published quarterly, starting with 2017 returns.

Giliberto-Levy 2 Index Historical Returns*

	All Loans	Mezz Loans	Floaring Rate	Fixed Rate
1-year	9.4%	10.4%	10.1%	9.8%
3 years	8.1%	8.0%	8.8%	7.7%
5 years	7.9%	9.5%	7.6%	8.6%
Full period (2010 through 2016)	7.6%	8.9%	6.5%	9.7%

Source: S. Michael Giliberto & Co., Inc. and John B. Levy & Co., Inc. * Through 12/31/16

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