

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

☒

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2023

OR

☐

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-34383

Seven Hills Realty Trust

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State of Organization)

20-4649929
(IRS Employer Identification No.)

Two Newton Place, 255 Washington Street, Suite 300, Newton, MA 02458-1634
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code 617-332-9530

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of each exchange on which registered
Common Shares of Beneficial Interest	SEVN	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided in Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of registrant's common shares of beneficial interest, \$0.001 par value per share, outstanding as of July 27, 2023: 14,744,827.

SEVEN HILLS REALTY TRUST

FORM 10-Q

June 30, 2023

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References in this Quarterly Report on Form 10-Q to "SEVN", "we", "us" or "our" mean Seven Hills Realty Trust and its consolidated subsidiaries unless otherwise expressly stated or the context indicates otherwise.

PART I. Financial Information
Item 1. Financial Statements

SEVEN HILLS REALTY TRUST
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)
(unaudited)

	June 30, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	\$ 81,806	\$ 71,057
Restricted cash	238	10
Loans held for investment	629,525	669,929
Allowance for credit losses	(4,201)	—
Loans held for investment, net	625,324	669,929
Real estate owned	15,592	—
Accrued interest receivable	3,417	3,354
Prepaid expenses and other assets	1,537	2,497
Total assets	<u>\$ 727,914</u>	<u>\$ 746,847</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable, accrued liabilities and other liabilities	\$ 4,287	\$ 1,903
Secured financing facilities, net	452,690	471,521
Due to related persons	3,139	1,844
Total liabilities	<u>460,116</u>	<u>475,268</u>
Commitments and contingencies		
Shareholders' equity:		
Common shares of beneficial interest, \$0.001 par value, 25,000,000 shares authorized; 14,745,486 and 14,709,165 shares issued and outstanding, respectively	15	15
Additional paid in capital	239,167	238,505
Cumulative net income	58,142	52,290
Cumulative distributions	(29,526)	(19,231)
Total shareholders' equity	<u>267,798</u>	<u>271,579</u>
Total liabilities and shareholders' equity	<u>\$ 727,914</u>	<u>\$ 746,847</u>

See accompanying notes.

SEVEN HILLS REALTY TRUST
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
INCOME FROM INVESTMENTS:				
Interest and related income	\$ 15,821	\$ 8,869	\$ 31,677	\$ 18,448
Purchase discount accretion	1,047	1,636	2,232	7,571
Less: interest and related expenses	(7,927)	(3,007)	(15,621)	(4,744)
Income from loan investments, net	8,941	7,498	18,288	21,275
Revenue from real estate owned	149	—	149	—
Total revenue	9,090	7,498	18,437	21,275
OTHER EXPENSES:				
Base management fees	1,074	1,063	2,146	2,126
Incentive fees	192	—	192	—
General and administrative expenses	1,281	1,304	2,077	2,176
Reimbursement of shared services expenses	628	514	1,271	1,148
Provision for credit losses	1,026	—	39	—
Expenses from real estate owned	218	—	218	—
Other transaction related costs	—	—	—	37
Total other expenses	4,419	2,881	5,943	5,487
Income before income taxes	4,671	4,617	12,494	15,788
Income tax expense	(27)	(39)	(47)	(84)
Net income	\$ 4,644	\$ 4,578	\$ 12,447	\$ 15,704
Weighted average common shares outstanding - basic and diluted	14,605	14,521	14,594	14,514
Net income per common share - basic and diluted	\$ 0.32	\$ 0.31	\$ 0.85	\$ 1.08

See accompanying notes.

SEVEN HILLS REALTY TRUST
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(amounts in thousands)
(unaudited)

	Number of Common Shares		Common Shares		Additional Paid In Capital		Cumulative Net Income		Cumulative Distributions		Total
Balance at December 31, 2022	14,709	\$	15	\$	238,505	\$	52,290	\$	(19,231)	\$	271,579
Cumulative-effect adjustment upon adoption of ASU No. 2016-13 (Note 2)	—		—		—		(6,595)		—		(6,595)
Share grants	—		—		121		—		—		121
Share repurchases	(1)		—		(13)		—		—		(13)
Share forfeitures	(1)		—		(1)		—		—		(1)
Net income	—		—		—		7,803		—		7,803
Distributions	—		—		—		—		(5,147)		(5,147)
Balance at March 31, 2023	14,707		15		238,612		53,498		(24,378)		267,747
Share grants	42		—		579		—		—		579
Share repurchases	(3)		—		(24)		—		—		(24)
Share forfeitures	(1)		—		—		—		—		—
Net income	—		—		—		4,644		—		4,644
Distributions	—		—		—		—		(5,148)		(5,148)
Balance at June 30, 2023	14,745	\$	15	\$	239,167	\$	58,142	\$	(29,526)	\$	267,798
Balance at December 31, 2021	14,597	\$	15	\$	237,624	\$	24,650	\$	(4,595)	\$	257,694
Share grants	—		—		82		—		—		82
Net income	—		—		—		11,126		—		11,126
Distributions	—		—		—		—		(3,649)		(3,649)
Balance at March 31, 2022	14,597		15		237,706		35,776		(8,244)		265,253
Share grants	42		—		548		—		—		548
Share forfeitures	(1)		—		—		—		—		—
Net income	—		—		—		4,578		—		4,578
Distributions	—		—		—		—		(3,649)		(3,649)
Balance at June 30, 2022	14,638	\$	15	\$	238,254	\$	40,354	\$	(11,893)	\$	266,730

See accompanying notes.

SEVEN HILLS REALTY TRUST
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	Six Months Ended June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 12,447	\$ 15,704
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of purchase discount	(2,232)	(7,571)
Provision for credit losses	39	—
Amortization of loan origination and exit fees	(1,767)	(2,112)
Amortization of deferred financing costs	643	474
Share based compensation	699	630
Changes in operating assets and liabilities:		
Accrued interest receivable	(283)	(570)
Prepaid expenses and other assets	1,014	170
Accounts payable, accrued liabilities and other liabilities	(249)	(370)
Due to related persons	1,295	(48)
Net cash provided by operating activities	11,606	6,307
CASH FLOWS FROM INVESTING ACTIVITIES:		
Origination of loans held for investment	(37,016)	(141,335)
Additional funding of loans held for investment	(3,790)	(8,020)
Repayment of loans held for investment	69,469	59,843
Cash assumed from transfer of loans held for investment to real estate owned	1,742	—
Real estate owned improvements	(1,228)	—
Net cash provided by (used in) investing activities	29,177	(89,512)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from secured financing facilities	28,125	223,948
Repayments under secured financing facilities	(47,275)	(109,773)
Payments of deferred financing costs	(324)	(1,571)
Repurchase of common shares	(37)	—
Distributions	(10,295)	(7,298)
Net cash (used in) provided by financing activities	(29,806)	105,306
Increase in cash, cash equivalents and restricted cash	10,977	22,101
Cash, cash equivalents and restricted cash at beginning of period	71,067	26,295
Cash, cash equivalents and restricted cash at end of period	\$ 82,044	\$ 48,396
SUPPLEMENTAL DISCLOSURES:		
Interest paid	\$ 14,993	\$ 4,074
Income taxes paid	\$ 125	\$ 92
NON-CASH INVESTING ACTIVITIES:		
Transfer of loans held for investment to real estate owned	\$ 14,060	\$ —

SUPPLEMENTAL DISCLOSURE OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH:

The table below provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets to the amounts shown in the condensed consolidated statements of cash flows:

	As of June 30,	
	2023	2022
Cash and cash equivalents	\$ 81,806	\$ 48,230
Restricted cash	238	166
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	<u>\$ 82,044</u>	<u>\$ 48,396</u>

See accompanying notes.

SEVEN HILLS REALTY TRUST
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data)

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited. Certain information and disclosures required by U.S. generally accepted accounting principles, or GAAP, for complete financial statements have been condensed or omitted. We believe the disclosures made are adequate to make the information presented not misleading. However, the accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in our Annual Report on Form 10-K for the year ended December 31, 2022, or our 2022 Annual Report. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of results for the interim periods have been included. All intercompany transactions and balances with or among our consolidated subsidiaries have been eliminated. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect reported amounts. Actual results could differ from those estimates. Significant estimates in the accompanying condensed consolidated financial statements include the allowance for credit losses, the valuation of real estate owned and the fair value of financial instruments.

Certain prior year amounts have been reclassified to conform to current year presentation.

Note 2. Recently Adopted Accounting Pronouncements

On January 1, 2023, we adopted Accounting Standards Update, or ASU, No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the “incurred loss” model for recognizing credit losses with a forward-looking “expected loss” model that generally will result in the earlier recognition of credit losses. The measurement of current expected credit losses, or CECL, is based upon historical experience, current conditions, and reasonable and supportable forecasts incorporating forward-looking information that affect the collectability of the reported amount. ASU No. 2016-13 is applicable to financial assets measured at amortized cost and off-balance sheet credit exposures, such as unfunded loan commitments.

The allowance for credit losses required under ASU No. 2016-13 is a valuation account that is deducted from the related loans’ amortized cost basis in our condensed consolidated balance sheets. Our loans typically include commitments to fund incremental proceeds to borrowers over the life of the loan; these future funding commitments are also subject to the CECL model. The allowance for credit losses related to unfunded loan commitments is included in accounts payable, accrued liabilities and other liabilities in our condensed consolidated balance sheets.

Given the lack of historical loss data related to our loan portfolio, we elected to estimate our expected losses using an analytical model that considers the likelihood of default and loss given default for each individual loan. This analytical model incorporates data from a third party database with historical loan loss information for commercial mortgage-backed securities, or CMBS, and commercial real estate, or CRE, loans since 1998. We estimate the allowance for credit losses for our loan portfolio, including unfunded loan commitments, at the individual loan level. Significant inputs to the model include certain loan specific data, such as loan to value, or LTV, property type, geographic location, occupancy, vintage year, remaining loan term, net operating income, expected timing and amounts of future loan fundings, and macroeconomic forecast assumptions, including the performance of CRE assets, unemployment rates, interest rates and other factors. We utilize the model to estimate credit losses over a reasonable and supportable economic forecast period, followed by a straight-line reversion period to average historical losses. Average historical losses are established using a population of third party historical loss data that approximates our portfolio as of the measurement date. We evaluate the estimated allowance for each of our loans individually and we consider our internal loan risk rating as the primary credit quality indicator underlying our assessment.

If a loan is determined to be collateral dependent (because the repayment of the loan is expected to be provided substantially through the operation or sale of the underlying collateral property) and the borrower is experiencing financial difficulties, but foreclosure is not probable, we may elect to apply a practical expedient to determine the loan's allowance for credit losses by comparing the collateral's fair value to the amortized cost basis of the loan. For collateral-dependent loans for which foreclosure is probable, the related allowance for credit losses is determined using the fair value of the collateral compared to the loan's amortized cost.

SEVEN HILLS REALTY TRUST
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data)

Upon adoption of ASU No. 2016-13 using the modified retrospective transition method and, based on our loan portfolio, the then current economic environment and expectations for future conditions, we recorded a cumulative-effect adjustment reducing our cumulative net income in our condensed consolidated balance sheets by \$6,595, establishing an allowance for credit losses of \$4,893 with respect to our then outstanding loans held for investment and increasing accounts payable, accrued liabilities and other liabilities by \$1,702 with respect to our then unfunded loan commitments. No reserve for loan losses or allowance for credit losses was recognized within our consolidated financial statements prior to our adoption of ASU No. 2016-13.

Concurrent with our adoption of ASU No. 2016-13, on January 1, 2023, we adopted ASU No. 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminated the guidance for and recognitions of troubled debt restructurings for all entities that adopted ASU No. 2016-13. Instead, an entity must determine whether a modification results in a new loan or continuation of an existing loan under Accounting Standards Codification, or ASC, 310, *Receivables (Topic 310)*. If a borrower is experiencing financial difficulty, enhanced disclosures are required. ASU No. 2022-02 also requires disclosure of current period gross write-offs by year of origination. The adoption of ASU No. 2022-02 using the prospective transition method did not have a material impact on our condensed consolidated financial statements.

See Note 2 to our Consolidated Financial Statements included in Part IV, Item 15 of our 2022 Annual Report for further information regarding our measurement of reserves for loan losses prior to our adoption of ASU No. 2016-13 and our internal loan risk rating policy.

Note 3. Loans Held for Investment, net

We originate first mortgage loans secured by middle market and transitional CRE, which are generally to be held as long term investments. We fund our loan portfolio using cash on hand and advancements under our Secured Financing Facilities, as defined in Note 5. See Note 5 for further information regarding our secured financing agreements.

The table below provides overall statistics for our loan portfolio as of June 30, 2023 and December 31, 2022:

	As of June 30, 2023		As of December 31, 2022	
Number of loans		24		27
Total loan commitments	\$	677,822	\$	727,562
Unfunded loan commitments ⁽¹⁾	\$	42,902	\$	49,007
Principal balance	\$	634,920	\$	678,555
Carrying value	\$	625,324	\$	669,929
Weighted average coupon rate		9.01 %		8.07 %
Weighted average all in yield ⁽²⁾		9.47 %		8.57 %
Weighted average floor		0.87 %		0.62 %
Weighted average maximum maturity (years) ⁽³⁾		3.0		3.3
Weighted average risk rating		3.0		2.9

(1) Unfunded loan commitments are primarily used to finance property improvements and leasing capital and are generally funded over the term of the loan.

(2) All in yield represents the yield on a loan, including amortization of deferred fees over the initial term of the loan and excluding any purchase discount accretion.

(3) Maximum maturity assumes all borrower loan extension options have been exercised, which options are subject to the borrower meeting certain conditions.

SEVEN HILLS REALTY TRUST
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data)

The tables below represent our loan activities during the three months ended June 30, 2023 and 2022:

	Principal Balance	Deferred Fees and Other Items	Amortized Cost
Balance at March 31, 2023	\$ 628,696	\$ (6,626)	\$ 622,070
Additional funding	2,140	—	2,140
Originations	37,500	(484)	37,016
Repayments	(17,551)	—	(17,551)
Transfer to real estate owned	(15,865)	(95)	(15,960)
Net amortization of deferred fees	—	763	763
Purchase discount accretion	—	1,047	1,047
Balance at June 30, 2023	<u>\$ 634,920</u>	<u>\$ (5,395)</u>	<u>\$ 629,525</u>

	Principal Balance	Deferred Fees and Other Items	Amortized Cost
Balance at March 31, 2022	\$ 636,831	\$ (14,121)	\$ 622,710
Additional funding	4,926	—	4,926
Originations	51,620	(321)	51,299
Repayments	(11,092)	(108)	(11,200)
Net amortization of deferred fees	—	814	814
Purchase discount accretion	—	1,636	1,636
Balance at June 30, 2022	<u>\$ 682,285</u>	<u>\$ (12,100)</u>	<u>\$ 670,185</u>

The tables below represent our loan activities during the six months ended June 30, 2023 and 2022:

	Principal Balance	Deferred Fees and Other Items	Amortized Cost
Balance at December 31, 2022	\$ 678,555	\$ (8,626)	\$ 669,929
Additional funding	4,024	(14)	4,010
Originations	37,500	(484)	37,016
Repayments	(69,294)	(175)	(69,469)
Transfer to real estate owned	(15,865)	(95)	(15,960)
Net amortization of deferred fees	—	1,767	1,767
Purchase discount accretion	—	2,232	2,232
Balance at June 30, 2023	<u>\$ 634,920</u>	<u>\$ (5,395)</u>	<u>\$ 629,525</u>

	Principal Balance	Deferred Fees and Other Items	Amortized Cost
Balance at December 31, 2021	\$ 590,590	\$ (19,810)	\$ 570,780
Additional funding	8,230	—	8,230
Originations	142,804	(1,469)	141,335
Repayments	(59,339)	(504)	(59,843)
Net amortization of deferred fees	—	2,112	2,112
Purchase discount accretion	—	7,571	7,571
Balance at June 30, 2022	<u>\$ 682,285</u>	<u>\$ (12,100)</u>	<u>\$ 670,185</u>

SEVEN HILLS REALTY TRUST
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data)

The tables below detail the property type and geographic location of the properties securing the loans in our portfolio as of June 30, 2023 and December 31, 2022:

Property Type	June 30, 2023			December 31, 2022		
	Number of Loans	Amortized Cost	Percentage of Value	Number of Loans	Amortized Cost	Percentage of Value
Office ⁽¹⁾	9	\$ 225,745	36 %	11	\$ 252,796	38 %
Multifamily	8	224,002	36 %	8	197,229	29 %
Retail	4	110,509	17 %	4	109,248	16 %
Industrial ⁽¹⁾	3	69,269	11 %	4	110,656	17 %
	<u>24</u>	<u>\$ 629,525</u>	<u>100 %</u>	<u>27</u>	<u>\$ 669,929</u>	<u>100 %</u>

(1) As of December 31, 2022, one loan investment secured by a mixed use property consisting of office space and an industrial warehouse in Aurora, IL, was classified as office for the purpose of counting the number of loans in our portfolio because the majority of the square footage of the property consisted of office space. The amortized cost of this loan investment was reflected in office and industrial based on the fair value of the building at the time of origination relative to the total fair value of the property. During the six months ended June 30, 2023, our loan investment in Aurora, IL, was repaid.

Geographic Location	June 30, 2023			December 31, 2022		
	Number of Loans	Amortized Cost	Percentage of Value	Number of Loans	Amortized Cost	Percentage of Value
Midwest	8	\$ 230,793	37 %	9	\$ 251,208	37 %
South	6	171,681	27 %	6	166,616	25 %
West	7	137,610	22 %	8	146,837	22 %
East	3	89,441	14 %	4	105,268	16 %
	<u>24</u>	<u>\$ 629,525</u>	<u>100 %</u>	<u>27</u>	<u>\$ 669,929</u>	<u>100 %</u>

Credit Quality Information

We evaluate the credit quality of each of our loans at least quarterly by assessing a variety of risk factors in relation to each loan and assigning a risk rating to each loan based on those factors. The higher the number, the greater the risk level. See our 2022 Annual Report for more information regarding our loan risk ratings.

As of June 30, 2023 and December 31, 2022, the amortized cost of our loan portfolio within each internal risk rating by year of origination was as follows:

June 30, 2023									
Risk Rating	Number of Loans	Percentage of Portfolio	2023	2022	2021	Prior	Total		
1	—	—%	\$ —	\$ —	\$ —	\$ —	—		
2	4	17 %	—	41,998	32,812	29,595	104,405		
3	18	71 %	37,157	129,224	225,385	56,032	447,798		
4	2	12 %	—	36,702	40,620	—	77,322		
5	—	—%	—	—	—	—	—		
	24	100 %	\$ 37,157	\$ 207,924	\$ 298,817	\$ 85,627	\$ 629,525		

SEVEN HILLS REALTY TRUST
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data)

December 31, 2022								
Risk Rating	Number of Loans	Percentage of Portfolio	2022	2021	2020	Prior	Total	
1	1	1 %	\$ —	\$ —	\$ 9,708	\$ —	\$ 9,708	
2	6	20 %	—	65,902	68,740	—	134,642	
3	17	65 %	169,516	235,602	—	28,998	434,116	
4	3	14 %	36,506	39,314	—	15,643	91,463	
5	—	— %	—	—	—	—	—	
	27	100 %	\$ 206,022	\$ 340,818	\$ 78,448	\$ 44,641	\$ 669,929	

The weighted average risk rating of our loans by amortized cost was 3.0 and 2.9 as of June 30, 2023 and December 31, 2022, respectively. Certain of our borrowers' business operations or tenants, particularly certain office and retail properties, were negatively impacted by the COVID-19 pandemic and continue to be impacted by market conditions that arose or intensified during or in response to the pandemic. Current inflationary pressures, rising or sustained high interest rates, supply chain issues or a prolonged economic slowdown or recession could amplify those negative impacts. Therefore, certain of our borrowers' business plans have taken or will likely take longer to execute than initially expected, and as a result, certain of our borrowers may be unable to pay their debt service obligations owed and due to us as currently scheduled or at all.

The borrower of our loan secured by an office property located in Yardley, PA did not pay its debt service obligations due in May 2023, resulting in an event of default. In June 2023, we assumed legal title to the property through a deed in lieu of foreclosure. See Note 4 for further information.

The tables below represent the changes to the allowance for credit losses during the three and six months ended June 30, 2023:

	Loans Held for Investment, net	Unfunded Loan Commitments	Total
Balance at March 31, 2023	\$ 4,135	\$ 1,473	\$ 5,608
Provision for credit losses	774	252	1,026
Write offs	(708)	—	(708)
Balance at June 30, 2023	\$ 4,201	\$ 1,725	\$ 5,926

	Loans Held for Investment, net	Unfunded Loan Commitments	Total
Balance at December 31, 2022	\$ —	\$ —	\$ —
Cumulative-effect adjustment upon adoption of ASU No. 2016-13	4,893	1,702	6,595
Provision for credit losses	16	23	39
Write offs	(708)	—	(708)
Balance at June 30, 2023	\$ 4,201	\$ 1,725	\$ 5,926

We estimate credit losses over a reasonable and supportable forecast period of 12 months, followed by a straight-line reversion period of 12 months back to average historical losses. The increase in the allowance for credit losses during the three months ended June 30, 2023 is primarily attributable to unfavorable changes in the macroeconomic outlook, most notably in CRE pricing forecasts, partially offset by a write off related to the loan transferred to real estate owned in June 2023. The decrease in the allowance for credit losses during the six months ended June 30, 2023, compared to the January 1, 2023 cumulative-effect adjustment upon adoption of ASU No. 2016-13, is primarily attributable to a write off related to the loan transferred to real estate owned in June 2023 and loan repayments, partially offset by the unfavorable changes in CRE pricing forecasts mentioned above.

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We may enter into loan modifications that include, among other changes, extensions of maturity dates, repurposing or required replenishment of reserves, increases or decreases in loan commitments and required pay downs of principal amounts outstanding. Loan modifications are evaluated to determine whether a modification results in a new loan or a continuation of an existing loan under ASC 310.

In June 2023, we amended the agreement governing our loan secured by an office property in St. Louis, MO. As part of this amendment, the borrower repaid \$5,000 of the outstanding principal amount and the maturity date was extended by six months to December 19, 2023. As of June 30, 2023, this loan had an amortized cost of \$23,956 and a risk rating of 3. We accounted for the amendment as a modification to the existing loan because the changes to the terms were determined to be minor. There were no other modifications to our loan portfolio for borrowers experiencing financial difficulties during the six months ended June 30, 2023.

We have elected to exclude accrued interest receivable from amortized cost and not to measure an allowance for credit losses on accrued interest receivable. Accrued interest receivables are generally written off when payments are 120 days past due. Such amounts are reversed against interest income and no further interest will be recorded until it is collected. During the three and six months ended June 30, 2023, we reversed \$88 of accrued interest related to the loan transferred to real estate owned in June 2023.

We did not have any outstanding past due loans or nonaccrual loans as of June 30, 2023 or December 31, 2022. As of June 30, 2023 and July 27, 2023, all of our borrowers with outstanding loans had paid their debt service obligations owed and due to us. See our 2022 Annual Report for more information regarding our nonaccrual policy.

Note 4. Real Estate Owned

Real estate owned is property acquired in full or partial settlement of loan obligations generally through foreclosure or by deed in lieu of foreclosure. We generally expect to sell real estate owned within one year of acquisition and expect to meet the held for sale criteria required by ASC 360, *Impairments and Disposals of Long-Lived Assets*, within a short period of time following the acquisition. As such, we classify real estate owned as held for sale.

Real estate owned is recognized at the lesser of the fair value of the property less estimated costs to sell and the amortized cost of the loan secured by the property at the time of acquisition. The fair value of the property is determined using Level III inputs and standard industry valuation methods, including discounted cash flow analyses and sales comparisons. If the amortized cost of the loan exceeds the fair value of the property less estimated costs to sell, the difference is recorded through the allowance for credit losses as a write off. Conversely, if the fair value of the property less estimated costs to sell exceeds the amortized cost of the loan, the difference is recorded through the allowance for credit losses as a recovery. Any related shortfall or excess of previously established allowances for credit losses is recognized in the condensed consolidated statements of operations as a provision for or reversal of credit losses, respectively. After acquisition, costs incurred related to improvements to the property are capitalized to the extent they do not cause the carrying value of the property to exceed net realizable value and costs related to the operation and disposition of the property are expensed as incurred. Any subsequent declines in the fair value of the property less estimated costs to sell are recognized as impairment losses in the condensed consolidated statements of operations.

In June 2023, we assumed legal title to an office property located in Yardley, PA through a deed in lieu of foreclosure. The amortized cost basis of \$15,960 of the related loan exceeded the fair value of the property, including cash assumed of \$1,742 and net liabilities assumed of \$550, less estimated costs to sell of \$740, by \$708. The previously established allowance for credit losses for the related loan was \$1,335, resulting in a decrease to our provision for credit losses of \$627 recorded in our condensed consolidated statements of operations for the three and six months ended June 30, 2023. Upon assumption of legal title of the property, we also assumed \$2,258 of outstanding commitments for lease related costs pursuant to previously executed tenant leases.

Other assets related to real estate owned of \$202, including \$67 of straight line rent receivables, are included in prepaid expenses and other assets in our condensed consolidated balance sheets at June 30, 2023. Accrued expenses and other liabilities related to real estate owned of \$689 are included in accounts payable, accrued liabilities and other liabilities in our condensed consolidated balance sheets at June 30, 2023. There were no other assets or accrued expenses and other liabilities related to real estate owned at December 31, 2022. Revenue from real estate owned represents rental income from operating leases with tenants and is recognized on a straight line basis over the lease term. Expenses from real estate owned represents costs related to the acquisition of the property and costs to operate and dispose of the property.

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Note 5. Secured Financing Agreements

Our secured financing agreements at June 30, 2023 consisted of agreements that govern: our master repurchase facility with Wells Fargo, National Association, or Wells Fargo, or the Wells Fargo Master Repurchase Facility; our master repurchase facility with Citibank, N.A., or Citibank, or the Citibank Master Repurchase Facility; our facility loan program with BMO Harris Bank N.A., or BMO, or the BMO Facility, and our master repurchase facility with UBS AG, or UBS, or the UBS Master Repurchase Facility. We refer to the Wells Fargo Master Repurchase Facility, Citibank Master Repurchase Facility and UBS Master Repurchase Facility, collectively, as our Master Repurchase Facilities. We refer to the Master Repurchase Facilities and the BMO Facility, collectively, as our Secured Financing Facilities. See our 2022 Annual Report for more information regarding our Secured Financing Facilities.

In July 2023, we amended and restated our master repurchase agreement with UBS, or the UBS Master Repurchase Agreement. The amended and restated UBS Master Repurchase Agreement made certain changes to the agreement and related fee letter, including extending the stated maturity date to February 18, 2025.

As of June 30, 2023, we were in compliance with the covenants and other terms of the agreements that govern our Secured Financing Facilities.

As of June 30, 2023 and July 27, 2023, we had a \$454,465 and \$441,786, respectively, aggregate outstanding principal balance under our Secured Financing Facilities.

The table below summarizes our Secured Financing Facilities as of June 30, 2023 and December 31, 2022:

	Debt Obligation					Collateral
	Maximum Facility Size	Principal Balance	Carrying Value	Weighted Average		
				Coupon Rate ⁽¹⁾	Remaining Maturity (years) ⁽²⁾	
June 30, 2023:						
Citibank Master Repurchase Facility	\$ 215,000	\$ 150,101	\$ 149,878	7.20 %	0.8	\$ 201,543
UBS Master Repurchase Facility	192,000	123,958	123,651	7.26 %	0.6	170,594
BMO Facility	150,000	84,855	84,371	7.05 %	1.8	113,851
Wells Fargo Master Repurchase Facility	125,000	95,551	94,790	7.18 %	1.7	126,932
Total/weighted average	<u>\$ 682,000</u>	<u>\$ 454,465</u>	<u>\$ 452,690</u>	7.19 %	1.1	<u>\$ 612,920</u>
December 31, 2022:						
Citibank Master Repurchase Facility	\$ 215,000	\$ 150,647	\$ 150,360	6.34 %	1.1	\$ 205,234
UBS Master Repurchase Facility	192,000	144,437	143,887	6.48 %	1.1	198,254
BMO Facility	150,000	111,105	110,473	6.22 %	2.2	148,476
Wells Fargo Master Repurchase Facility	125,000	67,426	66,801	6.23 %	2.1	89,008
Total/weighted average	<u>\$ 682,000</u>	<u>\$ 473,615</u>	<u>\$ 471,521</u>	6.34 %	1.5	<u>\$ 640,972</u>

(1) The weighted average coupon rate is determined using the Secured Overnight Financing Rate, or SOFR, plus a spread ranging from 1.83% to 2.51%, as applicable, for the respective borrowings under our Secured Financing Facilities as of the applicable date.

(2) The weighted average remaining maturity is determined using the current maturity date of our corresponding loan investments, assuming no borrower loan extension options have been exercised. As of June 30, 2023, our Citibank Master Repurchase Facility, UBS Master Repurchase Facility and Wells Fargo Master Repurchase Facility mature on March 15, 2025, February 18, 2024 and March 11, 2025, respectively. Our BMO Facility matures at various dates based on the respective underlying loans held for investment.

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As of June 30, 2023, our outstanding borrowings under our Secured Financing Facilities had the following remaining maturities:

Year	Principal Payments on Secured Financing Facilities
2023	\$ 87,237
2024	228,846
2025	138,382
2026 and thereafter	\$ 454,465

Note 6. Fair Value Measurements

The carrying values of cash and cash equivalents, restricted cash and accounts payable approximate their fair values due to the short term nature of these financial instruments.

We estimate the fair values of our loans held for investment and outstanding principal balances under our Secured Financing Facilities by using Level III inputs, including discounted cash flow analyses and currently prevailing market terms as of the reporting date. See our 2022 Annual Report for further information regarding the fair value of financial instruments.

The table below provides information regarding financial assets and liabilities not carried at fair value in our condensed consolidated balance sheets:

	June 30, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Loans held for investment	\$ 625,324	\$ 636,860	\$ 669,929	\$ 679,911
Financial liabilities				
Secured Financing Facilities	\$ 452,690	\$ 452,299	\$ 471,521	\$ 471,362

There were no transfers of financial assets or liabilities within the fair value hierarchy during the six months ended June 30, 2023.

Note 7. Shareholders' Equity

Common Share Awards

On May 23, 2023, in accordance with our Trustee compensation arrangements, we awarded to each of our seven Trustees 6,000 of our common shares, valued at the closing price of our common shares on The Nasdaq Stock Market LLC, or Nasdaq on that day. The aggregate value of common shares awarded was \$387.

Common Share Purchases

During the six months ended June 30, 2023, we purchased 4,079 of our common shares from a former officer of ours and former officers and employees of The RMR Group LLC, or RMR, in satisfaction of tax withholding and payment obligations in connection with the vesting of awards of our common shares, valued at the closing price of our common shares on Nasdaq on the applicable purchase date. The aggregate value of common shares purchased was \$37.

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Distributions

For the six months ended June 30, 2023, we declared and paid regular quarterly distributions to common shareholders, using cash on hand, as follows:

Record Date	Payment Date	Distribution per Share		Total Distribution
January 23, 2023	February 16, 2023	\$	0.35	\$ 5,147
April 24, 2023	May 18, 2023		0.35	5,148
		\$	0.70	\$ 10,295

On July 13, 2023, we declared a quarterly distribution of \$0.35 per common share, or \$5,161, to shareholders of record on July 24, 2023. We expect to pay this distribution on or about August 17, 2023, using cash on hand.

Note 8. Management Agreement with Tremont

We have no employees. The personnel and various services we require to operate our business are provided to us by Tremont Realty Capital LLC, or Tremont, pursuant to a management agreement, which provides for the day to day management of our operations by Tremont, subject to the oversight and direction of our Board of Trustees.

We pay Tremont an annual base management fee payable quarterly (0.375% per quarter) in arrears equal to 1.5% of our "Equity," as defined under our management agreement. We include these amounts in base management fees in our condensed consolidated statements of operations. Pursuant to the terms of our management agreement, we also pay Tremont management incentive fees, subject to Tremont earning those fees in accordance with the management agreement. We include these amounts in incentive fees in our condensed consolidated statements of operations.

Tremont, and not us, is responsible for the costs of its employees who provide services to us, unless any such payment or reimbursement is specifically approved by a majority of our Independent Trustees, is a shared services cost or relates to awards made under any equity compensation plan adopted by us. We are required to pay or to reimburse Tremont and its affiliates for all other costs and expenses of our operations. Some of these overhead, professional and other services are provided by RMR, pursuant to a shared services agreement between Tremont and RMR. These reimbursements include an allocation of the cost of personnel employed by RMR. These shared services costs are subject to approval by a majority of our Independent Trustees at least annually. We include these amounts in reimbursement of shared services expenses in our condensed consolidated statements of operations. See our 2022 Annual Report for further information regarding our management agreement with Tremont.

Note 9. Related Person Transactions

We have relationships and historical and continuing transactions with Tremont, The RMR Group Inc., or RMR Inc., and others related to them, including other companies to which RMR or its subsidiaries provide management services and some of which have trustees or officers who are also our Trustees or officers. Tremont is a subsidiary of RMR, which is a majority owned subsidiary of RMR Inc., and RMR Inc. is the managing member of RMR. RMR provides certain shared services to Tremont that are applicable to us, and we reimburse Tremont or pay RMR for the amounts Tremont or RMR pays for those services. One of our Managing Trustees and Chair of our Board of Trustees, Adam D. Portnoy, is the sole trustee, an officer and the controlling shareholder of ABP Trust, which is the controlling shareholder of RMR Inc., and he is also a director of Tremont, the chair of the board of directors, a managing director, the president and chief executive officer of RMR Inc., and an officer and employee of RMR. Matthew P. Jordan, our other Managing Trustee, is a director and the president and chief executive officer of Tremont. Mr. Jordan is also an officer of RMR Inc. and an officer and employee of RMR, and our executive officers are officers and employees of Tremont and/or RMR.

Some of our Independent Trustees also serve as independent trustees of other public companies to which RMR provides management services. Adam D. Portnoy serves as the chair of the board and as a managing trustee of those companies. Other officers of RMR and Tremont serve as managing trustees or officers of certain of these companies.

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Our Manager, Tremont Realty Capital LLC. We have a management agreement with Tremont to provide management services to us. See Note 8 for further information regarding our management agreement with Tremont. On May 11, 2022, Tremont purchased 882,407 of our common shares from Diane Portnoy, the mother of Adam D. Portnoy. Tremont paid an aggregate purchase price of \$9,469 for these shares. As of June 30, 2023, Tremont owned 1,708,058 of our common shares, and Mr. Portnoy beneficially owned (including through Tremont and ABP Trust) 13.5% of our outstanding common shares.

Acceleration of Unvested Shares of Former Officer. G. Douglas Lanois resigned as our Chief Financial Officer and Treasurer, effective September 30, 2022. Our Compensation Committee approved the acceleration of all 3,648 of our unvested common shares owned by Mr. Lanois as of his separation date, January 1, 2023.

Property Management Agreement with RMR. We entered into a new property management agreement with RMR in July 2023 with respect to the real estate owned in Yardley, PA. Pursuant to this agreement, RMR will provide property management services and we will pay management fees equal to 3.0% of gross collected rents. Also under the terms of this property management agreement, we will pay RMR additional fees for construction supervision services equal to 5.0% of the cost of such construction. Either we or RMR may terminate this agreement upon 30 days' prior notice. No termination fee would be payable as a result of terminating the agreement. We did not incur property management or construction supervision fees during the three or six months ended June 30, 2023 or 2022.

For further information about these and other such relationships and certain other related person transactions, refer to our definitive Proxy Statement for our 2023 Annual Meeting of Shareholders and to our 2022 Annual Report.

Note 10. Income Taxes

We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the IRC. Accordingly, we generally are not, and will not be, subject to U.S. federal income tax, provided that we meet certain distribution and other requirements. We are subject to certain state and local taxes, certain of which amounts are or will be reported as income taxes in our condensed consolidated statements of operations.

Note 11. Weighted Average Common Shares

We calculate net income per common share - basic using the two class method. We calculate net income per common share - diluted using the more dilutive of the two class or treasury stock method. Unvested share awards are considered participating securities and the related impact on earnings are considered when calculating net income per common share - basic and net income per common share - diluted.

The calculation of net income per common share - basic and diluted is as follows (amounts in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Numerators:				
Net income	\$ 4,644	\$ 4,578	\$ 12,447	\$ 15,704
Net income attributable to unvested share awards	(43)	(29)	(105)	(99)
Net income used in calculating net income per common share - basic and diluted	<u>\$ 4,601</u>	<u>\$ 4,549</u>	<u>\$ 12,342</u>	<u>\$ 15,605</u>
Denominators				
Weighted average common shares outstanding - basic and diluted	<u>14,605</u>	<u>14,521</u>	<u>14,594</u>	<u>14,514</u>
Net income per common share - basic and diluted	<u>\$ 0.32</u>	<u>\$ 0.31</u>	<u>\$ 0.85</u>	<u>\$ 1.08</u>

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Note 12. Commitments and Contingencies

As of June 30, 2023, we had unfunded loan commitments of \$42,902 related to our loans held for investment that are not reflected in our condensed consolidated balance sheets. These unfunded loan commitments had a weighted average initial maturity of 1.3 years as of June 30, 2023. See Note 3 for further information related to our loans held for investment.

As of June 30, 2023, we had estimated unspent lease related costs of \$726.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our condensed consolidated financial statements and accompanying notes included elsewhere in this Quarterly Report on Form 10-Q and in our 2022 Annual Report.

OVERVIEW (dollars in thousands, except share data)

We are a Maryland REIT. Our business strategy is focused on originating and investing in floating rate first mortgage loans in the \$15,000 to \$75,000 range, secured by middle market and transitional CRE properties that have values up to \$100,000. We define transitional CRE as commercial properties subject to redevelopment or repositioning activities that are expected to increase the value of the properties. Our mortgage loans are classified as loans held for investment in our condensed consolidated balance sheets.

Tremont is registered with the Securities and Exchange Commission, or SEC, as an investment adviser under the Investment Advisers Act of 1940, as amended. We believe that Tremont provides us with significant experience and expertise in investing in middle market and transitional CRE.

We operate our business in a manner that is consistent with our qualification for taxation as a REIT under the IRC. As such, we generally are not subject to U.S. federal income tax, provided that we meet certain distribution and other requirements. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the 1940 Act.

Factors Affecting Operating Results

Our results of operations are impacted by a number of factors and primarily depend on the interest income from our investments and the financing and other costs associated with our business. Our operating results are also impacted by CRE market conditions generally and in the sectors relating to our loans and unanticipated defaults by our borrowers, if any. For further information regarding the risks associated with our loan portfolio, see Note 3 to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 and elsewhere in this Management Discussion and Analysis of Financial Condition and Results of Operations of this Quarterly Report on Form 10-Q and Part I, Item 1A, "Risk Factors" of our 2022 Annual Report.

Credit Risk. We are subject to the credit risk of our borrowers in connection with our investments. We seek to mitigate this risk by utilizing a comprehensive underwriting, diligence and investment selection process and by ongoing monitoring of our investments. Nevertheless, unanticipated credit losses could occur that may adversely impact our operating results.

Changes in Fair Value of our Assets. We generally intend to hold our investments for their contractual terms, unless repaid earlier by the borrowers. We evaluate the credit quality of each of our loans at least quarterly. If a loan is determined to be collateral dependent (because the repayment of the loan is expected to be provided substantially through the operation or sale of the underlying collateral property) and the borrower is experiencing financial difficulties, but foreclosure is not probable, we will record an allowance for credit losses by comparing the collateral's fair value to the amortized cost basis of the loan. For collateral-dependent loans for which foreclosure is probable, the related allowance for credit losses is determined using the fair value of the collateral compared to the loan's amortized cost.

Availability of Leverage and Equity. We use leverage to make additional investments that may increase our returns. We may not be able to obtain the expected amount of leverage we desire or its cost may exceed our expectation and, consequently, the returns generated from our investments may be reduced. Our ability to further grow our loan portfolio over time will depend, to a significant degree, upon our ability to obtain additional capital. However, our access to additional capital depends on many factors including the price at which our common shares trade relative to their book value and market lending conditions. See "—Market Conditions" below.

Market Conditions. In response to inflationary pressures, the Federal Open Market Committee of the U.S. Federal Reserve, or the FOMC, has increased the federal funds rate by 525 basis points since March 2022 and while the FOMC paused interest rate increases at its June 2023 meeting, it raised rates by 25 basis points at its July 2023 meeting and has indicated additional increases may be necessary to combat inflation. These inflationary pressures and interest rate increases have contributed and continue to contribute to macroeconomic uncertainty and volatility in the United States and in the CRE debt markets. Additionally, increased borrowing costs and concerns of a possible economic recession have resulted in tighter underwriting standards and an overall decline in CRE transactions.

Many CRE debt providers have become less willing, or able, to extend credit to borrowers, and those that are extending credit are doing so at lower leverage levels and often with higher credit spreads. Market volatility and higher interest rates has not affected all lenders equally. Life insurance companies have reduced their leverage ratios and increased credit spreads, but continue to originate new loans. Concerns about the capital adequacy and liquidity of the banking sector caused by the failures of certain banks in March 2023 has significantly decreased lending activity from such traditional sources. Lenders that rely on secondary markets to finance their lending activities continue to experience challenges. Credit spreads in the secondary market for CMBS and CRE collateralized loan obligations, or CLO, bonds have widened substantially and demand for such bonds as fixed income investments has declined due to increasing concerns about the underlying loans' credit quality and/or their ability to be refinanced in the current interest rate environment. As a result, the liquidity of some lenders who originate and sell loans into the CRE CLO market as a means of financing has been negatively impacted.

In addition to tighter underwriting standards and increased overall borrowing costs, lenders may be impacted by challenges experienced by their borrowers. While rising interest rates generally result in increased income on floating rate portfolios, the borrowers of floating rate loans may find it more difficult to service their debt. Floating rate lenders often require borrowers to obtain interest rate caps or swaps to help mitigate this risk. While interest rate caps and swaps on loans protect lenders in periods of rising interest rates, the cost to borrowers to obtain new or replace existing interest rate caps or swaps may be prohibitive. Additionally, continued uncertainty surrounding the demand for office space and recent increases in nonperforming office loans in CMBS bonds have made loans secured by office properties less attractive to originate. As a result, borrowers of certain office loans may have difficulties refinancing and repaying their maturing debt obligations. These challenges could cause floating rate portfolio amounts overall to decrease and/or losses to be incurred if borrowers are unable to obtain interest rate caps or swaps, service their debt or repay their debt obligations as they become due, and as a result, could offset the increase in interest income generated from higher interest rates.

Despite the current market conditions and headwinds experienced in the overall CRE lending market, we believe certain alternative lenders, like us, are uniquely positioned to face these challenges. Capital remains available for investment in CRE assets, and certain favored asset types, such as multifamily and industrial, continue to transact. We believe there will be significant opportunities for alternative lenders with available liquidity, to capitalize on challenges that traditional lenders may experience. Additionally, we believe overall CRE transaction activity will improve once market uncertainty and volatility subside and there are, and will continue to be, opportunities for alternative lenders, like us, to provide creative, flexible debt capital for a wide array of circumstances and business plans.

Changes in Interest Rates. With respect to our business operations, increases in interest rates, in general, may cause: (a) the coupon rates on our variable rate investments to reset, perhaps on a delayed basis, to higher rates; (b) it to become more difficult and costly for our borrowers, which may negatively impact their ability to repay our investments; and (c) the interest expense associated with our variable rate borrowings to increase. See "—Market Conditions" above for a discussion of the current market including interest rates.

Conversely, decreases in interest rates, in general, may cause: (a) the coupon rates on our variable rate investments to reset, perhaps on a delayed basis, to lower rates; (b) it to become easier and more affordable for our borrowers to refinance, and as a result, repay our loans, but may negatively impact our future returns if any such repayment proceeds were to be reinvested in lower yielding investments; and (c) the interest expense associated with our variable rate borrowings to decrease.

The interest income on our loans and interest expense on our borrowings float with benchmark rates, such as SOFR. Because we generally intend to leverage approximately 75% of the amount of our investments, as benchmark rates increase above the floors of our loans, our income from investments, net of interest and related expenses, will increase. Decreases in benchmark rates are mitigated by interest rate floor provisions in all but one of our loan agreements with borrowers, ranging from 0.10% to 5.05%; therefore, changes to income from investments, net, may not move proportionately with the increase or decrease in benchmark rates. As of June 30, 2023, SOFR was 5.14%, which exceeds the floors established by all of our loans, and as a result none of our loan investments currently had active interest rate floors.

Certain of our loan agreements entered into prior to January 1, 2022 required the borrowers to pay us interest at floating rates based upon the London Interbank Offered Rate, or LIBOR. LIBOR was phased out for new contracts as of December 31, 2021 and is no longer available effective June 30, 2023. As of June 30, 2023, all of our pre-existing contracts have been amended to replace LIBOR with SOFR.

Size of Portfolio. The size of our loan portfolio, as measured both by the aggregate principal balance and the number of our CRE loans and our other investments, is also an important factor in determining our operating results. Generally, if the size of our loan portfolio grows, the amount of interest income we receive would increase and we may achieve certain economies of scale and diversify risk within our loan portfolio. A larger portfolio, however, may result in increased expenses; for example, we may incur additional interest expense or other costs to finance our investments. Also, if the aggregate principal balance of our loan portfolio grows but the number of our loans or the number of our borrowers does not grow, we could face increased risk by reason of the concentration of our investments.

Prepayment Risk. We are subject to risk that our loan investments will be repaid at an earlier date than anticipated, which may reduce the returns realized on those loans as less interest income may be received over time. Additionally, we may not be able to reinvest the principal repaid at a similar or higher yield of the original loan investment. We seek to limit this risk by structuring our loan agreements with fees required to be paid to us upon prepayment of a loan within a specified period of time before the loan's maturity; however, unanticipated prepayments could negatively impact our operating results.

Non-GAAP Financial Measures

We present Distributable Earnings, Distributable Earnings per common share, Adjusted Distributable Earnings, Adjusted Distributable Earnings per common share and Adjusted Book Value per common share, which are considered "non-GAAP financial measures" within the meaning of the applicable SEC rules. These non-GAAP financial measures do not represent net income, net income per common share or cash generated from operating activities and should not be considered as alternatives to net income or net income per common share determined in accordance with GAAP or as an indication of our cash flows from operations determined in accordance with GAAP, a measure of our liquidity or operating performance or an indication of funds available for our cash needs. In addition, our methodologies for calculating these non-GAAP financial measures may differ from the methodologies employed by other companies to calculate the same or similar supplemental performance measures; therefore, our reported Distributable Earnings, Distributable Earnings per common share, Adjusted Distributable Earnings and Adjusted Distributable Earnings per common share may not be comparable to distributable earnings and distributable earnings per common share, adjusted distributable earnings and adjusted distributable earnings per common share as reported by other companies.

We believe that Adjusted Book Value per common share is a meaningful measure of our capital adequacy because it excludes the impact of certain non-cash estimates or adjustments, including the unaccreted purchase discount resulting from the excess of the fair value of the loans Tremont Mortgage Trust, or TRMT, then held for investment and that we acquired as a result of our merger with TRMT on September 30, 2021, or the Merger, over the consideration we paid in the Merger and our allowance for credit losses for our loan portfolio and unfunded loan commitments. Adjusted Book Value per common share does not represent book value per common share or alternative measures determined in accordance with GAAP. Our methodology for calculating Adjusted Book Value per common share may differ from the methodologies employed by other companies to calculate the same or similar supplemental capital adequacy measures; therefore, our Adjusted Book Value per common share may not be comparable to the adjusted book value per common share reported by other companies.

In order to maintain our qualification for taxation as a REIT, we are generally required to distribute substantially all of our taxable income, subject to certain adjustments, to our shareholders. We believe that one of the factors that investors consider important in deciding whether to buy or sell securities of a REIT is its distribution rate. Over time, Distributable Earnings, Distributable Earnings per common share, Adjusted Distributable Earnings and Adjusted Distributable Earnings per common share may be useful indicators of distributions to our shareholders and are measures that are considered by our Board of Trustees when determining the amount of distributions. We believe that Distributable Earnings, Distributable Earnings per common share, Adjusted Distributable Earnings and Adjusted Distributable Earnings per common share provide meaningful information to consider in addition to net income, net income per common share and cash flows from operating activities determined in accordance with GAAP. These measures help us to evaluate our performance excluding the effects of certain transactions, the variability of any management incentive fees that may be paid or payable and GAAP adjustments that we believe are not necessarily indicative of our current loan portfolio and operations. In addition, Distributable Earnings is used in determining the amount of base management and management incentive fees payable by us to Tremont under our management agreement.

Distributable Earnings and Adjusted Distributable Earnings

We calculate Distributable Earnings and Distributable Earnings per common share as net income and net income per common share, respectively, computed in accordance with GAAP, including realized losses not otherwise included in net income determined in accordance with GAAP, and excluding: (a) the management incentive fees earned by Tremont, if any; (b) depreciation and amortization of real estate owned and related intangible assets, if any; (c) non-cash equity compensation expense; (d) unrealized gains, losses and other similar non-cash items that are included in net income for the period of the calculation (regardless of whether such items are included in or deducted from net income or in other comprehensive income under GAAP), if any; and (e) one-time events pursuant to changes in GAAP and certain non-cash items, if any. Distributable Earnings are reduced for realized losses on loan investments when amounts are deemed uncollectable. This is generally at the time a loan is repaid, or in the case of foreclosure, when the underlying asset is sold, but may also be when, in our determination, it is nearly certain that all amounts due will not be collected. The realized loss amount reflected in Distributable Earnings will equal the difference between the cash received or expected to be received and the carrying value of the asset.

We define Adjusted Distributable Earnings and Adjusted Distributable Earnings per common share as Distributable Earnings and Distributable Earnings per common share, respectively, excluding the effects of certain non-recurring transactions and revenues and expenses from real estate owned.

Adjusted Book Value per Common Share

The table below calculates our book value per common share:

	June 30, 2023	December 31, 2022
Shareholders' equity	\$ 267,798	\$ 271,579
Total outstanding common shares	14,745	14,709
Book value per common share	18.16	18.46
Unaccreted purchase discount per common share ⁽¹⁾	0.31	0.46
Allowance for credit losses per common share ⁽²⁾	0.40	—
Adjusted Book Value per common share	\$ 18.87	\$ 18.92

- (1) Excludes the impact of the unaccreted purchase discount resulting from the excess of the fair value of the loans TRMT then held for investment and that we acquired as a result of the Merger over the consideration we paid in the Merger. The purchase discount of \$36,443 was allocated to each acquired loan and is being accreted into income over the remaining term of the respective loan. As of June 30, 2023 and December 31, 2022, the unaccreted purchase discount was \$4,471 and \$6,703, respectively.
- (2) Excludes the impact of our allowance for credit losses. As of June 30, 2023, our allowance for credit losses for our loan portfolio and unfunded loan commitments was \$5,926. As of December 31, 2022, we did not have an allowance for credit losses. For further information on our adoption of ASU No. 2016-13, see Notes 2 and 3 to our Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Our Loan Portfolio

The table below details overall statistics for our loan portfolio as of June 30, 2023 and December 31, 2022:

	As of June 30, 2023		As of December 31, 2022	
Number of loans		24		27
Total loan commitments	\$	677,822	\$	727,562
Unfunded loan commitments ⁽¹⁾	\$	42,902	\$	49,007
Principal balance	\$	634,920	\$	678,555
Carrying value	\$	625,324	\$	669,929
Weighted average coupon rate		9.01 %		8.07 %
Weighted average all in yield ⁽²⁾		9.47 %		8.57 %
Weighted average floor		0.87 %		0.62 %
Weighted average maximum maturity (years) ⁽³⁾		3.0		3.3
Weighted average risk rating		3.0		2.9
Weighted average LTV ⁽⁴⁾		67 %		68 %

- (1) Unfunded loan commitments are primarily used to finance property improvements and leasing capital, and are generally funded over the term of the loan.
(2) All in yield represents the yield on a loan, including amortization of deferred fees over the initial term of the loan and excluding any purchase discount accretion.
(3) Maximum maturity assumes all borrower loan extension options have been exercised, which options are subject to the borrower meeting certain conditions.
(4) LTV represents the initial loan amount divided by the underwritten in-place value of the underlying collateral at closing.

Loan Portfolio Details

The table below details our loan portfolio as of June 30, 2023:

#	Location	Property Type	Origination Date	Committed Principal Amount	Principal Balance	Coupon Rate	All in Yield ⁽¹⁾	Maximum Maturity (date) ⁽²⁾	LTV ⁽³⁾	Risk Rating
First mortgage loans										
1	Olmsted Falls, OH	Multifamily	01/28/2021	\$ 54,575	\$ 46,085	S + 4.00%	S + 4.64%	01/28/2026	63 %	3
2	Dallas, TX	Office	08/25/2021	50,000	43,450	S + 3.25%	S + 3.61%	08/25/2026	72 %	4
3	Passaic, NJ	Industrial	09/08/2022	47,000	38,440	S + 3.85%	S + 4.22%	09/08/2027	69 %	3
4	Brandywine, MD	Retail	03/29/2022	42,500	42,200	S + 3.85%	S + 4.25%	03/29/2027	62 %	2
5	West Bloomfield, MI	Retail	12/16/2021	42,500	37,659	S + 3.85%	S + 4.66%	12/16/2024	59 %	3
6	Auburn, AL	Multifamily	05/11/2023	37,500	37,500	S + 3.25%	S + 3.96%	11/11/2026	67 %	3
7	Starkville, MS	Multifamily	03/22/2022	37,250	36,918	S + 4.00%	S + 4.32%	03/22/2027	70 %	4
8	Farmington Hills, MI	Multifamily	05/24/2022	31,520	28,983	S + 3.15%	S + 3.50%	05/24/2027	75 %	3
9	Downers Grove, IL	Office	09/25/2020	30,000	29,500	S + 4.25%	S + 4.69%	11/25/2024	67 %	2
10	Las Vegas, NV	Multifamily	06/10/2022	28,950	24,729	S + 3.30%	S + 4.03%	06/10/2027	60 %	3
11	Plano, TX	Office	07/01/2021	27,385	26,463	S + 4.75%	S + 5.16%	07/01/2026	78 %	3
12	Carlsbad, CA	Office	10/27/2021	24,750	24,130	S + 3.25%	S + 3.58%	10/27/2026	78 %	3
13	Fontana, CA	Industrial	11/18/2022	24,355	22,000	S + 3.75%	S + 4.28%	11/18/2026	72 %	3
14	St. Louis, MO	Office	12/19/2018	23,867	23,867	S + 3.25%	S + 3.74%	12/19/2023	72 %	3
15	Downers Grove, IL	Office	12/09/2021	23,530	23,530	S + 4.25%	S + 4.57%	12/09/2026	72 %	3
16	Dublin, OH	Office	02/18/2020	22,507	22,507	S + 5.25%	S + 5.31%	08/16/2023	33 %	3
17	Bellevue, WA	Office	11/05/2021	21,000	20,000	S + 3.85%	S + 4.19%	11/05/2026	68 %	3
18	Portland, OR	Multifamily	07/09/2021	19,688	19,688	S + 3.57%	S + 3.97%	07/09/2026	75 %	3
19	Ames, IA	Multifamily	11/15/2021	18,000	17,925	S + 3.80%	S + 4.13%	11/15/2026	71 %	2
20	Sandy Springs, GA	Retail	09/23/2021	16,488	15,287	S + 3.75%	S + 4.10%	09/23/2026	72 %	3
21	Delray Beach, FL	Retail	03/18/2022	16,000	15,602	S + 4.25%	S + 4.91%	03/18/2026	56 %	3
22	Westminster, CO	Office	05/25/2021	15,750	15,750	S + 3.75%	S + 4.25%	05/25/2026	66 %	2
23	Portland, OR	Multifamily	07/30/2021	13,400	13,400	S + 3.57%	S + 3.98%	07/30/2026	71 %	3
24	Allentown, PA	Industrial	01/24/2020	9,307	9,307	S + 5.50%	S + 4.03%	01/24/2025	67 %	3
Total/weighted average				\$ 677,822	\$ 634,920	S + 3.80%	S + 4.26%		67%	3.0

(1) All in yield represents the yield on a loan, including amortization of deferred fees over the initial term of the loan and excluding any purchase discount accretion.

(2) Maximum maturity assumes all borrower loan extension options have been exercised, which options are subject to the borrower meeting certain conditions.

(3) LTV represents the initial loan amount divided by the underwritten in-place value of the underlying collateral at closing.

As of June 30, 2023, we had \$677,822 in aggregate loan commitments, consisting of a diverse portfolio, geographically and by property type, of 24 first mortgage loans. As of June 30, 2023, we had two loans representing approximately 12% of the amortized cost of our loan portfolio with a loan risk rating of “4” or “higher risk”.

All of the loans in our portfolio are structured with risk mitigation mechanisms, such as cash flow sweeps or interest reserves, to help protect us against investment losses. In addition, we actively engage with our borrowers regarding their execution of the business plans for the underlying collateral, among other things.

The borrower of our loan secured by an office property located in Yardley, PA did not pay its debt service obligations due in May 2023, resulting in an event of default. In June 2023, we assumed legal title to the property through a deed in lieu of foreclosure. For further information regarding real estate owned, see Note 4 to our Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

As of June 30, 2023 and July 27, 2023, all of our borrowers with outstanding loans had paid their debt service obligations owed and due to us.

We did not have any outstanding past due loans or nonaccrual loans as of June 30, 2023. However, our borrowers' businesses, operations and liquidity may be materially adversely impacted by current inflationary pressures, rising or sustained high interest rates, supply chain issues or a prolonged economic slowdown or recession could amplify those negative impacts. As a result, they may become unable to pay their debt service obligations owed and due to us, which may result in an increased allowance for credit losses and/or recognition of income on a nonaccrual basis. For further information regarding our loan portfolio and risk rating policy, see Note 3 to our Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, "—Factors Affecting our Operating Results" and "Warning Concerning Forward-Looking Statements" elsewhere in this Quarterly Report on Form 10-Q and the risk factors identified in Part I, Item 1A, "Risk Factors", of our 2022 Annual Report.

Financing Activities

The table below is an overview of our Secured Financing Facilities as of June 30, 2023:

Facility	Maturity Date	Principal Balance	Unused Capacity	Maximum Facility Size	Collateral Principal Balance
Citibank Master Repurchase Facility	03/15/2025	\$ 150,101	\$ 64,899	\$ 215,000	\$ 201,543
UBS Master Repurchase Facility	02/18/2024	123,958	68,042	192,000	170,594
BMO Facility	Various	84,855	65,145	150,000	113,851
Wells Fargo Master Repurchase Facility	03/11/2025	95,551	29,449	125,000	126,932
Total		<u>\$ 454,465</u>	<u>\$ 227,535</u>	<u>\$ 682,000</u>	<u>\$ 612,920</u>

The table below details our Secured Financing Facilities activities during the three months ended June 30, 2023:

	Carrying Value
Balance at March 31, 2023	\$ 433,385
Borrowings	28,125
Repayments	(9,150)
Deferred fees	(6)
Amortization of deferred fees	336
Balance at June 30, 2023	<u>\$ 452,690</u>

The table below details our Secured Financing Facilities activities during the six months ended June 30, 2023:

	Carrying Value
Balance at December 31, 2022	\$ 471,521
Borrowings	28,125
Repayments	(47,275)
Deferred fees	(324)
Amortization of deferred fees	643
Balance at June 30, 2023	<u>\$ 452,690</u>

As of June 30, 2023, outstanding advancements under our Secured Financing Facilities had a weighted average interest rate of 7.19% per annum, excluding associated fees and expenses. As of June 30, 2023 and July 27, 2023, we had a \$454,465 and \$441,786, respectively, aggregate outstanding principal balance under our Secured Financing Facilities.

As of June 30, 2023, we were in compliance with all covenants and other terms under our Secured Financing Facilities.

In July 2023, we amended and restated the UBS Master Repurchase Agreement. The amended and restated UBS Master Repurchase Agreement made certain changes to the agreement and related fee letter, including extending the stated maturity date to February 18, 2025.

For further information regarding our Secured Financing Facilities, see Note 5 to our Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS (amounts in thousands, except per share data)

Three Months Ended June 30, 2023 Compared to Three Months Ended March 31, 2023:

	Three Months Ended			
	June 30, 2023	March 31, 2023	Change	% Change
INCOME FROM INVESTMENTS:				
Interest and related income	\$ 15,821	\$ 15,856	\$ (35)	(0.2 %)
Purchase discount accretion	1,047	1,185	(138)	(11.6 %)
Less: interest and related expenses	(7,927)	(7,694)	(233)	3.0 %
Income from loan investments, net	8,941	9,347	(406)	(4.3 %)
Revenue from real estate owned	149	—	149	n/m
Total revenue	9,090	9,347	(257)	(2.7 %)
OTHER EXPENSES:				
Base management fees	1,074	1,072	2	0.2 %
Incentive fees	192	—	192	n/m
General and administrative expenses	1,281	796	485	60.9 %
Reimbursement of shared services expenses	628	643	(15)	(2.3 %)
Provision for (reversal of) credit losses	1,026	(987)	2,013	(204.0 %)
Expenses from real estate owned	218	—	218	n/m
Total other expenses	4,419	1,524	2,895	190.0 %
Income before income taxes	4,671	7,823	(3,152)	(40.3 %)
Income tax expense	(27)	(20)	(7)	35.0 %
Net income	\$ 4,644	\$ 7,803	\$ (3,159)	(40.5 %)
Weighted average common shares outstanding - basic and diluted	14,605	14,582	23	0.2 %
Net income per common share - basic and diluted	\$ 0.32	\$ 0.53	\$ (0.21)	(40.0 %)

n/m - not meaningful

Interest and related income. The decrease in interest and related income was primarily the result of loan repayments, partially offset by higher benchmark interest rates and one new loan origination during the three months ended June 30, 2023. The weighted average benchmark interest rate was 5.21% as of June 30, 2023 as compared to 4.77% as of March 31, 2023.

Purchase discount accretion. The decrease in purchase discount accretion was primarily the result of less amounts outstanding on loans acquired in the Merger during the three months ended June 30, 2023 as compared to the three months ended March 31, 2023.

Interest and related expenses. The increase in interest and related expenses was primarily the result of higher benchmark interest rates, partially offset by repayments. The weighted average benchmark interest rate was 5.15% as of June 30, 2023 as compared to 4.75% as of March 31, 2023.

Revenue from real estate owned. Revenue from real estate owned represents revenue from the operations of an office property located in Yardley, PA that was transferred to real estate owned through a deed in lieu of foreclosure in June 2023.

Incentive fees. In accordance with our management agreement, we recognized management incentive fees payable to Tremont for the three months ended June 30, 2023. We did not incur management incentive fees for the three months ended March 31, 2023.

General and administrative expenses. The increase in general and administrative expenses was primarily due to an increase in share based compensation resulting from shares awarded to our Trustees during the three months ended June 30, 2023 as compared to the three months ended March 31, 2023.

Reimbursement of shared services expenses. Reimbursement of shared services expenses represents reimbursement of the costs for the services that Tremont arranges on our behalf from RMR. The decrease in reimbursement of shared services expenses was primarily the result of an adjustment recognized during the three months ended June 30, 2023 to decrease our estimated usage of shared services from RMR for the year ending December 31, 2023.

Provision for credit losses. The provision for credit losses represents the increase in the allowance for credit losses on our loan portfolio and unfunded commitments. The increase in the allowance for credit losses during the three months ended June 30, 2023 was primarily attributable to unfavorable changes in the current macroeconomic outlook, most notably in CRE pricing forecasts, partially offset by a recovery in our previously recorded allowance for credit losses for our loan secured by an office property in Yardley, PA that was transferred to real estate owned through a deed in lieu of foreclosure in June 2023.

Expenses from real estate owned. Expenses from real estate owned represent expenses from the operations of an office property located in Yardley, PA that was transferred to real estate owned through a deed in lieu of foreclosure in June 2023.

Income tax expense. Income tax expense represents income taxes paid or payable by us in certain jurisdictions where we are subject to state income taxes.

Net income. The decrease in net income was due to the changes noted above.

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022:

	Six Months Ended June 30,			
	2023	2022	Change	% Change
INCOME FROM INVESTMENTS:				
Interest and related income	\$ 31,677	\$ 18,448	\$ 13,229	71.7 %
Purchase discount accretion	2,232	7,571	(5,339)	(70.5 %)
Less: interest and related expenses	(15,621)	(4,744)	(10,877)	229.3 %
Income from loan investments, net	18,288	21,275	(2,987)	(14.0 %)
Revenue from real estate owned	149	—	149	n/m
Total revenue	18,437	21,275	(2,838)	(13.3 %)
OTHER EXPENSES:				
Base management fees	2,146	2,126	20	0.9 %
Incentive fees	192	—	192	n/m
General and administrative expenses	2,077	2,176	(99)	(4.5 %)
Reimbursement of shared services expenses	1,271	1,148	123	10.7 %
Provision for credit losses	39	—	39	n/m
Expenses from real estate owned	218	—	218	n/m
Other transaction related costs	—	37	(37)	(100.0 %)
Total other expenses	5,943	5,487	456	8.3 %
Income before income taxes	12,494	15,788	(3,294)	(20.9 %)
Income tax expense	(47)	(84)	37	(44.0 %)
Net income	\$ 12,447	\$ 15,704	\$ (3,257)	(20.7 %)
Weighted average common shares outstanding - basic and diluted	14,594	14,514	80	0.6 %
Net income per common share - basic and diluted	\$ 0.85	\$ 1.08	\$ (0.23)	(21.0 %)
n/m - not meaningful				

Interest and related income. The increase in interest and related income was primarily the result of higher benchmark interest rates and interest on three loans originated since July 1, 2022, partially offset by six loan repayments since July 1, 2022. The weighted average benchmark interest rate was 5.21% as of June 30, 2023 as compared to 1.32% as of June 30, 2022.

Purchase discount accretion. The decrease in purchase discount accretion was primarily the result of less amounts outstanding on loans acquired in the Merger during the six month period ended June 30, 2023 as compared to the six month period ended June 30, 2022.

Interest and related expenses. The increase in interest and related expenses was primarily the result of higher benchmark interest rates, partially offset by a lower average outstanding balance under our Secured Financing Facilities during the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The weighted average benchmark interest rate was 5.15% as of June 30, 2023 as compared to 1.47% as of June 30, 2022.

Revenue from real estate owned. Revenue from real estate owned represents revenue from the operations of an office property located in Yardley, PA that was transferred to real estate owned through a deed in lieu of foreclosure in June 2023.

Incentive fees. In accordance with our management agreement, we recognized management incentive fees payable to Tremont for the six months ended June 30, 2023. We did not incur management incentive fees for the six months ended June 30, 2022.

General and administrative expenses. The decrease in general and administrative expenses was primarily due to decreases in professional fees, partially offset by an increase in share based compensation during the six months ended June 30, 2023 as compared to the six months ended June 30, 2022.

Reimbursement of shared services expenses. Reimbursement of shared services expenses represents reimbursement of the costs for the services that Tremont arranges on our behalf from RMR. The increase in reimbursement of shared services expenses was primarily the result of higher usage of shared services from RMR.

Provision for credit losses. The provision for credit losses represents the increase in the allowance for credit losses on our loan portfolio and unfunded commitments. The increase in the allowance for credit losses during the six months ended June 30, 2023 was primarily attributable to unfavorable changes in the current macroeconomic outlook, most notably in CRE pricing forecasts, partially offset by a recovery in our previously recorded allowance for credit losses for our loan secured by an office property in Yardley, PA that was transferred to real estate owned through a deed in lieu of foreclosure in June 2023.

Expenses from real estate owned. Expenses from real estate owned represent expenses from the operations of an office property located in Yardley, PA that was transferred to real estate owned through a deed in lieu of foreclosure in June 2023.

Other transaction related costs. Other transaction related costs for the six months ended June 30, 2022 include expenses related to the Merger.

Income tax expense. Income tax expense represents income taxes paid or payable by us in certain jurisdictions where we are subject to state income taxes.

Net income. The decrease in net income was due to the changes noted above.

Reconciliation of Net Income to Distributable Earnings and Adjusted Distributable Earnings

The table below demonstrates how we calculate Distributable Earnings, Distributable Earnings per common share, Adjusted Distributable Earnings and Adjusted Distributable Earnings per common share, which are non-GAAP measures, and provides a reconciliation of these non-GAAP measures to net income:

	Three Months Ended		Six Months Ended	
	June 30, 2023	March 31, 2023	June 30, 2023	June 30, 2022
Net income	\$ 4,644	\$ 7,803	\$ 12,447	\$ 15,704
Incentive fees	192	—	192	—
Non-cash equity compensation expense	579	120	699	630
Non-cash accretion of purchase discount	(1,047)	(1,185)	(2,232)	(7,571)
Provision for (reversal of) credit losses	1,026	(987)	39	—
Distributable Earnings	\$ 5,394	\$ 5,751	\$ 11,145	\$ 8,763
Other transaction related costs ⁽¹⁾	—	—	—	37
Revenue from real estate owned	(149)	—	(149)	—
Expenses from real estate owned	218	—	218	—
Adjusted Distributable Earnings	\$ 5,463	\$ 5,751	\$ 11,214	\$ 8,800
Weighted average common shares outstanding - basic and diluted	14,605	14,582	14,594	14,514
Net income per common share - basic and diluted	\$ 0.32	\$ 0.53	\$ 0.85	\$ 1.08
Distributable Earnings per common share - basic and diluted	\$ 0.37	\$ 0.39	\$ 0.76	\$ 0.60
Adjusted Distributable Earnings per common share - basic and diluted	\$ 0.37	\$ 0.39	\$ 0.77	\$ 0.61

(1) Other transaction related costs for the six months ended June 30, 2022 include expenses related to the Merger.

LIQUIDITY AND CAPITAL RESOURCES (dollars in thousands, except per share data)

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to fund our lending commitments, repay or meet margin calls resulting from our borrowings, if any, fund and maintain our assets and operations, make distributions to our shareholders and fund other business operating requirements. Our sources of cash flows include cash on hand, payments of principal, interest and fees we receive on our investments, other cash we may generate from our business and operations and any unused borrowing capacity, including under our Secured Financing Facilities or other repurchase agreements or financing arrangements we may obtain, which may also include bank loans or public or private issuances of debt or equity securities. We believe that these sources of funds will be sufficient to meet our operating and capital expenses, pay our debt service obligations owed and make any distributions to our shareholders for the next 12 months and for the foreseeable future. For further information regarding the risks associated with our loan portfolio, see Note 3 to our Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 and elsewhere in this Management Discussion and Analysis of Financial Condition and Results of Operations of this Quarterly Report on Form 10-Q and Part I, Item 1A, "Risk Factors" of our 2022 Annual Report.

Pursuant to the terms of our UBS Master Repurchase Facility, our Citibank Master Repurchase Facility and Wells Fargo Master Repurchase Facility, we may sell to, and later repurchase from, UBS, Citibank and Wells Fargo, the purchased assets related to the applicable facility. The initial purchase price paid by UBS or Citibank of each purchased asset is up to 75% of the lesser of the market value of the purchased asset or the unpaid principal balance of such purchased asset, subject to UBS's or Citibank's approval. The initial purchase price paid by Wells Fargo for each purchased asset is up to 75% or 80%, depending on the property type of the purchased asset's real estate collateral, of the lesser of the market value of the purchased asset or the unpaid principal balance of such purchased asset, and subject to Wells Fargo's approval. Upon the repurchase of a purchased asset, we are required to pay UBS, Citibank or Wells Fargo, as applicable, the outstanding purchase price of the purchased asset, accrued interest and all accrued and unpaid expenses of UBS, Citibank or Wells Fargo, as applicable, relating to such purchased asset.

The interest rates related to our Citibank, UBS and Wells Fargo purchased assets are calculated at SOFR plus a premium within a fixed range, determined by the debt yield and property type of the purchased asset's real estate collateral. UBS and Citibank each has the discretion to make advancements at margins higher than 75% and Wells Fargo has discretion to make advancements higher than 80%.

Loans issued under the BMO Facility are coterminous with the corresponding pledged mortgage loan investments, are not subject to margin calls and allow for up to an 80% advance rate, subject to certain loan to cost and LTV limits. Interest on advancements under the BMO Facility are calculated at SOFR plus a premium. Loans issued under the BMO Facility are secured by a security interest and collateral assignment of the underlying loans to our borrowers which are secured by real property underlying such loans. We are required to pay an upfront fee equal to a percentage of the aggregate amount of the facility loan, such percentage to be determined at the time of approval of the separate facility loan agreements with BMO, or the BMO Facility Loan Agreements.

For further information regarding our Secured Financing Facilities, see Note 5 to our Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q.

The table below is a summary of our sources and uses of cash flows for the periods presented:

	Six Months Ended June 30,			
	2023		2022	
Cash, cash equivalents and restricted cash at beginning of period	\$	71,067	\$	26,295
Net cash provided by (used in):				
Operating activities		11,606		6,307
Investing activities		29,177		(89,512)
Financing activities		(29,806)		105,306
Cash, cash equivalents and restricted cash at end of period	\$	82,044	\$	48,396

The increase in cash provided by operating activities for the 2023 period compared to the 2022 period was primarily the result of higher benchmark interest rates, partially offset by the impact of loan repayments and decreased loan originations. The increase in cash provided by investing activities is primarily due to higher loan repayments and decreased loan originations in the 2023 period. The increase in cash used in financing activities is primarily due to decreased proceeds received from our Secured Financing Facilities during the 2023 period and an increase in distributions to our common shareholders for the 2023 period, partially offset by decreased repayments on our Secured Financing Facilities during the 2023 period.

Distributions

During the six months ended June 30, 2023, we declared and paid regular quarterly distributions to our common shareholders totaling \$10,295, or \$0.70 per common share, using cash on hand.

On July 13, 2023, we declared a regular quarterly distribution of \$0.35 per common share, or \$5,161, to shareholders of record on July 24, 2023. We expect to pay this distribution to our common shareholders on or about August 17, 2023 using cash on hand.

For further information regarding distributions, see Note 7 to our Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Contractual Obligations and Commitments

Our contractual obligations and commitments as of June 30, 2023 were as follows:

	Payment Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 years
Unfunded loan commitments ⁽¹⁾	\$ 42,902	\$ 14,230	\$ 28,672	\$ —	\$ —
Principal payments on Secured Financing Facilities ⁽²⁾	454,465	216,421	238,044	—	—
Interest payments ⁽³⁾	37,218	26,512	10,706	—	—
Lease related costs ⁽⁴⁾	726	726	—	—	—
	<u>\$ 535,311</u>	<u>\$ 257,889</u>	<u>\$ 277,422</u>	<u>\$ —</u>	<u>\$ —</u>

(1) The allocation of our unfunded loan commitments is based on the current loan maturity date to which the individual commitments relate.

(2) The allocation of outstanding advancements under our Secured Financing Facilities is based on the earlier of the current maturity date of each loan investment with respect to which the individual borrowing relates or the maturity date of the respective Secured Financing Facilities.

(3) Projected interest payments are attributable only to our debt service obligations at existing rates as of June 30, 2023 and are not intended to estimate future interest costs which may result from debt prepayments, additional borrowings, new debt issuances or changes in interest rates.

(4) Lease related costs include capital expenditures used to improve tenants' spaces pursuant to lease agreements or leasing related costs, such as brokerage commissions, related to the Yardley, PA property.

Debt Covenants

Our principal debt obligations as of June 30, 2023 were the outstanding balances under our Secured Financing Facilities. The agreements governing our Master Repurchase Facilities, or our Master Repurchase Agreements, provide for acceleration of the date of repurchase of any then purchased assets and the liquidation of the purchased assets by UBS, Citibank or Wells Fargo, as applicable, upon the occurrence and continuation of certain events of default, including a change of control of us, which includes Tremont ceasing to act as our sole manager or to be a wholly owned subsidiary of RMR. Our Master Repurchase Agreements also provide that upon the repurchase of any then purchased asset, we are required to pay UBS, Citibank or Wells Fargo the outstanding purchase price of such purchased asset and accrued interest and any and all accrued and unpaid expenses of UBS, Citibank or Wells Fargo, as applicable, relating to such purchased asset.

In connection with our Master Repurchase Agreements, we entered into our guarantees, or the Master Repurchase Guarantees, which require us to guarantee 25% of the aggregate repurchase price and 100% of losses in the event of certain bad acts, as well as any costs and expenses of UBS, Citibank and Wells Fargo, as applicable, related to our Master Repurchase Agreements. The Master Repurchase Guarantees contain financial covenants, which require us to maintain a minimum tangible net worth, a minimum liquidity and a minimum interest coverage ratio and to satisfy a total indebtedness to stockholders' equity ratio.

In connection with our facility loan program agreement and the security agreement with BMO, or the BMO Loan Program Agreement, we have agreed to guarantee certain of the obligations under the BMO Loan Program Agreement and the BMO Facility Loan Agreements pursuant to a limited guaranty from us to and for the benefit of the administrative agent for itself and such other lenders, or the BMO Guaranty. Specifically, the BMO Guaranty requires us to guarantee 25% of the then current outstanding principal balance of the facility loans and 100% of losses or the entire indebtedness in the event of certain bad acts as well as any costs and expenses of the administrative agent or lenders related to the BMO Loan Program Agreement. In addition, the BMO Guaranty contains financial covenants that require us to maintain a minimum tangible net worth and a minimum liquidity and to satisfy a total indebtedness to stockholders' equity ratio.

As of June 30, 2023, we had a \$369,610 aggregate outstanding principal balance under our Master Repurchase Facilities. Our Master Repurchase Agreements are structured with risk mitigation mechanisms, including a cash flow sweep, which would allow UBS, Citibank and Wells Fargo, as applicable, to control interest payments from our borrowers under our loans that are financed under our respective Master Repurchase Facilities, and the ability to accelerate dates of repurchase and institute margin calls, which may require us to pay down balances associated with one or more of our loans that are financed under our Master Repurchase Facilities.

As of June 30, 2023, we had a \$84,855 aggregate outstanding principal balance under the BMO Facility.

As of June 30, 2023, we were in compliance with all covenants and other terms under our Secured Financing Facilities.

Related Person Transactions

We have relationships and historical and continuing transactions with Tremont, RMR, RMR Inc. and others related to them. For further information about these and other such relationships and related person transactions, see Notes 8 and 9 to our Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, our 2022 Annual Report, our definitive Proxy Statement for our 2023 Annual Meeting of Shareholders and our other filings with the SEC. In addition, see the section captioned "Risk Factors" of our 2022 Annual Report for a description of risks that may arise as a result of these and other related person transactions and relationships. We may engage in additional transactions with related persons, including businesses to which RMR, Tremont or their respective subsidiaries provide management services.

Critical Accounting Policies

A summary of our critical accounting policies is included in Part II, Item 7 of our 2022 Annual Report. There have been no material changes to our critical accounting policies described in our 2022 Annual Report other than the adoption of ASU No. 2016-13, as described in Note 2 to our Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, our management carried out an evaluation, under the supervision and with the participation of our Managing Trustees, our President and Chief Investment Officer and our Chief Financial Officer and Treasurer, of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Managing Trustees, our President and our Chief Financial Officer and Treasurer concluded that our disclosure controls and procedures are effective.

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Warning Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other securities laws. These statements include words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “estimate”, “will”, “may” and negatives or derivatives of these or similar expressions. These forward-looking statements include, among others, statements about: the disposition of our real estate owned; economic, market and industry conditions; demand for CRE debt and opportunities that may exist for alternative lenders like us; our future lending activity; the ability of our borrowers to achieve their business plans; our leverage levels and possible future financings; our liquidity needs and sources; and the amount and timing of future distributions.

Forward-looking statements reflect our current expectations, are based on judgments and assumptions, are inherently uncertain and are subject to risks, uncertainties and other factors, which could cause our actual results, performance or achievements to differ materially from expected future results, performance or achievements expressed or implied in any forward-looking statements. Some of the risks, uncertainties and other factors that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, the following:

- Our borrowers’ ability to successfully execute their business plans, including our borrowers’ ability to manage and stabilize properties;
- Whether the diversity and other characteristics of our loan portfolio will benefit us to the extent we expect;
- Our ability to carry out our business strategy and take advantage of opportunities for our business that we believe exist;
- The impact of inflation, geopolitical instability, interest rates and economic recession or downturn on the CRE industry generally and specific CRE sectors applicable to our investments and lending markets, us and our borrowers;
- Fluctuations in interest rates and credit spreads may reduce the returns we may receive on our investments and increase our borrowing costs;
- Fluctuations in market demand for CRE debt and the volume of transactions and available opportunities in the CRE debt market, including the middle market;
- Dislocations and volatility in the capital markets;
- Our ability to utilize our Secured Financing Facilities and to obtain additional capital to enable us to attain our target leverage, to make additional investments and to increase our potential returns, and the cost of that capital;
- Our ability to pay distributions to our shareholders and sustain or increase the amount of such distributions;
- Our ability to successfully execute, achieve and benefit from our operating and investment targets, investment and financing strategies and leverage policies;
- The amount and timing of cash flows we receive from our investments;
- The ability of Tremont to make suitable investments for us, to monitor, service and administer our existing investments and to otherwise implement our investment strategy and successfully manage us;
- Our ability to maintain and improve a favorable net interest spread between the interest we earn on our investments and the interest we pay on our borrowings;
- The extent to which we earn and receive origination, extension, exit, prepayment or other fees we may earn from our investments;
- Yields that may be available to us from mortgages on middle market and transitional CRE;
- The duration and other terms of our loan agreements with borrowers;
- The credit qualities of our borrowers;
- The ability and willingness of our borrowers to repay our investments in a timely manner or at all;

- The extent to which our borrowers' sponsors provide support to our borrowers or us regarding our loans;
- Our qualification for taxation as a REIT;
- Our ability to maintain our exemption from registration under the 1940 Act;
- Events giving rise to increases in our credit loss reserves;
- Our ability to diversify our investment portfolio based on industry and market conditions;
- The ability of our manager to arrange for the successful management of real estate owned and our ability to sell those properties at prices that allow us to recover amounts we invested;
- Our ability to successfully compete;
- Market trends in our industry or with respect to interest rates, real estate values, the debt securities markets or the economy generally;
- Reduced demand for office or retail space;
- Regulatory requirements and the effect they may have on us or our competitors;
- Competition within the CRE lending industry;
- Changes in the availability, sourcing and structuring of CRE lending;
- Defaults by our borrowers;
- Compliance with, and changes to, federal, state or local laws or regulations, accounting rules, tax laws or similar matters;
- Limitations imposed on our business and our ability to satisfy complex rules in order for us to maintain our qualification for taxation as a REIT for U.S. federal income tax purposes;
- Actual and potential conflicts of interest with our related parties, including our Managing Trustees, Tremont, RMR, and others affiliated with them;
- Acts of God, earthquakes, hurricanes, outbreaks or continuation of pandemics, or other public health safety events or conditions, supply chain disruptions, climate change and other man-made or natural disasters or acts of war, terrorism, social unrest or civil disturbances; and
- Other matters.

These risks, uncertainties and other factors are not exhaustive and should be read in conjunction with other cautionary statements that are included in our periodic filings. The information contained in our filings with the SEC, including under the caption "Risk Factors" in our periodic reports, or incorporated therein, identifies important factors that could cause differences from the forward-looking statements in this Quarterly Report on Form 10-Q. Our filings with the SEC are available on the SEC's website at www.sec.gov.

You should not place undue reliance upon our forward-looking statements.

Except as required by law, we undertake no obligation to update or change any forward-looking statements as a result of new information, future events or otherwise.

Statement Concerning Limited Liability

The Declaration of Trust of Seven Hills Realty Trust, a copy of which, together with any amendments or supplements thereto, is duly filed with the State Department of Assessments and Taxation of Maryland, provide that the name Seven Hills Realty Trust refers to the trustees collectively as trustees, but not individually or personally. No trustee, officer, shareholder, employee or agent of Seven Hills Realty Trust shall be held to any personal liability, jointly or severally, for any obligation of, or claim against, Seven Hills Realty Trust. All persons or entities dealing with Seven Hills Realty Trust, in any way, shall look only to the assets of Seven Hills Realty Trust for the payment of any sum or the performance of any obligation.

Part II. Other Information

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in our 2022 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer purchases of equity securities. The table below provides information about our purchases of our equity securities during the quarter ended June 30, 2023.

Calendar Month	Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
May 2023	2,576	\$ 9.21	—	\$ —
Total/weighted average	2,576	\$ 9.21	—	\$ —

- (1) These common share withholdings and purchases were made to satisfy the tax withholding and payment obligations of former officers and employees of RMR in connection with the vesting of awards of our common shares. We withheld and purchased these shares at their fair market value based upon the trading price of our common shares at the close of trading on Nasdaq on the purchase date.

Item 6. Exhibits

Exhibit Number	Description
3.1	Declaration of Trust of the Company, dated December 21, 2021, (Incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by the Company on December 22, 2021.)
3.2	Bylaws of the Company, dated December 22, 2021, (Incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K filed by the Company on December 22, 2021.)
4.1	Form of Common Share Certificate. (Filed herewith.)
10.1	Property Management Agreement, dated as of July 8, 2023, between The RMR Group LLC and Floral Vale LLC, a subsidiary of the Company. (Filed herewith.)
31.1	Rule 13a-14(a) Certification. (Filed herewith.)
31.2	Rule 13a-14(a) Certification. (Filed herewith.)
31.3	Rule 13a-14(a) Certification. (Filed herewith.)
31.4	Rule 13a-14(a) Certification. (Filed herewith.)
32.1	Section 1350 Certification. (Furnished herewith.)
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document. (Filed herewith.)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. (Filed herewith.)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. (Filed herewith.)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. (Filed herewith.)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. (Filed herewith.)
104	Cover Page Interactive Data File. (Formatted as Inline XBRL and contained in Exhibit 101.)

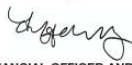
SIGNATURES

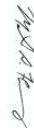
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEVEN HILLS REALTY TRUST

By: /s/ Thomas J. Lorenzini
Thomas J. Lorenzini
President and Chief Investment Officer
Dated: July 31, 2023

By: /s/ Tiffany R. Sy
Tiffany R. Sy
Chief Financial Officer and Treasurer
(principal financial and accounting officer)
Dated: July 31, 2023

NUMBER COMMON SHARES PAR VALUE \$0.001 PER SHARE	 SEVEN HILLS REALTY TRUST A MARYLAND REAL ESTATE INVESTMENT TRUST	SHARES COMMON SHARES PAR VALUE \$0.001 PER SHARE SEE REVERSE FOR IMPORTANT NOTICE ON TRANSFER RESTRICTIONS AND OTHER INFORMATION CUSIP 81784E 10 1
<i>THIS CERTIFIES THAT</i> <i>is the registered holder of</i> FULLY PAID AND NONASSESSABLE COMMON SHARES OF BENEFICIAL INTEREST IN SEVEN HILLS REALTY TRUST <i>a Maryland real estate investment trust (the "Trust") formed pursuant to a Declaration of Trust, effective December 22, 2021 (as further amended or supplemented from time to time, the "Declaration"), transferable on the books of the Trust by the registered holder hereof in person or by its duly authorized attorney, upon surrender of this Certificate properly endorsed. This Certificate and the shares evidenced hereby are issued and shall be held subject to all of the provisions of the Declaration (copies of which are filed at the principal office of the Trust) and such Bylaws of the Trust as may from time to time be adopted by the trustees of the Trust (copies of which are filed at the principal office of the Trust), all of which provisions are hereby incorporated by reference as fully as if set forth herein in their entirety. The holder and every transferee or assignee of this Certificate or of the shares evidenced hereby or any interest therein accepts and agrees to be bound by the provisions of the Declaration and such Bylaws. This Certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.</i> IN WITNESS WHEREOF, the Trust has caused this Certificate to be executed on its behalf by its duly authorized officers. Dated: _____  PRESIDENT  CHIEF FINANCIAL OFFICER AND TREASURER THIS CERTIFICATE IS ISSUED BY SEVEN HILLS REALTY TRUST. NO TRUSTEE NOR ANY OF THE TRUST'S OFFICERS OR AGENTS SHALL HAVE ANY PERSONAL LIABILITY ON THIS CERTIFICATE OR THE SHARES EVIDENCED HEREBY. THE DECLARATION PROVIDES THAT ALL PERSONS EXTENDING CREDIT TO, CONTRACTING WITH OR HAVING ANY CLAIM AGAINST THE TRUST OR A PARTICULAR SERIES OR CLASS OF SHARES OF THE TRUST SHALL LOOK ONLY TO THE ASSETS OF THE TRUST OR THE ASSETS OF THAT PARTICULAR SERIES OR CLASS OF SHARES FOR PAYMENT UNDER SUCH CREDIT, CONTRACT OR CLAIM, AND NEITHER THE SHAREHOLDERS NOR THE TRUSTEES, NOR ANY OF THE TRUST'S OFFICERS OR AGENTS, WHETHER PAST, PRESENT OR FUTURE, SHALL BE PERSONALLY LIABLE THEREFOR.		

COUNTERSIGNED AND REGISTERED:
 EQUINITY TRUST COMPANY, LLC
 BY 
 TRANSFER AGENT
 AND REGISTRAR
 AUTHORIZED SIGNATURE

SEVEN HILLS REALTY TRUST

IMPORTANT NOTICE

PURSUANT AND SUBJECT TO THE TERMS OF THE TRUST'S DECLARATION OF TRUST, EFFECTIVE DECEMBER 22, 2021 (AS FURTHER AMENDED OR SUPPLEMENTED FROM TIME TO TIME, THE "DECLARATION"), COPIES OF WHICH ARE FILED AT THE PRINCIPAL OFFICE OF THE TRUST, THE TRUST HAS THE AUTHORITY TO CREATE ONE OR MORE ADDITIONAL CLASSES OR SERIES OF SHARES AND ISSUE ADDITIONAL SHARES OF ANY EXISTING CLASS OR SERIES OF SHARES. THE TRUST WILL FURNISH A STATEMENT OF (i) THE AUTHORITY OF THE TRUST TO CREATE ADDITIONAL CLASSES OR SERIES OF SHARES AND ISSUE ADDITIONAL SHARES OF ANY EXISTING CLASS OR SERIES OF SHARES, (ii) THE TERMS OF ANY EXISTING CLASS OR SERIES OF SHARES, AND (iii) SUCH OTHER INFORMATION AS IS REQUIRED BY APPLICABLE LAW, WITHOUT CHARGE TO ANY SHAREHOLDER UPON REQUEST TO THE SECRETARY OF THE TRUST.

THE SHARES EVIDENCED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON OWNERSHIP AND TRANSFER WHICH ARE OR MAY HEREAFTER BE CONTAINED IN THE DECLARATION OR IN ANY BYLAWS ADOPTED BY THE TRUSTEES OF THE TRUST (AS AMENDED FROM TIME TO TIME, THE "BYLAWS"), INCLUDING PROVISIONS OF THE DECLARATION WHICH PROHIBIT THE OWNERSHIP OF MORE THAN 9.8% OF THE TRUST'S EQUITY SECURITIES BY ANY PERSON OR GROUP. THIS DESCRIPTION OF THE RESTRICTIONS UPON OWNERSHIP OR TRANSFER OF THE TRUST'S SECURITIES IS NOT COMPLETE. A MORE COMPLETE DESCRIPTION OF THESE RESTRICTIONS AND OF VARIOUS RIGHTS AND OBLIGATIONS OF SHAREHOLDERS APPEARS IN THE DECLARATION OR BYLAWS (IF ANY), AS APPLICABLE, AND IN CERTAIN OTHER AGREEMENTS WHICH MAY FROM TIME TO TIME BE ENTERED INTO BY THE TRUST AFFECTING THE RIGHTS AND OBLIGATIONS OF SHAREHOLDERS. COPIES OF THE DECLARATION, BYLAWS (IF ANY) AND AGREEMENTS AFFECTING THE RIGHTS AND OBLIGATIONS OF SHAREHOLDERS AS IN EFFECT FROM TIME TO TIME WILL BE SENT WITHOUT CHARGE TO ANY SHAREHOLDER UPON REQUEST TO THE SECRETARY OF THE TRUST.

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common

TEN ENT - as tenants by entireties

JT TEN - as joint tenants with right of survivorship
and not as tenants in common

UTMA - _____ Custodian _____
(Cust) (Minor)
under Uniform Transfers to Minors

Act _____
(State)

Additional abbreviations may also be used though not in above list.

For value received

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

hereby sell, assign, and transfer unto

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING ZIP CODE OF ASSIGNEE)

Shares

of beneficial interest evidenced by the within Certificate, and do hereby irrevocably constitute and appoint

Attorney to transfer the said

shares on the books of the within-named Trust with full power of substitution in the premises.

Dated _____

X

X

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.

SIGNATURE GUARANTEED

ALL GUARANTEES MUST BE MADE BY A FINANCIAL INSTITUTION (SUCH AS A BANK OR BROKER) WHICH IS A PARTICIPANT IN THE SECURITIES TRANSFER AGENTS MEDALLION PROGRAM ("STAMP"), THE NEW YORK STOCK EXCHANGE, INC. MEDALLION SIGNATURE PROGRAM ("MSP"), OR THE STOCK EXCHANGES MEDALLION PROGRAM ("SEMP") AND MUST NOT BE DATED. GUARANTEES BY A NOTARY PUBLIC ARE NOT ACCEPTABLE.

PROPERTY MANAGEMENT AGREEMENT

THIS PROPERTY MANAGEMENT AGREEMENT (this “Agreement”) is made and entered into as of July 8, 2023, by and between The RMR Group LLC, a Maryland limited liability company (the “Managing Agent”), and Floral Vale LLC, a Maryland limited liability company (“Owner”).

WITNESSETH:

WHEREAS, Owner owns the property and improvements located at 1000 and 1100 Floral Vale Boulevard, Yardley, Pennsylvania 19067 (the “Managed Premises”); and

WHEREAS, Owner wishes to engage the Managing Agent to manage the Managed Premises and the Managing Agent is willing to accept such engagement on the terms of this Agreement;

NOW, THEREFORE, in consideration of the premises and the agreements herein contained, Owner and the Managing Agent hereby agree as follows:

1. **Engagement.** Subject to the terms and conditions hereinafter set forth, Owner hereby engages the Managing Agent to provide the property management and administrative services with respect to the Managed Premises as contemplated by this Agreement. The Managing Agent hereby accepts such engagement as managing agent and agrees to devote such time, attention and effort as may be appropriate to operate and manage the Managed Premises in a diligent, orderly and efficient manner. The Managing Agent may subcontract out some or all of its obligations under this Agreement to third parties; provided, however, that, in any such event, the Managing Agent shall be and remain primarily liable to Owner for performance hereunder.

Notwithstanding anything to the contrary set forth in this Agreement, the services to be provided by Managing Agent hereunder shall exclude all services (including, without limitation, any garage management or cafeteria management services) whose performance by a manager to Owner could give rise to the receipt of “impermissible tenant service income” as defined in §856(d)(7) of the Internal Revenue Code of 1986 (as amended or superseded hereafter) or could in any other way jeopardize the federal or state tax qualification as a real estate investment trust of any direct or indirect member of Owner.

2. **General Parameters.** Any or all services may be performed or goods purchased by the Managing Agent under arrangements jointly with or for other properties owned or managed by the Managing Agent and the costs shall be reasonably apportioned. The Managing Agent may employ personnel who are assigned to work exclusively at the Managed Premises or partly at the Managed Premises and other properties owned and/or managed by the Managing Agent. Wages, benefits and other related costs of centralized accounting personnel and employees employed by the Managing Agent and assigned to work exclusively or partly at the Managed Premises shall be fairly apportioned and reimbursed, by Owner in addition to the Fee and Construction Supervision Fee (each as defined in Section 6).

3. **Duties.** Without limitation, the Managing Agent agrees to perform the following specific duties:

(a) To seek tenants for the Managed Premises in accordance with market rents and to negotiate leases, including renewals thereof, and to lease space to tenants, at rentals, and for periods of occupancy all on market terms. To employ appropriate means in order that the availability of rental space is made known to potential tenants, including, but not limited to, the employment of brokers. The brokerage and legal expenses of negotiating such leases and leasing such space shall be paid by Owner.

(b) To collect all rents and other income from the Managed Premises and to give receipts therefor, both on behalf of Owner, and deposit such funds in such banks and such accounts as are named, from time to time, by Owner, in agency accounts for and under the name of Owner. The Managing Agent shall be empowered to sign disbursement checks on these

accounts. The Managing Agent may also use pooled bank accounts for the benefit of Owner and other owners for whom the Managing Agent provides services, provided separate records and accountings of such funds are maintained.

- (c) To make contracts for and to supervise any repairs and/or alterations to the Managed Premises, including tenant improvements on reasonable commercial terms.
- (d) For Owner's account and at its expense, to hire, supervise and discharge employees as required for the efficient operation and maintenance of the Managed Premises.
- (e) To obtain, at Owner's expense, appropriate insurance for the Managed Premises protecting Owner and the Managing Agent while acting on behalf of Owner against all normally insurable risks relating to the Managed Premises and complying with the requirements of Owner's mortgagee, if any, and to cause the same to be provided and maintained by all tenants with respect to the Managed Premises to the extent required by the terms of such tenants' leases. Notwithstanding the foregoing, Owner may determine to purchase insurance directly for its own account.
- (f) To promptly notify Owner's insurance carriers, as required by the applicable policies, of any casualty or injury to person or property at the Managed Premises, and complete customary reports in connection therewith.
- (g) To procure all supplies, other materials and services as may be necessary for the proper operation of the Managed Premises, at Owner's expense.
- (h) To pay promptly from rental receipts, other income derived from the Managed Premises, or other monies made available by Owner for such purpose, all costs incurred in the operation of the Managed Premises which are expenses of Owner hereunder, including wages or other payments for services rendered, invoices for supplies or other items furnished in relation to the Managed Premises, and pay over forthwith the balance of such rental receipts, income and monies to Owner or as Owner shall from time to time direct. In the event that the sum of the expenses to operate and the compensation due the Managing Agent exceeds gross receipts in any month and no excess funds from prior months are available for payment of such excess, Owner shall pay promptly the amount of the deficiency thereof to the Managing Agent upon receipt of statements therefor.
- (i) To keep Owner apprised of any material developments in the operation of the Managed Premises.
- (j) To establish reasonable rules and regulations for tenants of the Managed Premises.
- (k) On behalf of and in the name of Owner, to institute or defend, as the case may be, any and all legal actions or proceedings relating to the operation of the Managed Premises.
- (l) To maintain the books and records of Owner reflecting the management and operation of the Managed Premises, making available for reasonable inspection and examination by Owner or its representatives all books, records and other financial data relating to the Managed Premises at the place where the same are maintained.
- (m) To prepare and deliver seasonably to tenants of the Managed Premises such statements of expenses or other information as shall be required on the landlord's part to be delivered to such tenants for computation of rent, additional rent, or any other reason.
- (n) To aid, assist and cooperate with Owner in matters relating to taxes and assessments and insurance loss adjustments, notify Owner of any tax increase or special

assessments relating to the Managed Premises and to enter into contracts for tax abatements services.

- (o) To provide such emergency services as may be required for the efficient management and operation of the Managed Premises on a twenty-four (24)-hour basis.
- (p) To enter into contracts on commercially reasonable terms for utilities (including, without limitation, water, fuel, electricity and telephone) and for building services (including, without limitation, cleaning of windows, common areas and tenant space, ash, rubbish and garbage hauling, snow plowing, landscaping, carpet cleaning and vermin extermination), and for other services as are appropriate to the Managed Premises.
- (q) To seek market terms for all items purchased or services contracted by it under this Agreement.
- (r) To take such action generally consistent with the provisions of this Agreement as Owner might with respect to the Managed Premises if personally present.

4. **Authority.** Owner gives to the Managing Agent the authority and powers to perform the foregoing duties on behalf of Owner and authorizes the Managing Agent to incur such reasonable expenses, as contemplated in Sections 2, 3 and 5 on behalf of Owner as are necessary in the performance of those duties.

5. **Special Authority of Managing Agent.** In addition to, and not in limitation of, the duties and authority of the Managing Agent contained herein, the Managing Agent shall perform the following duties:

- (a) Terminate tenancies and sign and serve in the name of Owner such notices therefor as may be required for the proper management of the Managed Premises.
- (b) At Owner's expense, institute and prosecute actions to evict tenants and recover possession of rental space, and recover rents and other sums due; and when expedient, settle, compromise and release such actions or suits or reinstate such tenancies.

6. **Compensation.**

(a) In consideration of the services to be rendered by the Managing Agent hereunder, Owner agrees to pay and the Managing Agent agrees to accept as its compensation (i) a management fee (the "Fee") equal to three percent (3%) of the gross collected rents actually received by Owner from the Managed Premises, such gross rents to include all fixed rents, percentage rents, additional rents, operating expense and tax escalations, and any other charges paid to Owner in connection with occupancy of the Managed Premises, but excluding any amounts collected from tenants to reimburse Owner for the cost of capital improvements or for expenses incurred in curing any tenant default or in enforcing any remedy against any tenant; and (ii) a construction supervision fee (the "Construction Supervision Fee") in connection with all interior and exterior construction renovation or repair activities at the Managed Premises, including, without limitation, all tenant and capital improvements in, on or about the Managed Premises, undertaken during the term of this Agreement, other than ordinary maintenance and repair, equal to five percent (5%) of the cost of such construction which shall include the costs of all related professional services and the cost of general conditions.

(b) Unless otherwise agreed, the Fee shall be due and payable monthly, in arrears based on a reasonable annual estimate or budget with an annual reconciliation within thirty (30) days after the end of each calendar year. The Construction Supervision Fee shall be due and payable periodically, as agreed by the Managing Agent and Owner, based on actual costs incurred to date.

(c) Notwithstanding anything herein to the contrary, Owner shall reimburse the Managing Agent for reasonable travel expenses incurred when traveling to and from the Managed Premises while performing its duties in accordance with this Agreement; provided, however, that, reasonable travel expenses shall not include expenses incurred for travel to and from the Managed Premises by personnel assigned to work exclusively at the Managed Premises.

(d) The Managing Agent shall be entitled to no other additional compensation, whether in the form of commission, bonus or the like for its services under this Agreement. Except as otherwise specifically provided herein with respect to payment by Owner of legal fees, accounting fees, salaries, wages, fees and charges of parties hired by the Managing Agent on behalf of Owner to perform operating and maintenance functions in the Managed Premises, and the like, if the Managing Agent hires third parties to perform services required to be performed hereunder by the Managing Agent without additional charge to Owner, the Managing Agent shall (except to the extent the same are reasonably attributable to an emergency at the Managed Premises) be responsible for the charges of such third parties.

7. **Term of Agreement**. This Agreement shall continue in force and effect until December 31, 2024 and shall thereafter be automatically renewed for successive one year terms.

This Agreement may be terminated as follows:

- (a) by Owner or the Managing Agent, at any time upon thirty (30) days' prior written notice to the other party; or
- (b) by Owner for cause, immediately upon written notice to the Managing Agent.

8. **Termination**. Upon termination of this Agreement for any reason whatsoever, the Managing Agent shall as soon as practicable turn over to Owner all books, papers, funds, records, keys and other items relating to the management and operation of the Managed Premises, including, without limitation, all leases in the possession of the Managing Agent and shall render to Owner a final accounting with respect thereto through the date of termination. Owner shall be obligated to pay all compensation for services rendered by the Managing Agent hereunder prior and up to the effective time of such termination, including, without limitation, any Fees and Construction Supervision Fees, and shall pay and reimburse to the Managing Agent all expenses and costs incurred by the Managing Agent prior and up to the effective time of such termination which are otherwise payable or reimbursable to the Managing Agent pursuant to the terms of this Agreement (collectively, "**Accrued Fees**"). The amount of such fees paid as compensation pursuant to the foregoing sentence shall be subject to adjustment in accordance with the annual reconciliation contemplated by Section 6(b) and consistent with past practices in performing such reconciliation.

A computation of all Accrued Fees due upon termination shall be delivered by the Managing Agent to Owner within thirty (30) days following the effective date of termination. The Accrued Fees shall be payable within ten (10) business days following the delivery to Owner of such computation.

9. **Assignment of Rights and Obligations**. Without Owner's prior written consent, Managing Agent shall not assign all or any part of its rights and obligations hereunder; provided, however: (i) that Managing Agent may assign its rights and delegate its obligations under this Agreement to any subsidiary of Managing Agent so long as such subsidiary is then and remains Controlled by Managing Agent, and (ii) that Managing Agent shall be permitted to execute and deliver customary consents to collateral assignment of management agreements and other customary agreements required by any lender in connection with any financing entered into by Owner. "Control" of an entity, shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such entity, whether through ownership of voting securities, by contract or otherwise and the participles "Controls" and "Controlled" have parallel meanings.

10. **Indemnification and Insurance**.

(a) Owner agrees to defend, indemnify and hold harmless the Managing Agent from and against all costs, claims, expenses and liabilities (including reasonable attorneys' fees) arising out of the Managing Agent's performance of its duties in accordance with this Agreement including, without limitation, injury or damage to persons or property occurring in, on or about the Managed Premises and violations or alleged violations of any law, ordinance, regulation or order of any governmental authority regarding the Managed Premises except any injury, damage or violation resulting from the Managing Agent's fraud, gross negligence or willful misconduct in the performance of its duties hereunder.

(b) Owner and the Managing Agent shall maintain such commercially reasonable insurance as shall from time to time be mutually agreed by Owner and the Managing Agent.

11. **Notices.** Any notice, report or other communication required or permitted to be given hereunder shall be in writing and shall be deemed given on the date of actual delivery, if delivered personally, or on the date of receipt, if sent by overnight courier (providing proof of delivery) to the parties or if sent by email of a .pdf attachment (providing confirmation of transmission) at the following street addresses or email addresses, as applicable (or at such other United States street address or email address for a party as shall be specified by like notice):

If to Owner:

Floral Vale LLC
Two Newton Place
255 Washington Street, Suite 300
Newton, Massachusetts 02458
Attn: President
Email: TLorenzini@tremontadv.com
Attn: Secretary
Email: jclark@rmrgroup.com

If to the Managing Agent:

The RMR Group LLC
Two Newton Place
255 Washington Street, Suite 300
Newton, Massachusetts 02458
Attn: Chief Financial Officer and Treasurer
Email: mjordan@rmrgroup.com

12. **Modification of Agreement.** This Agreement may not be modified, altered or amended in any manner except by an amendment in writing, duly executed by the parties hereto.

13. **Independent Contractor.** This Agreement is not one of general agency by the Managing Agent for Owner, but the Managing Agent is being engaged as an independent contractor. Nothing in this Agreement is intended to create a joint venture, partnership, tenancy-in-common or other similar relationship between Owner and the Managing Agent for any purposes whatsoever, and, without limiting the generality of the foregoing, neither the terms of this Agreement nor the fact that Owner and the Managing Agent have joint interests in any one or more investments, ownership or other interests in any one or more entities or may have common officers or employees or a tenancy relationship shall be construed so as to make them such partners or joint venturers or impose any liability as such on either of them.

14. **Governing Law.** The provisions of this Agreement and any Dispute (as defined below), whether in contract, tort or otherwise, shall be governed by and construed in accordance with the laws of the State of Maryland without regard to principles of conflicts of law.

15. **Successors and Assigns.** This Agreement shall be binding upon, and inure to the benefit of, any successors or permitted assigns of the parties hereto as provided herein.

16. **No Third Party Beneficiary.** Except as otherwise provided in Section 19, no person or entity other than the parties hereto and their successors and permitted assigns is intended to be a beneficiary of this Agreement.
17. **Severability.** If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.
18. **Survival.** Except for Sections 1 through 5, all other provisions of this Agreement shall survive the termination hereof. Any termination of this Agreement shall be without prejudice to the rights of the parties hereto accrued prior to the termination or upon termination.
19. **Dispute Resolution.**
- (a) Any disputes, claims or controversies arising out of or relating to this Agreement, including any disputes, claims or controversies brought by or on behalf of a party hereto, a direct or indirect parent of a party, or any holder of equity interests (which, for purposes of this Section 19, shall mean any holder of record or beneficial owner of any equity interests, or any former holder of record or beneficial owner of equity interests) of a party, either on its own behalf, on behalf of a party or on behalf of any series or class of equity interests of a party or holders of any equity interests of a party against a party, or any of their respective trustees, directors, members, officers, managers (including The RMR Group LLC or its parent and their respective successor), agents or employees, including any disputes, claims or controversies relating to the meaning, interpretation, effect, validity, performance, application or enforcement of this Agreement, including the agreements set forth in this Section 19 or the governing documents of a party (all of which are referred to as "Disputes"), or relating in any way to such a Dispute or Disputes shall, on the demand of any party to such Dispute or Disputes be resolved through binding and final arbitration in accordance with the Commercial Arbitration Rules (the "Rules") of the American Arbitration Association (the "AAA") then in effect, except as those Rules may be modified in this Section 19. For the avoidance of doubt, and not as a limitation, Disputes are intended to include derivative actions against the trustees, directors, officers or managers of a party and class actions by a holder of equity interests against those Persons and a party. For the avoidance of doubt, a Dispute shall include a Dispute made derivatively on behalf of one party against another party.
- (b) There shall be three (3) arbitrators. If there are only two (2) parties to the Dispute, each party shall select one (1) arbitrator within fifteen (15) days after receipt by respondent of a copy of a demand for arbitration. Such arbitrators may be affiliated or interested persons of such parties. If there are more than two (2) parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand, shall each select, by the vote of a majority of the claimants or the respondents, as the case may be, one (1) arbitrator within fifteen (15) days after receipt of a demand for arbitration. Such arbitrators may be affiliated or interested persons of the claimants or the respondents, as the case may be. If either a claimant (or all claimants) or a respondent (or all respondents) fail(s) to timely select an arbitrator, then the party (or parties) who has selected an arbitrator may request the AAA to provide a list of three (3) proposed arbitrators in accordance with the Rules (each of whom shall be neutral, impartial and unaffiliated with any party) and the party (or parties) that failed to timely appoint an arbitrator shall have ten (10) days from the date the AAA provides such list to select one (1) of the three (3) arbitrators proposed by the AAA. If the party (or parties) fail(s) to select the second (2nd) arbitrator by that time, the party (or parties) who have appointed the first (1st) arbitrator shall then have ten (10) days to select one (1) of the three (3) arbitrators proposed by the AAA to be the second (2nd) arbitrator; and, if they should fail to select the second (2nd) arbitrator by such time, the AAA shall select, within fifteen (15) days thereafter, one (1) of the three (3) arbitrators it had proposed as the second (2nd) arbitrator. The two (2) arbitrators so appointed shall jointly appoint the third (3rd) and presiding arbitrator (who shall be neutral, impartial and unaffiliated with any party) within fifteen (15) days of the appointment of the second (2nd) arbitrator. If the third (3rd) arbitrator has not been appointed within the time limit specified herein, then the AAA shall provide a list of

proposed arbitrators in accordance with the Rules, and the arbitrator shall be appointed by the AAA in accordance with a listing, striking and ranking procedure, with each party having a limited number of strikes, excluding strikes for cause.

(c) Any arbitration hearings shall be held in Boston, Massachusetts, unless otherwise agreed by the parties, but the seat of arbitration shall be Maryland.

(d) There shall be only limited documentary discovery of documents directly related to the issues in dispute, as may be ordered by the arbitrators. For the avoidance of doubt, it is intended that there shall be no depositions and no other discovery other than limited documentary discovery as described in the preceding sentence.

(e) In rendering an award or decision (an "Award"), the arbitrators shall be required to follow the laws of the State of Maryland, without regard to principles of conflicts of law. Any arbitration proceedings or Award rendered hereunder and the validity, effect and interpretation of the agreements set forth in this Section 19 shall be governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq. An Award shall be in writing and may, but shall not be required to, briefly state the findings of fact and conclusions of law on which it is based. Any monetary Award shall be made and payable in U.S. dollars free of any tax, deduction or offset. Subject to Section 19(f), each party against which an Award assesses a monetary obligation shall pay that obligation on or before the thirtieth (30th) day following the date of such Award or such other date as such Award may provide.

(f) Except to the extent expressly provided by this Agreement or as otherwise agreed by the parties thereto, to the maximum extent permitted by Maryland law, each party involved in a Dispute shall bear its own costs and expenses (including attorneys' fees), and the arbitrators shall not render an Award that would include shifting of any such costs or expenses (including attorneys' fees) or, in a derivative case or class action, award any portion of a party's Award to the claimant or the claimant's attorneys. Each party (or, if there are more than two (2) parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand, respectively) shall bear the costs and expenses of its (or their) selected arbitrator and the parties (or, if there are more than two (2) parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand) shall equally bear the costs and expenses of the third (3rd) appointed arbitrator.

(g) Notwithstanding any language to the contrary in this Agreement, any Award, including but not limited to any interim Award, may be appealed pursuant to the AAA's Optional Appellate Arbitration Rules ("Appellate Rules"). An Award shall not be considered final until after the time for filing the notice of appeal pursuant to the Appellate Rules has expired. Appeals must be initiated within thirty (30) days of receipt of an Award by filing a notice of appeal with any AAA office. Following the appeal process, the decision rendered by the appeal tribunal may be entered in any court having jurisdiction thereof. For the avoidance of doubt, and despite any contrary provision of the Appellate Rules, Section 19(f) shall apply to any appeal pursuant to this Section 19(g) and the appeal tribunal shall not render an Award that would include shifting of any costs or expenses (including attorneys' fees) of any party.

(h) Following the expiration of the time for filing the notice of appeal, or the conclusion of the appeal process set forth in Section 19(g), an Award shall be final and binding upon the parties thereto and shall be the sole and exclusive remedy between those parties relating to the Dispute, including any claims, counterclaims, issues or accounting presented to the arbitrators. Judgment upon an Award may be entered in any court having jurisdiction. To the fullest extent permitted by law, no application or appeal to any court of competent jurisdiction may be made in connection with any question of law arising in the course of arbitration or with respect to any Award made, except for actions relating to enforcement of the agreements set forth in this Section 19 or any arbitral award issued hereunder and except for actions seeking interim or other provisional relief in aid of arbitration proceedings in any court of competent jurisdiction.

(i) This Section 19 is intended to benefit and be enforceable by the parties hereto and their respective shareholders, stockholders, members, beneficial interest owners, direct and

indirect parents, trustees, directors, officers, managers (including The RMR Group LLC or its parent and their respective successor), members, agents or employees and their respective successors and assigns and shall be binding on the parties and such Persons and be in addition to, and not in substitution for, any other rights to indemnification or contribution that such Persons may have by contract or otherwise.

20. Consent to Jurisdiction and Forum. This Section 20 is subject to, and shall not in any way limit the application of, Section 19; in case of any conflict between this Section 20 and Section 19, Section 19 shall govern. Notwithstanding anything to the contrary in Section 19, the exclusive jurisdiction and venue in any action brought by any party hereto pursuant to this Agreement shall lie in any federal or state court located in Boston, Massachusetts. By execution and delivery of this Agreement, each party hereto irrevocably submits to the jurisdiction of such courts for itself and in respect of its property with respect to such action. The parties irrevocably agree that venue would be proper in such court, and hereby waive any objection that such court is an improper or inconvenient forum for the resolution of such action. The parties further agree and consent to the service of any process required by any such court by delivery of a copy thereof in accordance with Section 11 and that any such delivery shall constitute valid and lawful service of process against it, without necessity for service by any other means provided by statute or rule of court. EACH PARTY HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE PROVISION OF SERVICES BY MANAGING AGENT PURSUANT TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. Notwithstanding anything herein to the contrary, if a demand for arbitration of a Dispute is made pursuant to Section 19, this Section 20 shall not pre-empt resolution of the Dispute pursuant to Section 19.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have executed this Property Management Agreement as of the date first written above.

MANAGING AGENT:

THE RMR GROUP LLC

By: /s/ Matthew P. Jordan
Name: Matthew P. Jordan
Title: Executive Vice President, Chief Financial Officer and Treasurer

OWNER:

FLORAL VALE LLC

By: /s/ Tiffany R. Sy
Name: Tiffany R. Sy
Title: Chief Financial Officer and Treasurer

[Signature Page to Property Management Agreement (Floral Vale LLC)]

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)

I, Thomas J. Lorenzini, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Seven Hills Realty Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2023

/s/ Thomas J. Lorenzini
 Thomas J. Lorenzini
 President and Chief Investment Officer

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)

I, Tiffany R. Sy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Seven Hills Realty Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2023

/s/ Tiffany R. Sy

Tiffany R. Sy
Chief Financial Officer and Treasurer

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)

I, Matthew P. Jordan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Seven Hills Realty Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2023

/s/ Matthew P. Jordan

Matthew P. Jordan
Managing Trustee

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)

I, Adam D. Portnoy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Seven Hills Realty Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2023

/s/ Adam D. Portnoy

Adam D. Portnoy
Managing Trustee

Certification Pursuant to 18 U.S.C. Sec. 1350

In connection with the filing by Seven Hills Realty Trust (the “Company”) of the Quarterly Report on Form 10-Q for the period ended June 30, 2023 (the “Report”), each of the undersigned hereby certifies, to the best of his or her knowledge:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Adam D. Portnoy

Adam D. Portnoy
Managing Trustee

/s/ Thomas J. Lorenzini

Thomas J. Lorenzini
President and Chief Investment Officer

/s/ Matthew P. Jordan

Matthew P. Jordan
Managing Trustee

/s/ Tiffany R. Sy

Tiffany R. Sy
Chief Financial Officer and Treasurer

Date: July 31, 2023