
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 September 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 October 27, 2023: 14,811,410.

SEVEN HILLS REALTY TRUST

FORM 10-Q

September 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)

	September 30, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	\$ 60,391	\$ 71,057
Restricted cash	139	10
Loans held for investment	671,129	669,929
Allowance for credit losses	(3,281)	—
Loans held for investment, net	667,848	669,929
Real estate owned	11,705	—
Accumulated depreciation	(41)	—
Real estate owned, net	11,664	—
Accrued interest receivable	3,614	3,354
Prepaid expenses and other assets, net	6,330	2,497
Total assets	<u>\$ 749,986</u>	<u>\$ 746,847</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable, accrued liabilities and other liabilities	\$ 4,705	\$ 1,903
Secured financing facilities, net	473,337	471,521
Due to related persons	1,663	1,844
Total liabilities	<u>479,705</u>	<u>475,268</u>
Commitments and contingencies		
Shareholders' equity:		
Common shares of beneficial interest, \$0.001 par value per share; 25,000,000 shares authorized; 14,815,574 and 14,709,165 shares issued and outstanding, respectively	15	15
Additional paid in capital	239,337	238,505
Cumulative net income	65,615	52,290
Cumulative distributions	(34,686)	(19,231)
Total shareholders' equity	<u>270,281</u>	<u>271,579</u>
Total liabilities and shareholders' equity	<u>\$ 749,986</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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
INCOME FROM INVESTMENTS:				
Interest and related income	\$ 17,137	\$ 11,650	\$ 48,814	\$ 30,098
Purchase discount accretion	1,075	1,596	3,307	9,167
Less: interest and related expenses	(8,979)	(5,447)	(24,600)	(10,191)
Income from loan investments, net	9,233	7,799	27,521	29,074
Revenue from real estate owned	565	—	714	—
Total revenue	9,798	7,799	28,235	29,074
OTHER EXPENSES:				
Base management fees	1,077	1,064	3,223	3,190
Incentive fees	469	—	661	—
General and administrative expenses	941	942	3,018	3,118
Reimbursement of shared services expenses	642	594	1,913	1,742
Reversal of credit losses	(1,338)	—	(1,299)	—
Expenses from real estate owned	516	—	734	—
Other transaction related costs	—	—	—	37
Total other expenses	2,307	2,600	8,250	8,087
Income before income taxes	7,491	5,199	19,985	20,987
Income tax expense	(18)	(23)	(65)	(107)
Net income	\$ 7,473	\$ 5,176	\$ 19,920	\$ 20,880
Weighted average common shares outstanding - basic and diluted	14,640	14,551	14,609	14,526
Net income per common share - basic and diluted	\$ 0.51	\$ 0.35	\$ 1.35	\$ 1.43

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
Share grants	80	—	273	—	—	273
Share repurchases	(8)	—	(101)	—	—	(101)
Share forfeitures	(1)	—	(2)	—	—	(2)
Net income	—	—	—	7,473	—	7,473
Distributions	—	—	—	—	(5,160)	(5,160)
Balance at September 30, 2023	14,816	\$ 15	\$ 239,337	\$ 65,615	\$ (34,686)	\$ 270,281
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
Share grants	85	—	259	—	—	259
Share repurchases	(9)	—	(96)	—	—	(96)
Net income	—	—	—	5,176	—	5,176
Distributions	—	—	—	—	(3,660)	(3,660)
Balance at September 30, 2022	14,714	\$ 15	\$ 238,417	\$ 45,530	\$ (15,553)	\$ 268,409

See accompanying notes.

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

	Nine Months Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 19,920	\$ 20,880
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of purchase discount	(3,307)	(9,167)
Reversal of credit losses	(1,299)	—
Amortization of loan origination and exit fees	(2,529)	(2,935)
Amortization of deferred financing costs	1,002	784
Straight line rental income	(362)	—
Depreciation and amortization	308	—
Share based compensation	970	889
Changes in operating assets and liabilities:		
Accrued interest receivable	(480)	(1,291)
Prepaid expenses and other assets	911	199
Accounts payable, accrued liabilities and other liabilities	(9)	(53)
Due to related persons	(181)	657
Net cash provided by operating activities	14,944	9,963
CASH FLOWS FROM INVESTING ACTIVITIES:		
Origination of loans held for investment	(78,038)	(179,265)
Additional funding of loans held for investment	(4,710)	(12,095)
Repayment of loans held for investment	71,643	79,490
Cash assumed from transfer of loans held for investment to real estate owned	1,742	—
Real estate owned improvements	(1,339)	—
Net cash used in investing activities	(10,702)	(111,870)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from secured financing facilities	63,206	284,867
Repayments under secured financing facilities	(61,955)	(119,905)
Payments of deferred financing costs	(437)	(1,859)
Repurchase of common shares	(138)	(96)
Distributions	(15,455)	(10,958)
Net cash (used in) provided by financing activities	(14,779)	152,049
Increase in cash, cash equivalents and restricted cash	(10,537)	50,142
Cash, cash equivalents and restricted cash at beginning of period	71,067	26,295
Cash, cash equivalents and restricted cash at end of period	\$ 60,530	\$ 76,437
SUPPLEMENTAL DISCLOSURES:		
Interest paid	\$ 23,550	\$ 8,728
Income taxes paid	\$ 133	\$ 92
NON-CASH INVESTING ACTIVITIES:		
Transfer of loans held for investment to real estate owned	\$ 14,800	\$ —

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 September 30,	
	2023	2022
Cash and cash equivalents	\$ 60,391	\$ 76,371
Restricted cash	139	66
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	\$ 60,530	\$ 76,437

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, less costs to sell, if applicable, 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, less costs to sell, if applicable, 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 September 30, 2023 and December 31, 2022:

	As of September 30, 2023		As of December 31, 2022	
Number of loans		26		27
Total loan commitments	\$	720,397	\$	727,562
Unfunded loan commitments ⁽¹⁾	\$	45,182	\$	49,007
Principal balance	\$	675,215	\$	678,555
Carrying value	\$	667,848	\$	669,929
Weighted average coupon rate		9.21 %		8.07 %
Weighted average all in yield ⁽²⁾		9.66 %		8.57 %
Weighted average floor		1.09 %		0.62 %
Weighted average maximum maturity (years) ⁽³⁾		2.8		3.3
Weighted average risk rating		2.9		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 September 30, 2023 and 2022:

	Principal Balance	Deferred Fees and Other Items	Amortized Cost
Balance at June 30, 2023	\$ 634,920	\$ (5,395)	\$ 629,525
Additional funding	919	—	919
Originations	41,550	(528)	41,022
Repayments	(2,174)	—	(2,174)
Net amortization of deferred fees	—	762	762
Purchase discount accretion	—	1,075	1,075
Balance at September 30, 2023	<u>\$ 675,215</u>	<u>\$ (4,086)</u>	<u>\$ 671,129</u>

	Principal Balance	Deferred Fees and Other Items	Amortized Cost
Balance at June 30, 2022	\$ 682,285	\$ (12,100)	\$ 670,185
Additional funding	4,267	—	4,267
Originations	38,440	(510)	37,930
Repayments	(19,532)	(115)	(19,647)
Net amortization of deferred fees	—	823	823
Purchase discount accretion	—	1,596	1,596
Balance at September 30, 2022	<u>\$ 705,460</u>	<u>\$ (10,306)</u>	<u>\$ 695,154</u>

The tables below represent our loan activities during the nine months ended September 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	4,943	(14)	4,929
Originations	79,050	(1,012)	78,038
Repayments	(71,468)	(175)	(71,643)
Transfer to real estate owned	(15,865)	(95)	(15,960)
Net amortization of deferred fees	—	2,529	2,529
Purchase discount accretion	—	3,307	3,307
Balance at September 30, 2023	<u>\$ 675,215</u>	<u>\$ (4,086)</u>	<u>\$ 671,129</u>

	Principal Balance	Deferred Fees and Other Items	Amortized Cost
Balance at December 31, 2021	\$ 590,590	\$ (19,810)	\$ 570,780
Additional funding	12,497	—	12,497
Originations	181,244	(1,979)	179,265
Repayments	(78,871)	(619)	(79,490)
Net amortization of deferred fees	—	2,935	2,935
Purchase discount accretion	—	9,167	9,167
Balance at September 30, 2022	<u>\$ 705,460</u>	<u>\$ (10,306)</u>	<u>\$ 695,154</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 September 30, 2023 and December 31, 2022:

Property Type	September 30, 2023			December 31, 2022		
	Number of Loans	Amortized Cost	Percentage of Value	Number of Loans	Amortized Cost	Percentage of Value
Office ⁽¹⁾	9	\$ 225,027	34 %	11	\$ 252,796	38 %
Multifamily	8	224,878	33 %	8	197,229	29 %
Retail	4	110,815	17 %	4	109,248	16 %
Industrial ⁽¹⁾	4	93,346	14 %	4	110,656	17 %
Hotel	1	17,063	2 %	—	—	— %
	<u>26</u>	<u>\$ 671,129</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 nine months ended September 30, 2023, our loan investment in Aurora, IL was repaid.

Geographic Location	September 30, 2023			December 31, 2022		
	Number of Loans	Amortized Cost	Percentage of Value	Number of Loans	Amortized Cost	Percentage of Value
Midwest	8	\$ 229,263	34 %	9	\$ 251,208	37 %
South	7	196,554	29 %	6	166,616	25 %
West	8	155,826	24 %	8	146,837	22 %
East	3	89,486	13 %	4	105,268	16 %
	<u>26</u>	<u>\$ 671,129</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 September 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:

September 30, 2023								
Risk Rating	Number of Loans	Percentage of Portfolio	2023	2022	2021	Prior	Total	
1	—	— %	\$ —	\$ —	\$ —	\$ —	\$ —	—
2	6	22 %	—	42,044	33,063	74,308	149,415	
3	17	63 %	78,349	129,895	201,968	9,179	419,391	
4	3	15 %	—	36,735	65,588	—	102,323	
5	—	— %	—	—	—	—	—	—
	<u>26</u>	<u>100 %</u>	<u>\$ 78,349</u>	<u>\$ 208,674</u>	<u>\$ 300,619</u>	<u>\$ 83,487</u>	<u>\$ 671,129</u>	

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	—	— %	—	—	—	—	—
	<u>27</u>	<u>100 %</u>	<u>\$ 206,022</u>	<u>\$ 340,818</u>	<u>\$ 78,448</u>	<u>\$ 44,641</u>	<u>\$ 669,929</u>

The weighted average risk rating of our loans by amortized cost was 2.9 as of September 30, 2023 and December 31, 2022. 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 nine months ended September 30, 2023:

	Loans Held for Investment, net	Unfunded Loan Commitments	Total
Balance at June 30, 2023	\$ 4,201	\$ 1,725	\$ 5,926
(Reversal of) provision for credit losses	(1,660)	322	(1,338)
Recoveries	740	—	740
Balance at September 30, 2023	<u>\$ 3,281</u>	<u>\$ 2,047</u>	<u>\$ 5,328</u>

	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
(Reversal of) provision for credit losses	(1,644)	345	(1,299)
Write offs	(708)	—	(708)
Recoveries	740	—	740
Balance at September 30, 2023	<u>\$ 3,281</u>	<u>\$ 2,047</u>	<u>\$ 5,328</u>

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 decrease in the allowance for credit losses during the three months ended September 30, 2023 is primarily attributable to a reversal of credit losses of \$740 for estimated costs to sell related to the reclassification of the property located in Yardley, PA from held for sale to held for investment, favorable changes in the macroeconomic outlook, most notably in CRE pricing forecasts and loan repayments. The decrease in the allowance for credit losses during the nine months ended September 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, loan repayments and favorable changes in CRE pricing forecasts mentioned above.

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(dollars in thousands, except per share data)

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 September 30, 2023, this loan had an amortized cost of \$23,988 and a risk rating of 2. We accounted for the amendment as a modification to the existing loan because the changes to the terms were determined to be minor. In October 2023, the borrower repaid the full outstanding principal amount on this loan.

In August 2023, we amended the agreement governing our loan secured by an office property in Dublin, OH. As part of this amendment, the borrower repaid \$2,000 of the outstanding principal amount and the maturity date was extended by one year to August 16, 2024. As of September 30, 2023, this loan had an amortized cost of \$20,690 and a risk rating of 2. We accounted for the amendment as a modification to the existing loan because the changes to the terms were determined to be minor. In October 2023, the borrower repaid the full outstanding principal amount on this loan.

There were no other modifications to our loan portfolio for borrowers experiencing financial difficulties during the nine months ended September 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 nine months ended September 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 September 30, 2023 or December 31, 2022. As of September 30, 2023 and October 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. Upon acquisition, we allocate the fair value of the real estate owned in accordance with ASC 805, *Business Combinations*. We generally expect to sell real estate owned within one year of acquisition and classify real estate owned as held for sale when it meets the criteria required by ASC 360, *Impairments and Disposals of Long-Lived Assets*.

Upon acquisition, real estate owned is recognized at the lesser of the fair value of the property less estimated costs to sell, if applicable, 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, if applicable, 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, if applicable, 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. Subsequent to acquisition, costs incurred related to improvements to the property are capitalized and depreciated over their estimated useful lives and costs related to the operation of the property are expensed as incurred.

We regularly evaluate real estate owned for indicators of impairment. Impairment indicators may include declining tenant occupancy, lack of progress leasing vacant space, tenant bankruptcies, low long term prospects for improvement in property performance, weak or declining tenant profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life and legislative, market or industry changes that could permanently reduce the value of a property. If there is an indication that the carrying value of an asset is not recoverable, we estimate the projected undiscounted cash flows to determine if an impairment loss should be recognized. The future net undiscounted cash flows are subjective and are based in part on assumptions regarding hold periods, market rents and terminal capitalization rates. We determine the amount of any impairment loss by comparing the carrying value to estimated fair value. We estimate fair value through an evaluation of recent financial performance and projected discounted cash flows using standard industry valuation methods.

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In June 2023, we assumed legal title to an office property located in Yardley, PA through a deed in lieu of foreclosure. As of June 30, 2023, the property met the held for sale criteria required by ASC 360 and was classified as held for sale. 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 during the 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.

As of September 30, 2023, although there was not a change to the plan of sale, the property did not meet the held for sale criteria required by ASC 360 and was classified as held for investment. As a result, we recorded a reversal of credit losses of \$740 for estimated costs to sell in our condensed consolidated statements of operations during the three months ended September 30, 2023. We accounted for the acquisition as an asset acquisition and allocated the fair value of the assumed assets and liabilities on the acquisition date as follows:

<u>Acquisition Date</u>	<u>Fair Value</u>	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Acquired Real Estate Leases</u>
June 2023	\$ 14,800	\$ 2,880	\$ 7,325	\$ 4,595

Other assets related to real estate owned of \$5,290, including \$4,337 of acquired real estate leases, net and \$362 of straight line rent receivables, are included in prepaid expenses and other assets, net in our condensed consolidated balance sheets at September 30, 2023. As of September 30, 2023, the weighted average remaining life of acquired real estate leases was 7.4 years. Accrued expenses and other liabilities related to real estate owned of \$762 are included in accounts payable, accrued liabilities and other liabilities in our condensed consolidated balance sheets at September 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. We increased revenue from real estate owned to record revenue on a straight line basis by \$295 and \$362 for the three and nine months ended September 30, 2023, respectively. Expenses from real estate owned represents costs related to the acquisition of the property and costs to operate the property.

Note 5. Secured Financing Agreements

Our secured financing agreements at September 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. In August 2023, we amended the related fee letter to increase the maximum amount of available advancements under the UBS Master Repurchase Facility to \$205,000.

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

As of September 30, 2023 and October 27, 2023, we had a \$474,866 and \$446,461, respectively, aggregate outstanding principal balance under our Secured Financing Facilities.

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(dollars in thousands, except per share data)

The table below summarizes our Secured Financing Facilities as of September 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⁾	
September 30, 2023:						
Citibank Master Repurchase Facility	\$ 215,000	\$ 136,730	\$ 136,539	7.38 %	0.6	\$ 199,509
UBS Master Repurchase Facility	205,000	141,558	141,314	7.55 %	0.8	195,467
BMO Facility	150,000	101,027	100,595	7.25 %	1.5	135,978
Wells Fargo Master Repurchase Facility	125,000	95,551	94,889	7.41 %	1.4	127,011
Total/weighted average	<u>\$ 695,000</u>	<u>\$ 474,866</u>	<u>\$ 473,337</u>	7.41 %	1.0	<u>\$ 657,965</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 2.70%, 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 September 30, 2023, our Citibank Master Repurchase Facility, UBS Master Repurchase Facility and Wells Fargo Master Repurchase Facility mature on March 15, 2025, February 18, 2025 and March 11, 2025, respectively. Our BMO Facility matures at various dates based on the respective underlying loans held for investment.

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

Year	Principal Payments on Secured Financing Facilities
2023	\$ 66,482
2024	235,076
2025	173,308
2026 and thereafter	—
	<u>\$ 474,866</u>

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.

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

	September 30, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Loans held for investment	\$ 667,848	\$ 673,667	\$ 669,929	\$ 679,911
Financial liabilities				
Secured Financing Facilities	\$ 473,337	\$ 473,836	\$ 471,521	\$ 471,362

There were no transfers of financial assets or liabilities within the fair value hierarchy during the nine months ended September 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 then 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.

On September 13, 2023, we awarded an aggregate of 80,000 of our common shares to our officers and certain other employees of Tremont Realty Capital LLC, or Tremont, and of The RMR Group LLC, or RMR, valued at the closing price of our common shares on Nasdaq that day. The aggregate value of common shares awarded was \$876.

Common Share Purchases

During the nine months ended September 30, 2023, we purchased 13,257 of our common shares from certain of our current and former officers and current and former officers and employees of Tremont and 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 \$138.

Distributions

For the nine months ended September 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
July 24, 2023	August 17, 2023	0.35	5,160
		<u>\$ 1.05</u>	<u>\$ 15,455</u>

On October 12, 2023, we declared a quarterly distribution of \$0.35 per common share, or \$5,185, to shareholders of record on October 23, 2023. We expect to pay this distribution on or about November 16, 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, 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.

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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.

See Note 7 for information relating to the awards of our common shares we made in September 2023 to our officers and certain other employees of Tremont and/or RMR and common shares we purchased from certain of our current and former officers and current and former officers and employees of Tremont and/or RMR in satisfaction of tax withholding and payment obligations in connection with the vesting of awards of our common shares. We include amounts recognized as expense for awards of our common shares to our officers and employees of Tremont and/or RMR in general and administrative expenses in our condensed consolidated statements of operations.

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.

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 September 30, 2023, Tremont owned 1,708,058 of our common shares, and Mr. Portnoy beneficially owned (including through Tremont and ABP Trust) 13.4% 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.

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Property Management Agreement with RMR. We entered into a property management agreement with RMR in July 2023 with respect to the real estate owned in Yardley, PA. Pursuant to this agreement, RMR provides property management services and we pay management fees equal to 3.0% of gross collected rents. Also under the terms of this property management agreement, we 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 recognized property management and construction supervision fees of \$8 for the three and nine months ended September 30, 2023, related to real estate owned.

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Numerators:				
Net income	\$ 7,473	\$ 5,176	\$ 19,920	\$ 20,880
Net income attributable to unvested share awards	(56)	(33)	(161)	(133)
Net income used in calculating net income per common share - basic and diluted	<u>\$ 7,417</u>	<u>\$ 5,143</u>	<u>\$ 19,759</u>	<u>\$ 20,747</u>
Denominators:				
Weighted average common shares outstanding - basic and diluted	<u>14,640</u>	<u>14,551</u>	<u>14,609</u>	<u>14,526</u>
Net income per common share - basic and diluted	<u>\$ 0.51</u>	<u>\$ 0.35</u>	<u>\$ 1.35</u>	<u>\$ 1.43</u>

Note 12. Commitments and Contingencies

As of September 30, 2023, we had unfunded loan commitments of \$45,182 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 1.1 years as of September 30, 2023. See Note 3 for further information related to our loans held for investment.

As of September 30, 2023, we had estimated unspent lease related costs of \$474.

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 and elected to maintain a federal funds target rate in the range of 5.25% to 5.50% at its September 2023 meeting, it maintained the stance that further rate increases may be necessary. Ongoing inflationary pressures and higher interest rates 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 continue to negatively impact CRE acquisition and financing transaction activity.

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 have not affected all lenders equally. Life insurance companies, which remained relatively active throughout the most recent interest rate hike cycle, are finding it more difficult to underwrite loans given the significant increase in the benchmark 10-year U.S. Treasury yield, resulting in further reductions in leverage ratios coupled with already increased credit spreads. Although concerns about the capital adequacy and liquidity of the banking sector caused by the failures of certain banks in March 2023 have waned, the regional banks continue to carefully monitor loan portfolio performance and have generally not opted to increase their CRE exposure at this time. Banks that are actively lending are generally reserving their lending capital for existing, well capitalized bank clients. Floating rate lenders that utilize CRE collateralized loan obligations to finance their businesses continue to be negatively impacted by credit spreads in the secondary market. Fixed rate CMBS lenders have become even more challenged by the recent significant increase in the 10-year U.S. Treasury yield, which results in a higher cost of capital to the borrower necessitating lower advance rates. For those lenders that are actively originating new loans, multifamily and industrial properties continue to be the favored asset classes with lenders competing to lend on high quality transactions.

Despite 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 while the office sector continues to be an ongoing concern for many lenders and borrowers, certain favored property types, such as multifamily, industrial, grocery-anchored retail and hotels 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. CRE transaction activity should improve as market uncertainty and volatility subside and buyers and sellers adjust their pricing and return expectations, in light of a potentially prolonged elevated interest rate environment.

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 5.20%; therefore, changes to income from investments, net, may not move proportionately with the increase or decrease in benchmark rates. As of September 30, 2023, SOFR was 5.32%, 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. 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, 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, excluding incentive fees, 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) depreciation and amortization of real estate owned and related intangible assets, if any; (b) non-cash equity compensation expense; (c) 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 (d) 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:

	September 30, 2023	December 31, 2022
Shareholders' equity	\$ 270,281	\$ 271,579
Total outstanding common shares	14,816	14,709
Book value per common share	18.24	18.46
Unaccreted purchase discount per common share ⁽¹⁾	0.23	0.46
Allowance for credit losses per common share ⁽²⁾	0.36	—
Adjusted Book Value per common share	<u>\$ 18.83</u>	<u>\$ 18.92</u>

(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 September 30, 2023 and December 31, 2022, the unaccreted purchase discount was \$3,396 and \$6,703, respectively.

(2) Excludes the impact of our allowance for credit losses. As of September 30, 2023, our allowance for credit losses for our loan portfolio and unfunded loan commitments was \$5,328. 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 September 30, 2023 and December 31, 2022:

	As of September 30, 2023		As of December 31, 2022	
Number of loans		26		27
Total loan commitments	\$	720,397	\$	727,562
Unfunded loan commitments ⁽¹⁾	\$	45,182	\$	49,007
Principal balance	\$	675,215	\$	678,555
Carrying value	\$	667,848	\$	669,929
Weighted average coupon rate		9.21 %		8.07 %
Weighted average all in yield ⁽²⁾		9.66 %		8.57 %
Weighted average floor		1.09 %		0.62 %
Weighted average maximum maturity (years) ⁽³⁾		2.8		3.3
Weighted average risk rating		2.9		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 September 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	\$ 46,084	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	38,566	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	37,800	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	36,919	S + 4.00%	S + 4.32%	03/22/2027	70 %	4
8	Farmington Hills, MI	Multifamily	05/24/2022	31,520	29,063	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	25,015	S + 3.30%	S + 4.03%	06/10/2027	60 %	3
11	Fountain Inn, SC	Industrial	07/13/2023	27,500	24,300	S + 4.25%	S + 4.78%	07/13/2026	76 %	3
12	Plano, TX	Office	07/01/2021	27,385	26,463	S + 4.75%	S + 5.16%	07/01/2026	78 %	3
13	Carlsbad, CA	Office	10/27/2021	24,750	24,417	S + 3.25%	S + 3.58%	10/27/2026	78 %	4
14	Fontana, CA	Industrial	11/18/2022	24,355	22,000	S + 3.75%	S + 4.28%	11/18/2026	72 %	3
15	St. Louis, MO	Office	12/19/2018	23,866	23,866	S + 3.25%	S + 3.74%	12/19/2023	72 %	2
16	Downers Grove, IL	Office	12/09/2021	23,530	23,530	S + 4.25%	S + 4.57%	12/09/2026	72 %	3
17	Bellevue, WA	Office	11/05/2021	21,000	20,000	S + 3.85%	S + 4.19%	11/05/2026	68 %	3
18	Dublin, OH	Office	02/18/2020	20,507	20,507	S + 5.25%	S + 4.77%	08/16/2024	33 %	2
19	Portland, OR	Multifamily	07/09/2021	19,688	19,688	S + 3.57%	S + 3.97%	07/09/2026	75 %	3
20	Ames, IA	Multifamily	11/15/2021	18,000	17,926	S + 3.80%	S + 4.13%	11/15/2026	71 %	2
21	Scottsdale, AZ	Hotel	09/27/2023	17,250	17,250	S + 4.25%	S + 4.56%	09/27/2028	57 %	3
22	Sandy Springs, GA	Retail	09/23/2021	16,488	15,285	S + 3.75%	S + 4.10%	09/23/2026	72 %	3
23	Delray Beach, FL	Retail	03/18/2022	16,000	15,603	S + 4.25%	S + 4.90%	03/18/2026	56 %	3
24	Westminster, CO	Office	05/25/2021	15,750	15,750	S + 3.75%	S + 4.24%	05/25/2026	66 %	2
25	Portland, OR	Multifamily	07/30/2021	13,400	13,400	S + 3.57%	S + 3.98%	07/30/2026	71 %	3
26	Allentown, PA	Industrial	01/24/2020	9,133	9,133	S + 3.50%	S + 4.03%	01/24/2025	67 %	3
Total/weighted average				\$ 720,397	\$ 675,215	S + 3.82%	S + 4.26%		67 %	2.9

(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 September 30, 2023, we had \$720,397 in aggregate loan commitments, consisting of a diverse portfolio, geographically and by property type, of 26 first mortgage loans. As of September 30, 2023, we had three loans representing approximately 15% 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.

In October 2023, we originated a \$25,250 loan secured by two self-storage properties in Georgia and received repayment proceeds totaling \$62,299, including repayments on two loans secured by office properties in St. Louis, MO and Dublin, OH totaling \$44,373 and one loan secured by a student housing property in Ames, IA for \$17,926.

As of September 30, 2023 and October 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 September 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 September 30, 2023:

Facility	Maturity Date	Principal Balance	Unused Capacity	Maximum Facility Size	Collateral Principal Balance
Citibank Master Repurchase Facility	03/15/2025	\$ 136,730	\$ 78,270	\$ 215,000	\$ 199,509
UBS Master Repurchase Facility	02/18/2025	141,558	63,442	205,000	195,467
BMO Facility	Various	101,027	48,973	150,000	135,978
Wells Fargo Master Repurchase Facility	03/11/2025	95,551	29,449	125,000	127,011
Total		<u>\$ 474,866</u>	<u>\$ 220,134</u>	<u>\$ 695,000</u>	<u>\$ 657,965</u>

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

	Carrying Value
Balance at June 30, 2023	\$ 452,690
Borrowings	35,081
Repayments	(14,680)
Deferred fees	(113)
Amortization of deferred fees	359
Balance at September 30, 2023	<u>\$ 473,337</u>

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

	Carrying Value
Balance at December 31, 2022	\$ 471,521
Borrowings	63,206
Repayments	(61,955)
Deferred fees	(437)
Amortization of deferred fees	1,002
Balance at September 30, 2023	<u>\$ 473,337</u>

As of September 30, 2023, outstanding advancements under our Secured Financing Facilities had a weighted average interest rate of 7.41% per annum, excluding associated fees and expenses. As of September 30, 2023 and October 27, 2023, we had a \$474,866 and \$446,461, respectively, aggregate outstanding principal balance under our Secured Financing Facilities.

As of September 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. In August 2023, we amended the related fee letter to increase the maximum amount of available advancements under the UBS Master Repurchase Facility to \$205,000.

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 September 30, 2023 Compared to Three Months Ended June 30, 2023:

	Three Months Ended			
	September 30, 2023	June 30, 2023	Change	% Change
INCOME FROM INVESTMENTS:				
Interest and related income	\$ 17,137	\$ 15,821	\$ 1,316	8.3 %
Purchase discount accretion	1,075	1,047	28	2.7 %
Less: interest and related expenses	(8,979)	(7,927)	(1,052)	13.3 %
Income from loan investments, net	9,233	8,941	292	3.3 %
Revenue from real estate owned	565	149	416	279.2 %
Total revenue	9,798	9,090	708	7.8 %
OTHER EXPENSES:				
Base management fees	1,077	1,074	3	0.3 %
Incentive fees	469	192	277	144.3 %
General and administrative expenses	941	1,281	(340)	(26.5 %)
Reimbursement of shared services expenses	642	628	14	2.2 %
Provision for (reversal of) credit losses	(1,338)	1,026	(2,364)	(230.4 %)
Expenses from real estate owned	516	218	298	136.7 %
Total other expenses	2,307	4,419	(2,112)	(47.8 %)
Income before income taxes	7,491	4,671	2,820	60.4 %
Income tax expense	(18)	(27)	9	(33.3 %)
Net income	\$ 7,473	\$ 4,644	\$ 2,829	60.9 %
Weighted average common shares outstanding - basic and diluted	14,640	14,605	35	0.2 %
Net income per common share - basic and diluted	\$ 0.51	\$ 0.32	\$ 0.19	59.4 %

Interest and related income. The increase in interest and related income was primarily the result of higher benchmark interest rates and two new loan originations during the three months ended September 30, 2023. The weighted average benchmark interest rate was 5.39% as of September 30, 2023 as compared to 5.21% as of June 30, 2023.

Interest and related expenses. The increase in interest and related expenses was primarily the result of higher benchmark interest rates and an increase in advances made to us under our Secured Financing Facilities. The weighted average benchmark interest rate was 5.33% as of September 30, 2023 as compared to 5.15% as of June 30, 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. We recognize management incentive fees payable to Tremont in accordance with our management agreement. The increase in management incentive fees was due to higher "core earnings," as defined in our management agreement, as of September 30, 2023 as compared to June 30, 2023.

General and administrative expenses. The decrease in general and administrative expenses was primarily due to a decrease in share based compensation resulting from shares awarded to our Trustees during the three months ended June 30, 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.

Provision for (reversal of) credit losses. The reversal of credit losses represents the decrease in the allowance for credit losses on our loan portfolio and unfunded commitments. The decrease in the allowance for credit losses during the three months ended September 30, 2023 was primarily attributable to a reversal of credit losses of \$740 for estimated costs to sell related to the reclassification of the property located in Yardley, PA from held for sale to held for investment, favorable changes in the current macroeconomic outlook, most notably in CRE pricing forecasts, and loan repayments.

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 increase in net income was due to the changes noted above.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022:

	Nine Months Ended September 30,			
	2023	2022	Change	% Change
INCOME FROM INVESTMENTS:				
Interest and related income	\$ 48,814	\$ 30,098	\$ 18,716	62.2 %
Purchase discount accretion	3,307	9,167	(5,860)	(63.9 %)
Less: interest and related expenses	(24,600)	(10,191)	(14,409)	141.4 %
Income from loan investments, net	27,521	29,074	(1,553)	(5.3 %)
Revenue from real estate owned	714	—	714	n/m
Total revenue	28,235	29,074	(839)	(2.9 %)
OTHER EXPENSES:				
Base management fees	3,223	3,190	33	1.0 %
Incentive fees	661	—	661	n/m
General and administrative expenses	3,018	3,118	(100)	(3.2 %)
Reimbursement of shared services expenses	1,913	1,742	171	9.8 %
Reversal of credit losses	(1,299)	—	(1,299)	n/m
Expenses from real estate owned	734	—	734	n/m
Other transaction related costs	—	37	(37)	(100.0 %)
Total other expenses	8,250	8,087	163	2.0 %
Income before income taxes	19,985	20,987	(1,002)	(4.8 %)
Income tax expense	(65)	(107)	42	(39.3 %)
Net income	\$ 19,920	\$ 20,880	\$ (960)	(4.6 %)
Weighted average common shares outstanding - basic and diluted	14,609	14,526	83	0.6 %
Net income per common share - basic and diluted	\$ 1.35	\$ 1.43	\$ (0.08)	(5.6 %)

n/m - not meaningful

Interest and related income. The increase in interest and related income was primarily the result of higher benchmark interest rates. The weighted average benchmark interest rate was 5.39% as of September 30, 2023 as compared to 2.76% as of September 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 nine month period ended September 30, 2023 as compared to the nine month period ended September 30, 2022.

Interest and related expenses. The increase in interest and related expenses was primarily the result of higher benchmark interest rates during the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022. The weighted average benchmark interest rate was 5.33% as of September 30, 2023 as compared to 2.96% as of September 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 nine months ended September 30, 2023 due to higher "core earnings," as defined in our management agreement. We did not incur management incentive fees for the nine months ended September 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 nine months ended September 30, 2023 as compared to the nine months ended September 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.

Reversal of credit losses. The reversal of credit losses represents the decrease in the allowance for credit losses on our loan portfolio and unfunded commitments. The decrease in the allowance for credit losses during the nine months ended September 30, 2023 was primarily attributable to favorable changes in the current macroeconomic outlook, most notably in CRE pricing forecasts, 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 and loan repayments.

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 nine months ended September 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		Nine Months Ended	
	September 30, 2023	June 30, 2023	September 30, 2023	September 30, 2022
Net income	\$ 7,473	\$ 4,644	\$ 19,920	\$ 20,880
Non-cash equity compensation expense	271	579	970	889
Non-cash accretion of purchase discount	(1,075)	(1,047)	(3,307)	(9,167)
Provision for (reversal of) credit losses	(1,338)	1,026	(1,299)	—
Depreciation and amortization of real estate owned	305	—	305	—
Exit fees collected on loans acquired in Merger ⁽¹⁾	—	—	—	104
Distributable Earnings	\$ 5,636	\$ 5,202	\$ 16,589	\$ 12,706
Other transaction related costs ⁽²⁾	—	—	—	37
Revenue from real estate owned	(565)	(149)	(714)	—
Expenses from real estate owned, net of depreciation and amortization	211	218	429	—
Adjusted Distributable Earnings	\$ 5,282	\$ 5,271	\$ 16,304	\$ 12,743
Weighted average common shares outstanding - basic and diluted	14,640	14,605	14,609	14,526
Net income per common share - basic and diluted	\$ 0.51	\$ 0.32	\$ 1.35	\$ 1.43
Distributable Earnings per common share - basic and diluted	\$ 0.38	\$ 0.36	\$ 1.14	\$ 0.87
Adjusted Distributable Earnings per common share - basic and diluted	\$ 0.36	\$ 0.36	\$ 1.12	\$ 0.88

(1) Exit fees collected on loans acquired in the Merger represent fees collected upon repayment of loans for which no income has previously been recognized in Distributable Earnings. In accordance with GAAP, exit fees on loans acquired in the Merger were accreted as a component of the purchase discount and were excluded from Distributable Earnings as a non-cash item. Accordingly, these exit fees have been recognized in Distributable Earnings upon collection.

(2) Other transaction related costs for the nine months ended September 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, 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, and proceeds from any sale of real estate owned. 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:

	Nine Months Ended September 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	14,944	9,963
Investing activities	(10,702)	(111,870)
Financing activities	(14,779)	152,049
Cash, cash equivalents and restricted cash at end of period	\$ 60,530	\$ 76,437

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 decreased loan originations. The decrease in cash used in investing activities is primarily due to 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 nine months ended September 30, 2023, we declared and paid regular quarterly distributions to our common shareholders totaling \$15,455, or \$1.05 per common share, using cash on hand.

On October 12, 2023, we declared a regular quarterly distribution of \$0.35 per common share, or \$5,185, to shareholders of record on October 23, 2023. We expect to pay this distribution to our common shareholders on or about November 16, 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 September 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⁾	\$ 45,182	\$ 22,763	\$ 22,419	\$ —	\$ —
Principal payments on Secured Financing Facilities ⁽²⁾	474,866	222,674	252,192	—	—
Interest payments ⁽³⁾	37,074	28,749	8,325	—	—
Lease related costs ⁽⁴⁾	474	474	—	—	—
	<u>\$ 557,596</u>	<u>\$ 274,660</u>	<u>\$ 282,936</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 September 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 September 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 September 30, 2023, we had a \$373,839 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 September 30, 2023, we had a \$101,027 aggregate outstanding principal balance under the BMO Facility.

As of September 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 the 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 September 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”, “would”, “should”, “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; the diversity of our loan investment portfolio; our future lending activity and opportunities; 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 and our ability to match our loan investments with our repurchase lending arrangements;
- 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 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 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 September 30, 2023.

Calendar Month	Number of Shares Purchased ⁽¹⁾	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
July 2023	659	\$ 10.39	—	\$ —
September 2023	8,519	11.12	—	—
Total/weighted average	9,178	\$ 11.07	—	\$ —

- (1) These common share withholdings and purchases were made to satisfy the tax withholding and payment obligations of certain of our current and former officers and current and former officers and employees of Tremont and 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	Amended and Restated Bylaws of the Company, as of September 14, 2023. (Incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K filed by the Company on September 15, 2023.)
4.1	Form of Common Share Certificate. (Incorporated by reference to Exhibit 4.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023.)
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. (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023.)
10.2	Form of Share Award Agreement. (Filed herewith.)
10.3	Form of Indemnification Agreement. (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: October 31, 2023

By: /s/ Fernando Diaz
Fernando Diaz
Chief Financial Officer and Treasurer
(principal financial and accounting officer)
Dated: October 31, 2023

FORM OF
SEVEN HILLS REALTY TRUST

Share Award Agreement

This Share Award Agreement (this “Agreement”) is made as of «DATE», 2023, between «NAME» (the “Recipient”) and Seven Hills Realty Trust (the “Company”).

In consideration of the mutual promises and covenants contained in this Agreement, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Award of Shares. Subject to the terms and conditions hereinafter set forth and the terms and conditions of the Amended and Restated Seven Hills Realty Trust 2021 Equity Compensation Plan, as it may be amended from time to time (the “Plan”), the Company hereby awards to the Recipient, effective as of the date of this Agreement, «NUMBER» of its common shares of beneficial interest, par value \$0.001 per share (the “Common Shares”). The shares so awarded are hereinafter referred to as the “Shares,” which term shall also include any shares of the Company issued to the Recipient by virtue of his or her ownership of the Shares, by share dividend, share split or combination, recapitalization or otherwise. Capitalized terms that are used but not defined herein shall have the meaning set forth in the Plan.

2. Vesting; Forfeiture of Shares.

(a) Subject to Sections 2(b) and 2(c) hereof, the Shares shall vest one-fifth of the total number of Shares as of the date hereof and as to a further one-fifth of such total number of Shares on each anniversary of the date hereof for the next four calendar years. Any Shares not vested as of any date are herein referred to as “Unvested Shares.”

(b) Subject to Section 2(c) hereof, at the option of the Company, in the event the Recipient ceases to render significant services, whether as an employee or otherwise, to (i) the Company, (ii) the entity which is the manager or shared services provider to the Company or an entity controlled by, under common control with or controlling such entity (collectively, the “Manager”), or (iii) an affiliate of the Company (which shall be deemed for such purpose to include any other entity to which the Manager is the manager or shared services provider), all or any portion of the Unvested Shares shall be forfeited by the Recipient on or after the date the Recipient ceases to render all such services, as determined by the Company. The Company may exercise such option by delivering or mailing to the Recipient (or his or her estate), at any time after the Recipient has ceased to render such services, a written notice of exercise of such option. Such notice shall specify the number of Unvested Shares to be forfeited.

(c) Notwithstanding anything in this Agreement to the contrary, immediately upon the occurrence of a Change in Control, Termination Event or the death of a Recipient, all of the Unvested Shares shall vest and any forfeiture or other rights of the Company described in Section 2(b) shall lapse in their entirety. By executing this Agreement, the Recipient hereby agrees and acknowledges that the provisions of the Plan related to the occurrence of a Change in Control shall apply to each award of Common Shares of the Company previously awarded to the Recipient which remains subject to comparable vesting restrictions (“Prior Awards”) and shall supersede the corresponding provisions of such Prior Awards.

3. Legends. Vested and Unvested Shares awarded under this Agreement may bear or contain, as applicable, such legends and notations as may be required by the Plan or the Company's declaration of trust, any applicable supplement thereto or bylaws, each as in effect from time to time, or as the Company may otherwise determine appropriate.

Promptly following the request of the Recipient with respect to any Shares (or any other Common Shares previously awarded to the Recipient), the Company shall take, at its sole cost and expense, all such actions as may be required to permit the Recipient to sell such shares including, as applicable and without limitation, providing to the Company's transfer agent certificates of officers of the Company, and opinions of counsel and/or filing an appropriate registration statement, and taking all such other actions as may be required to remove the legends set forth above with respect to transfer and vesting restrictions from the certificates evidencing such shares and, if applicable, from the share books and records of the Company. The Company shall reimburse the Recipient, promptly upon the receipt of a request for payment, for all expenses (including legal expenses) reasonably incurred by the Recipient in connection with the enforcement of the Recipient's rights under this paragraph.

4. Tax Withholding. To the extent required by law, the Company or the Manager shall withhold or cause to be withheld income and other taxes incurred by the Recipient by reason of an award of Common Shares, and the Recipient agrees that he or she shall, upon the request of the Company or the Manager, pay to the Company or to the Manager an amount sufficient to satisfy his or her tax withholding obligations from time to time (including as Shares become vested).

5. Miscellaneous.

(a) Amendments. Neither this Agreement nor any provision hereof may be changed or modified except by an agreement in writing executed by the Recipient and the Company; provided, however, that any change or modification that does not adversely affect the rights hereunder of the Recipient, as they may exist immediately prior to the effective date of such change or modification, may be adopted by the Company without an agreement in writing executed by the Recipient, and the Company shall give the Recipient written notice of such change or modification reasonably promptly following the adoption of such change or modification.

(b) Binding Effect of the Agreement. This Agreement shall inure to the benefit of, and be binding upon, the Company, the Recipient and their respective estates, heirs, executors, transferees, successors, assigns and legal representatives.

(c) Provisions Separable. In the event that any of the terms of this Agreement shall be or become or is declared to be illegal or unenforceable by any court or other authority of competent jurisdiction, such terms shall be null and void and shall be deemed deleted from this Agreement, and all the remaining terms of this Agreement shall remain in full force and effect.

(d) Notices. Any notice in connection with this Agreement shall be deemed to have been properly delivered if it is in writing and is delivered by hand or by facsimile or sent by registered certified mail, postage prepaid, to the party addressed as follows, unless another address has been substituted by notice so given:

To the Recipient: To the Recipient's address as set forth on the signature page hereof.

To the Company: Seven Hills Realty Trust

Two Newton Place
255 Washington Street, Suite 300
Newton, MA 02458

Attn: Secretary

(e) Construction. The headings and subheadings of this Agreement have been inserted for convenience only, and shall not affect the construction of the provisions hereof. All references to sections of this Agreement shall be deemed to refer as well to all subsections which form a part of such section.

(f) Employment Agreement. This Agreement shall not be construed as an agreement by the Company, the Manager or any affiliate of the Company or the Manager to employ the Recipient, nor is the Company, the Manager or any affiliate of the Company or the Manager obligated to continue employing the Recipient by reason of this Agreement or the award of the Shares to the Recipient hereunder.

(g) Applicable Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Maryland, without giving effect to the principles of conflicts of law of such state.

(h) Binding Arbitration. Any disputes regarding this Agreement, any award or vesting of Common Shares and/or any related matters shall be settled by binding arbitration in accordance with any Mutual Agreement to Resolve Disputes and Arbitrate Claims between the Recipient and the Manager. In the absence of such an agreement, any such claims or disputes shall be resolved through binding arbitration before one arbitrator conducted under the rules of JAMS in Boston, Massachusetts.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, or caused this Agreement to be executed under seal, as of the date first above written.

SEVEN HILLS REALTY TRUST

By: _____
Name:
Title:

RECIPIENT

«NAME»
«ADDRESS»
«CITY», «ST» «ZIP»

SEVEN HILLS REALTY TRUST

FORM OF [AMENDED AND RESTATED]¹ INDEMNIFICATION AGREEMENT

THIS [AMENDED AND RESTATED] INDEMNIFICATION AGREEMENT (this “*Agreement*”), effective as of [DATE] (the “*Effective Date*”), by and between Seven Hills Realty Trust, a Maryland real estate investment trust (the “*Company*”), and [TRUSTEE/OFFICER] (“*Indemnatee*”).

WHEREAS, Indemnatee currently serves as a trustee and/or officer of the Company and may, in connection therewith, be subjected to claims, suits or proceedings arising from such service; and

WHEREAS, as an inducement to Indemnatee to continue to serve as such, the Company has agreed to indemnify and to advance expenses and costs incurred by Indemnatee in connection with any such claims, suits or proceedings, to the maximum extent permitted by law as hereinafter provided; and

WHEREAS, the parties [are currently parties to an Indemnification Agreement dated as of [DATE] (the “Prior Indemnification Agreement”) and] desire to [amend and restate the Prior Indemnification Agreement and] set forth their agreement regarding indemnification and advancement of expenses [as reflected herein];

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnatee do hereby covenant and agree as follows:

Section 1. Definitions. For purposes of this Agreement:

- (a) “*Board*” means the board of trustees of the Company.
- (b) “*Bylaws*” means the bylaws of the Company, as they may be amended from time to time.

(c) “*Change in Control*” means a change in control of the Company occurring after the Effective Date of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended (the “*Act*”), whether or not the Company is then subject to such reporting requirement; *provided, however*, that, without limitation, such a Change in Control shall be deemed to have occurred if after the Effective Date:

(i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 10% or more of the combined voting power of all the Company’s then outstanding securities entitled to vote generally in the election of trustees without the prior approval of at least two-thirds of the members of the Board in office immediately prior to such person attaining such percentage interest;

(ii) there occurs a proxy contest, or the Company is a party to a merger, consolidation, sale of assets, plan of liquidation or other

¹ Bracketed text to be included for trustees and officers with existing agreements. Bracketed text would not be included for persons who are first elected as a trustee or appointed as an officer after this form is adopted.

reorganization not approved by at least two-thirds of the members of the Board then in office, as a consequence of which members of the Board in office immediately prior to such transaction or event constitute less than a majority of the Board thereafter; or

(iii) during any period of two consecutive years, other than as a result of an event described in clause (c)(ii) of this Section 1, individuals who at the beginning of such period constituted the Board (including for this purpose any new trustee whose election or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the trustees then still in office who were trustees at the beginning of such period) cease for any reason to constitute at least a majority of the Board.

(d) **"Company Status"** means the status of a Person who is or was a trustee, director, manager, officer, partner, employee, agent or fiduciary of the Company or any predecessor of the Company or any of their majority owned subsidiaries and the status of a Person who, while a trustee, director, manager, officer, partner, employee, agent or fiduciary of the Company or any predecessor of the Company or any of their majority owned subsidiaries, is or was serving at the request of the Company or any predecessor of the Company or any of their majority owned subsidiaries as a trustee, director, manager, officer, partner, employee, agent or fiduciary of another real estate investment trust, corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or any other Enterprise.

(e) **"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.

(f) **"Declaration of Trust"** means the declaration of trust (as defined in the Maryland REIT Law) of the Company, as it may be in effect from time to time.

(g) **"Disinterested Trustee"** means a trustee of the Company who is not and was not a party to the Proceeding in respect of which indemnification or advance of Expenses is sought by Indemnitee.

(h) **"Enterprise"** shall mean the Company and any other real estate investment trust, corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that Indemnitee is or was serving at the express written request of the Company as a trustee, director, manager, officer, partner, employee, agent or fiduciary.

(i) **"Expenses"** means all expenses, including, but not limited to, all attorneys' fees and costs, retainers, court or arbitration costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, participating, or being or preparing to be a witness in a Proceeding, or responding to, or objecting to, a request to provide discovery in any Proceeding. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond or other appeal bond or its equivalent.

(j) **"Independent Counsel"** means a law firm, or a member of a law firm, selected by the Company and acceptable to Indemnitee, that is experienced in matters of business law. If, within twenty (20) days after submission by Indemnitee of a written demand for

indemnification pursuant to Section 7(a) hereof, no Independent Counsel shall have been selected and agreed to by Indemnitee, either the Company or Indemnitee may petition a Chosen Court (as defined in Section 18) for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person so appointed shall act as Independent Counsel hereunder.

(k) “**MGCL**” means the Maryland General Corporation Law.

(l) “**Maryland REIT Law**” means Title 8 of the Corporations and Associations Article of the Annotated Code of Maryland.

(m) “**Person**” means an individual, a corporation, a general or limited partnership, an association, a limited liability company, a governmental entity, a trust, a joint venture, a joint stock company or another entity or organization.

(n) “**Proceeding**” means any threatened, pending or completed claim, demand, action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other proceeding, whether civil, criminal, administrative or investigative (including on appeal), whether or not by or in the right of the Company, except one initiated by an Indemnitee pursuant to Section 9.

Section 2. Indemnification - General. The Company shall indemnify, and advance Expenses to, Indemnitee (a) as provided in this Agreement and (b) otherwise to the maximum extent permitted by Maryland law in effect on the Effective Date and as amended from time to time; provided, however, that no change in Maryland law shall have the effect of reducing the benefits available to Indemnitee hereunder based on Maryland law as in effect on the Effective Date. The rights of Indemnitee provided in this Section 2 shall include, without limitation, the rights set forth in the other sections of this Agreement, including any additional indemnification permitted by Section 2-418(g) of the MGCL, as applicable to a Maryland real estate investment trust by virtue of Section 8-301(15) of the Maryland REIT Law, the Declaration of Trust or the Bylaws.

Section 3. Proceedings Other Than Derivative Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 3 if, by reason of Indemnitee’s Company Status, Indemnitee is, or is threatened to be, made a party to any Proceeding, other than a derivative Proceeding by or in the right of the Company (or, if applicable, such other Enterprise at which Indemnitee is or was serving at the request of the Company or a predecessor of the Company or any of their majority owned subsidiaries). Pursuant to this Section 3, Indemnitee shall be indemnified against all judgments, penalties, fines and amounts paid in settlement and all Expenses incurred by Indemnitee or on Indemnitee’s behalf in connection with a Proceeding by reason of Indemnitee’s Company Status unless it is finally determined that such indemnification is not permitted by the MGCL, the Declaration of Trust or the Bylaws.

Section 4. Derivative Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 4 if, by reason of Indemnitee’s Company Status, Indemnitee is, or is threatened to be, made a party to any derivative Proceeding brought by or in the right of the Company (or, if applicable, such other Enterprise at which Indemnitee is or was serving at the request of the Company or a predecessor of the Company or any of their majority owned subsidiaries). Pursuant to this Section 4, Indemnitee shall be indemnified against all judgments, penalties, fines and amounts paid in settlement and all Expenses incurred by Indemnitee or on Indemnitee’s behalf in connection with such Proceeding unless it is finally determined that such indemnification is not permitted by the MGCL, the Declaration of Trust or the Bylaws.

Section 5. Indemnification for Expenses of a Party Who is Partly Successful. Without limitation on Section 3 or Section 4, if Indemnatee is not wholly successful in any Proceeding covered by this Agreement, but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnatee under this Section 5 for all Expenses incurred by Indemnatee or on Indemnatee's behalf in connection with each successfully resolved claim, issue or matter, allocated on a reasonable and proportionate basis. For purposes of this Section 5 and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 6. Advancement of Expenses. The Company, without requiring a preliminary determination of Indemnatee's ultimate entitlement to indemnification hereunder, shall advance all Expenses incurred by or on behalf of Indemnatee in connection with any Proceeding in which Indemnatee may be involved, or is threatened to be involved, including as a party, a witness or otherwise, by reason of Indemnatee's Company Status, within ten (10) days after the receipt by the Company of a statement or statements from Indemnatee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnatee and shall be preceded or accompanied by (a) a written affirmation by Indemnatee of Indemnatee's good faith belief that the standard of conduct necessary for indemnification by the Company as authorized by the MGCL, the Declaration of Trust and the Bylaws has been met and (b) a written undertaking by or on behalf of Indemnatee, in substantially the form of Exhibit A hereto or in such other form as may be required under applicable law as in effect at the time of the execution thereof, to reimburse the portion of any Expenses advanced to Indemnatee relating to any claims, issues or matters in the Proceeding as to which it shall be finally determined that the standard of conduct has not been met and which have not been successfully resolved as described in Section 5. For the avoidance of doubt, the Company shall advance Expenses incurred by Indemnatee or on Indemnatee's behalf in connection with such a Proceeding pursuant to this Section 6 until it is finally determined that Indemnatee is not entitled to indemnification under the MGCL, the Declaration of Trust or the Bylaws in respect of such Proceeding. To the extent that Expenses advanced to Indemnatee do not relate to a specific claim, issue or matter in the Proceeding, such Expenses shall be allocated on a reasonable and proportionate basis. The undertaking required by this Section 6 shall be an unlimited general obligation by or on behalf of Indemnatee and shall be accepted without reference to Indemnatee's financial ability to repay such advanced Expenses and without any requirement to post security therefor. At Indemnatee's request, advancement of any such Expense shall be made by the Company's direct payment of such Expense instead of reimbursement of Indemnatee's payment of such Expense.

Section 7. Procedure for Determination of Entitlement to Indemnification.

(a) To obtain indemnification under this Agreement, Indemnatee shall submit to the Company a written demand therefor. The Secretary of the Company shall, promptly upon receipt of such a demand for indemnification, provide copies of the demand to the Board.

(b) Upon written request by Indemnatee for indemnification pursuant to the first sentence of Section 7(a), a determination, if required by applicable law, with respect to Indemnatee's entitlement thereto shall promptly be made in the specific case: (i) if a Change in Control shall have occurred, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnatee; or (ii) if a Change in Control shall not have occurred or if, after a Change in Control, Indemnatee shall so request, (A) by the Board (or a duly authorized committee thereof) by a majority vote of a quorum consisting of Disinterested Trustees, or (B) if a quorum of the Board consisting of Disinterested Trustees is not obtainable or, even if obtainable, such quorum of Disinterested Trustees so directs, by Independent Counsel in a

written opinion to the Board, a copy of which shall be delivered to Indemnitee, or (C) if so directed by a majority of the members of the Board, by the shareholders of the Company; and, if it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Any Independent Counsel, member of the Board or shareholder of the Company shall act reasonably and in good faith in making a determination regarding Indemnitee's entitlement to indemnification under this Agreement.

(c) The Company shall pay the fees and expenses of Independent Counsel, if one is appointed, and shall agree to fully indemnify such Independent Counsel against any and all expenses, claims, liabilities and damages arising out of or relating to this Agreement or the Independent Counsel's engagement as such pursuant hereto.

Section 8. Presumptions and Effect of Certain Proceedings.

(a) In making a determination with respect to entitlement to indemnification hereunder, the Person or Persons making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

(b) It shall be presumed that Indemnitee has at all times acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence. Without limitation of the foregoing, Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Enterprise. In addition, the knowledge or actions, or failure to act, of any trustee, director, manager, officer, partner, employee, agent or fiduciary of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

(c) Neither the failure to make a determination pursuant to Section 7(b) as to whether indemnification is proper in the circumstances because Indemnitee has met any particular standard of conduct, nor an actual determination by the Company (including by the Board or Independent Counsel) pursuant to Section 7(b) that Indemnitee has not met such standard of conduct, shall be a defense to Indemnitee's claim that indemnification is proper in the circumstances or create a presumption that Indemnitee has not met any particular standard of conduct.

(d) The termination of any Proceeding by judgment, order, settlement, conviction, a plea of *nolo contendere* or its equivalent, or an entry of an order of probation prior to judgment, shall not in and of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not meet the standard of conduct required for indemnification. The Company acknowledges that a settlement or other disposition short of final judgment may be successful if it permits a party to avoid expense, delay, distraction, disruption and uncertainty. In the event that any Proceeding to which Indemnitee is a party is resolved in any manner other than by adverse judgment against Indemnitee (including, without limitation, settlement of such action, claim or proceeding with or without payment of money or other consideration), it shall be presumed that Indemnitee has been successful on the merits or otherwise in such Proceeding. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

Section 9. Remedies of Indemnitee.

(a) If (i) a determination is made pursuant to Section 7(b) that Indemnitee is not entitled to indemnification under this Agreement, (ii) advance of Expenses is not timely made pursuant to Section 6, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 7(b) within thirty (30) days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 5 within ten (10) days after receipt by the Company of a written request therefor, or (v) payment of indemnification is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification, Indemnitee shall (A) unless the Company demands arbitration as provided by Section 17, be entitled to an adjudication in a Chosen Court or (B) be entitled to seek an award in arbitration as provided by Section 17, in each case of Indemnitee's entitlement to such indemnification or advance of Expenses.

(b) In any judicial proceeding or arbitration commenced pursuant to this Section 9, the Company shall have the burden of proving that Indemnitee is not entitled to indemnification or advance of Expenses, as the case may be. In the event that a determination shall have been made pursuant to Section 7(b) that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 9 shall be conducted in all respects as a de novo trial on the merits, and Indemnitee shall not be prejudiced by reason of the adverse determination under Section 7(b).

(c) If a determination shall have been made pursuant to Section 7(b) that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 9, absent a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the demand for indemnification.

(d) In the event that Indemnitee, pursuant to this Section 9, seeks a judicial adjudication of or an award in arbitration as provided by Section 17 to enforce Indemnitee's rights under, or to recover damages for breach of, this Agreement by the Company, or to recover under any directors' and officers' liability insurance policies maintained by the Company, the Company shall indemnify Indemnitee against any and all Expenses incurred by Indemnitee in such judicial adjudication or arbitration and, if requested by Indemnitee, the Company shall (within ten (10) days after receipt by the Company of a written demand therefor) advance, to the extent not prohibited by law, the Declaration of Trust or the Bylaws, any and all such Expenses.

(e) The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 9 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such judicial proceeding or arbitration that the Company is bound by all the provisions of this Agreement.

(f) To the extent requested by Indemnitee and approved by the Board, the Company may at any time and from time to time provide security to Indemnitee for the Company's obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to Indemnitee, may not be revoked or released without the prior written consent of Indemnitee.

(g) Interest shall be paid by the Company to Indemnitee at the maximum rate allowed to be charged for judgments under the Courts and Judicial Proceedings Article of the Annotated Code of Maryland for amounts which the Company pays or is obligated

to pay for the period (i) commencing with either the tenth (10th) day after the date on which the Company was requested to advance Expenses in accordance with Section 6 of this Agreement or the thirtieth (30th) day after the date on which the Company was requested to make the determination of entitlement to indemnification under Section 7(b) of this Agreement, as applicable, and (ii) ending on the date such payment is made to Indemnatee by the Company.

Section 10. Defense of the Underlying Proceeding.

(a) Indemnatee shall notify the Company promptly upon being served with or receiving any summons, citation, subpoena, complaint, indictment, information, notice, request or other document relating to any Proceeding which may result in the right to indemnification or the advance of Expenses hereunder; *provided, however*, that the failure to give any such notice shall not disqualify Indemnatee from the right, or otherwise affect in any manner any right of Indemnatee, to indemnification or the advance of Expenses under this Agreement unless the Company's ability to defend in such Proceeding or to obtain proceeds under any insurance policy is materially and adversely prejudiced thereby, and then only to the extent the Company is thereby actually so prejudiced.

(b) Subject to the provisions of the last sentence of this Section 10(b) and of Section 10(c) below, the Company shall have the right to defend Indemnatee in any Proceeding which may give rise to indemnification hereunder; *provided, however*, that the Company shall notify Indemnatee of any such decision to defend within fifteen (15) days following receipt of notice of any such Proceeding under Section 10(a) above, and the counsel selected by the Company shall be reasonably satisfactory to Indemnatee. The Company shall not, without the prior written consent of Indemnatee, consent to the entry of any judgment against Indemnatee or enter into any settlement or compromise which (i) includes an admission of fault of Indemnatee, (ii) does not include, as an unconditional term thereof, the full release of Indemnatee from all liability in respect of such Proceeding, which release shall be in form and substance reasonably satisfactory to Indemnatee or (iii) has the actual or purported effect of extinguishing, limiting or impairing Indemnatee's rights hereunder. This Section 10(b) shall not apply to a Proceeding brought by Indemnatee under Section 9 above or Section 15.

(c) Notwithstanding the provisions of Section 10(b), if in a Proceeding to which Indemnatee is a party by reason of Indemnatee's Company Status, (i) Indemnatee reasonably concludes, based upon an opinion of counsel approved by the Company, which approval shall not be unreasonably withheld, that Indemnatee may have separate defenses or counterclaims to assert with respect to any issue which may not be consistent with other defendants in such Proceeding, (ii) Indemnatee reasonably concludes, based upon an opinion of counsel approved by the Company, which approval shall not be unreasonably withheld, that an actual or apparent conflict of interest or potential conflict of interest exists between Indemnatee and the Company, or (iii) the Company fails to assume the defense of such Proceeding in a timely manner, Indemnatee shall be entitled to be represented by separate legal counsel of Indemnatee's choice, subject to the prior approval of the Company, which shall not be unreasonably withheld, at the expense of the Company. In addition, if the Company fails to comply with any of its obligations under this Agreement or in the event that the Company or any other Person takes any action to declare this Agreement void or unenforceable, or institutes any Proceeding to deny or to recover from Indemnatee the benefits intended to be provided to Indemnatee hereunder, Indemnatee shall have the right to retain counsel of Indemnatee's choice, at the expense of the Company (subject to Section 9(d)), to represent Indemnatee in connection with any such matter.

Section 11. Liability Insurance.

(a) To the extent the Company maintains an insurance policy or policies providing liability insurance for any of its trustees or officers, Indemnatee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company trustee or officer during Indemnatee's tenure as a trustee or officer and, following a termination of Indemnatee's service in connection with a Change in Control, for a period of six (6) years thereafter.

(b) If, at the time of the receipt of a notice of a claim pursuant to the terms hereof, the Company has directors' and officers' liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnatee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(c) In the event of any payment by the Company under this Agreement the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnatee with respect to any insurance policy. Indemnatee shall take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights in accordance with the terms of such insurance policy. The Company shall pay or reimburse all expenses actually and reasonably incurred by Indemnatee in connection with such subrogation.

Section 12. Non-Exclusivity; Survival of Rights.

(a) The rights of indemnification and advance of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnatee may at any time be entitled under applicable law, the Declaration of Trust or the Bylaws, any agreement or a resolution of the shareholders entitled to vote generally in the election of trustees or of the Board, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnatee under this Agreement in respect of any action taken or omitted by Indemnatee in Indemnatee's Company Status prior to such amendment, alteration or repeal. To the extent that a change in the Maryland REIT Law or the MGCL permits greater indemnification to Indemnatee than would be afforded currently under the Maryland REIT Law or the MGCL, it is the intent of the parties hereto that Indemnatee shall enjoy by this Agreement the greater benefits so afforded by such change if permitted by the Maryland REIT Law or the MGCL. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable or payable or reimbursable as Expenses hereunder if and to the extent that Indemnatee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

Section 13. Binding Effect.

(a) The indemnification and advance of Expenses provided by, or granted pursuant to, this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnatee who has ceased to be a trustee, director, manager, officer, partner, employee, agent or fiduciary of the Company or a trustee, director,

manager, officer, partner, employee, agent or fiduciary of another Enterprise which such Person is or was serving at the request of the Company or a predecessor of the Company or any of their majority owned subsidiaries, and shall inure to the benefit of Indemnitee and Indemnitee's spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

(b) Any successor of the Company (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business or assets of the Company shall be automatically deemed to have assumed and agreed to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place, provided that no such assumption shall relieve the Company of its obligations hereunder. To the extent required by applicable law to give effect to the foregoing sentence and to the extent requested by Indemnitee, the Company shall require and cause any such successor to expressly assume and agree to perform this Agreement by written agreement in form and substance satisfactory to Indemnitee.

Section 14. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 15. Limitation and Exception to Right of Indemnification or Advance of Expenses. Notwithstanding any other provision of this Agreement, (a) any indemnification or advance of Expenses to which Indemnitee is otherwise entitled under the terms of this Agreement shall be made only to the extent such indemnification or advance of Expenses does not conflict with applicable Maryland law and (b) Indemnitee shall not be entitled to indemnification or advance of Expenses under this Agreement with respect to any Proceeding brought by Indemnitee, unless (i) the Proceeding is brought to enforce rights under this Agreement, the Declaration of Trust, the Bylaws, liability insurance policy or policies, if any, or otherwise or (ii) the Declaration of Trust, the Bylaws, a resolution of the shareholders entitled to vote generally in the election of trustees or of the Board or an agreement approved by the Board to which the Company is a party expressly provides otherwise. Notwithstanding any other provision of this Agreement, a court of appropriate jurisdiction, upon application of Indemnitee and such notice as the court shall require, may order indemnification of Indemnitee by the Company in the following circumstances: (a) if such court determines that Indemnitee is entitled to reimbursement under Section 2-418(d)(1) of the MGCL, the court shall order indemnification, in which case Indemnitee shall be entitled to recover the Expenses of securing such reimbursement; or (b) if such court determines that Indemnitee is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not Indemnitee (i) has met the standard of conduct set forth in Section 2-418(b) of the MGCL or (ii) has been adjudged liable for receipt of an improper personal benefit under Section 2-418(c) of the MGCL, the court may order such indemnification as the court shall deem proper without regard to any limitation on such court-ordered indemnification contemplated by Section 2-418(d)(2)(ii) of the MGCL.

Section 16. Specific Performance, Etc. The parties hereto recognize that if any provision of this Agreement is violated by the Company, Indemnitee may be without an adequate remedy at law. Accordingly, in the event of any such violation, Indemnitee shall be entitled, if Indemnitee so elects, to institute proceedings, either in law or at equity, to obtain damages, to

enforce specific performance, to enjoin such violation, or to obtain any relief or any combination of the foregoing as Indemnitee may elect to pursue.

Section 17. Arbitration.

(a) Any disputes, claims or controversies regarding Indemnitee's entitlement to indemnification or advancement of Expenses hereunder or otherwise arising out of or relating to this Agreement, including any disputes, claims or controversies brought by or on behalf of a party hereto or any holder of equity interests (which, for purposes of this Section 17, shall mean any holder of record or any beneficial owner of equity interests or any former holder of record or beneficial owner of equity interests) of a party, either on his, her or 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 equity interests of a party against a party or any of their respective trustees, directors, members, officers, managers, agents or employees, including any disputes, claims or controversies relating to the meaning, interpretation, effect, validity, performance or enforcement of this Agreement, including this Section 17 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 ("**AAA**") then in effect, except as those Rules may be modified in this Section 17. 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 individuals or entities and a party. For the avoidance of doubt, a Dispute shall include a Dispute made derivatively on behalf of one party against another party. For purposes of this Section 17, the term "equity interest" shall mean (i) in respect of the Company, shares of beneficial interest of the Company, (ii) shares of "membership interests" in an entity that is a limited liability company, (iii) general partnership interests in an entity that is a partnership, (iv) shares of capital stock of an entity that is a corporation and (v) similar equity ownership interests in other entities.

(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 the demand for arbitration. The arbitrators may be affiliated or interested persons of the 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 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 the demand for arbitration. The 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 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 AAA provides the list to select one (1) of the three (3) arbitrators proposed by 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 AAA to be the second (2nd) arbitrator; and, if he/they should fail to select the second (2nd) arbitrator by such time, 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 AAA shall provide a list of proposed arbitrators in accordance with the Rules, and the arbitrator shall be appointed by

AAA in accordance with a listing, striking and ranking procedure, with each party having a limited number of strikes, excluding strikes for cause.

(c) The place of arbitration shall be Boston, Massachusetts unless otherwise agreed by the parties.

(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 this arbitration agreement shall be governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq. An Award shall be in writing and shall 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 17(g), 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 the Award may provide.

(f) Except to the extent expressly provided by this Agreement or as otherwise agreed by the parties hereto, each party and each Person acting or seeking to act in a representative capacity (such Person, a “**Named Representative**”) 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 its attorneys, a Named Representative or any attorney of a Named Representative. 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, an Award, including but not limited to any interim Award, may be appealed pursuant to the AAA’s Optional Appellate Arbitration Rules (the “**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 17(f) shall apply to any appeal pursuant to this Section 17 and the appeal tribunal shall not render an Award that would include shifting of any costs or expenses (including attorneys’ fees) of any party or Named Representative or the payment of such costs and expenses, and all costs and expenses of a party or Named Representative shall be its sole responsibility.

(h) Following the expiration of the time for filing the notice of appeal, or the conclusion of the appeal process set forth in Section 17(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 this agreement to arbitrate 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 17 is intended to benefit and be enforceable by the parties hereto and their respective holders of equity interests, trustees, directors, officers, managers, agents or employees, and their respective successors and assigns, and shall be binding upon all such parties and their respective holders of equity interests, and be in addition to, and not in substitution for, any other rights to indemnification or contribution that such individuals or entities may have by contract or otherwise.

Section 18. Venue. Each party hereto agrees that it shall bring any Proceeding in respect of any claim arising out of or related to this Agreement exclusively in the courts of the State of Maryland and the Federal courts of the United States, in each case, located in the City of Baltimore (the “***Chosen Courts***”). Solely in connection with claims arising under this Agreement, each party irrevocably and unconditionally (i) submits to the exclusive jurisdiction of the Chosen Courts, (ii) agrees not to commence any such Proceeding except in such courts, (iii) waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any such Proceeding in the Chosen Courts, (iv) waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such Proceeding, (v) agrees that service of process upon such party in any such Proceeding shall be effective if notice is given in accordance with Section 24 and (vi) agrees to request and/or consent to the assignment of any dispute arising out of this Agreement or the transactions contemplated by this Agreement to the Chosen Courts’ Business and Technology Case Management Program, or similar program. Nothing in this Agreement will affect the right of any party hereto to serve process in any other manner permitted by law. A final judgment in any such Proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. 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 OR THE TRANSACTIONS. Notwithstanding anything herein to the contrary, if a demand for arbitration of a Dispute is made pursuant to Section 17, this Section 18 shall not preempt resolution of the Dispute pursuant to Section 17.

Section 19. Adverse Settlement. The Company shall not seek, nor shall it agree to or support, or agree not to contest any settlement or other resolution of any matter that has the actual or purported effect of extinguishing, limiting or impairing Indemnatee’s rights hereunder, including without limitation the entry of any bar order or other order, decree or stipulation, pursuant to 15 U.S.C. § 78u-4 (the Private Securities Litigation Reform Act), or any similar foreign, federal or state statute, regulation, rule or law.

Section 20. Period of Limitations. To the fullest extent permitted by law, no legal action shall be brought, and no cause of action shall be asserted, by or on behalf of the Company or any controlled affiliate of the Company against Indemnatee, Indemnatee’s spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company or its controlled affiliate shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; *provided, however*, if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

Section 21. Counterparts. This Agreement may be executed in any number of counterparts, all of which shall be considered one and the same agreement and shall become

effective when counterparts have been signed by each of the parties hereto and delivered to the other party (including via facsimile or other electronic transmission), it being understood that each party hereto need not sign the same counterpart.

Section 22. Delivery by Electronic Transmission. This Agreement and any signed agreement or instrument entered into in connection with this Agreement or contemplated hereby, and any amendments hereto or thereto, to the extent signed and delivered by means of an electronic transmission, including by a facsimile machine or via email, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such agreement or instrument, each other party hereto or thereto shall re-execute original forms thereof and deliver them to the other parties. No party hereto or to any such agreement or instrument shall raise the use of electronic transmission by a facsimile machine or via email to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through electronic transmission as a defense to the formation of a contract and each such party forever waives any such defense.

Section 23. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed to, or shall, constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 24. Notices. Any notice, report or other communication required or permitted to be given hereunder shall be in writing unless some other method of giving such notice, report or other communication is accepted by the party to whom it is given, and shall be given by being delivered at the following addresses to the parties hereto:

(a) If to Indemnitee, to: The address set forth on the signature page hereto.

(b) If to the Company to:

Seven Hills Realty Trust
Two Newton Place
255 Washington Street, Suite 300
Newton, Massachusetts 02458-1634
Attn: Secretary

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

Section 25. Governing Law. The provisions of this Agreement and any Dispute, 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 its conflicts of laws rules.

Section 26. Interpretation.

(a) *Generally.* Unless the context otherwise requires, as used in this Agreement: (a) words defined in the singular have the parallel meaning in the plural and vice versa; (b) "Articles," "Sections," and "Exhibits" refer to Articles, Sections and Exhibits of this Agreement unless otherwise specified; and (c) "hereto" and "hereunder" and words of like import used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

(b) *Additional Interpretive Provisions.* The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement. Any capitalized term used in any Exhibit to this Agreement, but not otherwise defined therein, shall have the meaning as defined in this Agreement. References to any statute shall be deemed to refer to such statute as amended from time to time and to any rules or regulations promulgated thereunder and any successor statute or statutory provision. References to any agreement are to that agreement as amended, modified or supplemented from time to time in accordance with the terms hereof and thereof. References to any Person include the successors and permitted assigns of that Person. Reference to any agreement, document or instrument means the agreement, document or instrument as amended or otherwise modified from time to time in accordance with the terms thereof, and if applicable hereof.

(c) *[Expansion of Indemnification.* This amendment and restatement of the Prior Indemnification Agreement is intended to expand, and not to limit, the scope of indemnification provided to Indemnatee under the Prior Indemnification Agreement, and this Agreement shall be interpreted consistent with such intent.]

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned have executed or caused to be executed on their behalf this Agreement as of the date first written above.

SEVEN HILLS REALTY TRUST

By: _____
Name:
Title:

INDEMNITEE

Indemnatee's Address:

[ADDRESS]

EXHIBIT A

FORM OF AFFIRMATION AND UNDERTAKING TO REPAY EXPENSES ADVANCED

To the Board of Trustees of Seven Hills Realty Trust:

This affirmation and undertaking is being provided pursuant to that certain [Amended and Restated] Indemnification Agreement dated _____, 20__ (the “**Indemnification Agreement**”), by and between Seven Hills Realty Trust, a Maryland real estate investment trust (the “**Company**”), and the undersigned Indemnatee, pursuant to which I am entitled to advancement of expenses in connection with [Description of Claims/Proceeding] (together, the “**Claims**”). Terms used, and not otherwise defined, herein shall have the meanings specified in the Indemnification Agreement.

I am subject to the Claims by reason of my Company Status or by reason of alleged actions or omissions by me in such capacity.

I hereby affirm my good faith belief that the standard of conduct necessary for my indemnification has been met.

In consideration of the advancement of Expenses by the Company for attorneys’ fees and related expenses incurred by me in connection with the Claims (the “**Advanced Expenses**”), I hereby agree that if, in connection with a proceeding regarding the Claim, it is ultimately determined that I am not entitled to indemnification under law, the Declaration of Trust, the Bylaws or the Indemnification Agreement with respect to an act or omission by me, then I shall promptly reimburse the portion of the Advanced Expenses relating to the Claim(s) as to which the foregoing findings have been established and which have not been successfully resolved as described in Section 5 of the Indemnification Agreement. To the extent that Advanced Expenses do not relate to specific Claims, I agree that such Advanced Expenses may be allocated on a reasonable and proportionate basis.

IN WITNESS WHEREOF, I have executed this Affirmation and Undertaking to Repay Expenses Advanced on

_____, ____.

WITNESS:

Print name of witness

Print name of Indemnatee

Schedule to Exhibit 10.3

The following trustees and executive officers of Seven Hills Realty Trust, or SEVN, are parties to Indemnification Agreements with SEVN which are substantially identical in all material respects to the representative Indemnification Agreement filed herewith and are dated as of the respective dates listed below. The other Indemnification Agreements are omitted pursuant to Instruction 2 to Item 601 of Regulation S-K.

Name of Signatory	Date
Fernando Diaz	October 1, 2023
Barbara D. Gilmore	January 5, 2021
Matthew P. Jordan	January 5, 2021
William A. Lamkin	September 30, 2021
Vern D. Larkin	January 5, 2021
Thomas J. Lorenzini	January 5, 2021
Joseph L. Morea	September 30, 2021
Adam D. Portnoy	January 5, 2021
Jeffrey P. Somers	January 5, 2021

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: October 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, Fernando Diaz, 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: October 31, 2023

/s/ Fernando Diaz

Fernando Diaz
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: October 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: October 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 September 30, 2023 (the “Report”), each of the undersigned hereby certifies, to the best of his 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/ Fernando Diaz

Fernando Diaz
Chief Financial Officer and Treasurer

Date: October 31, 2023