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SEVN.OQ - Q3 2025 Seven Hills Realty Trust Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Seven Hills Realty Trust third-quarter 2025 financial results conference call. (Operator Instructions)

Please note that this conference is being recorded. I would now like to turn the call over to Mr. Matt Murphy, Manager of Investor Relations. Please go ahead.

Matt Murphy - *Seven Hills Realty Trust - Manager, Investor Relations*

Good morning. Joining me on today's call are Tom Lorenzini, President and Chief Investment Officer; Matt Brown, Chief Financial Officer and Treasurer; and Jared Lewis, Vice President. Today's call includes a presentation by management followed by a question-and-answer session with analysts. Please note that the recording, retransmission and transcription of today's conference call is prohibited without the prior written consent of the company.

Also note that today's conference call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other securities laws. These forward-looking statements are based on Seven Hill's beliefs and expectations as of today, October 28, 2025, and actual results may differ materially from those that we project. The company undertakes no obligation to revise or publicly release the results of any revision to the forward-looking statements made in today's conference call.

Additional information concerning factors that could cause those differences is contained in our filings with the Securities and Exchange Commission, or SEC, which can be accessed from the SEC's website. Investors are cautioned not to place undue reliance upon any forward-looking statements.

In addition, we will be discussing non-GAAP financial numbers during this call, including distributable earnings and distributable earnings per share. A reconciliation of GAAP to non-GAAP financial measures can be found in our earnings release presentation, which can be found on our website at sevnreit.com. With that, I will now turn the call over to Tom.

Thomas Lorenzini - *Seven Hills Realty Trust - President, Chief Investment Officer*

Thank you, Matt, and good morning, everyone. On today's call, I will provide an overview of our third quarter performance and recent developments, and I will then turn the call over to Jared for an update on our pipeline and market trends, followed by Matt, who will review our financial results before opening the line for questions.

We delivered solid third quarter results supported by a fully performing loan portfolio and disciplined capital deployment. Distributable earnings for the third quarter were \$4.2 million or \$0.29 per share, which came in at the high end of our guidance range. And earlier this month, our Board declared a regular quarterly dividend of \$0.28 per share, which equates to an annualized yield of 11% on yesterday's closing price.

Recent transaction activity during the quarter included the closing of a \$34.5 million first mortgage loan secured by 100% leased mixed-use retail and medical office property in Manhattan's Upper West side. In addition, we also executed a loan application for \$37.3 million secured by a student housing property at the University of Maryland, which we expect to close in the next few days.

Student housing assets at major universities continue to perform well while allowing for enhanced spreads when compared to traditional multifamily. As of quarter end, our portfolio consisted of \$642 million of floating rate first mortgage commitments across 22 loans with a weighted average all-in yield of 8.2% and a weighted average loan-to-value of 67% at close.

Our weighted average risk rating at the quarter end was 2.9, with all loans current on debt service, no 5 rated loans and no nonaccrual balances. During the quarter, we received a full repayment of two loans totaling \$53.8 million, and we may see one additional loan repaid before year-end with an outstanding balance of \$15.3 million, but the majority of near-term repayments are expected to occur in 2026. Full year portfolio growth is estimated to be approximately \$100 million net from year-end 2024.

We continue to see a more active lending environment as short-term rates move lower and investors anticipate further rate cuts before year-end. This has led to greater borrower engagement and transaction volume across our pipeline, which we expect will continue to grow over the coming quarters.

As SOFR continues to decline, we will see our SOFR floors begin to become active, providing a benefit to earnings and helping to partially offset the impact from declining rates. While competition remains elevated, we continue to find compelling opportunities that meet our return thresholds and align with our underwriting standards.

Overall, we believe our disciplined approach, strong sponsor relationships and underwriting and asset management expertise will allow us to continue generating attractive risk-adjusted returns. With borrower demand and transaction activity improving, we remain focused on deploying capital into opportunities that we believe offer the best relative value in the current environment.

Our platform is well positioned to deliver consistent execution and drive sustainable value creation as market conditions evolve, and we look forward to sharing our continued progress in the quarters ahead. With that, I will now turn the call over to Jared for an overview of current market conditions as well as our pipeline.

Jared Lewis - *Seven Hills Realty Trust - Vice President*

Thanks, Tom. During the third quarter, we saw a notable improvement in market sentiment following the Fed rate cut in September, which helped to drive new financing activity. The initial rate cut prompted many borrowers to move forward with financing decisions that had previously been placed on hold and with expectations of two additional rate cuts before year-end, buyer and seller expectations are beginning to come into closer alignment, which has led to an increase in overall transaction volumes.

Demand for floating rate bridge financing remains strong driven primarily by 2021 and 2022 vintage floating rate multifamily loan maturities, which will continue well into 2026. In most cases, borrowers are choosing to refinance debt but continue to require flexible fund rate debt solutions to allow time for business plans to play out and property operations to stabilize.

We are also beginning to see more instances of new buyers acquiring properties at a reset basis that better reflects current rent growth and operational expectations, helping drive additional transaction volumes. While multifamily continues to account for the majority of current opportunities, it also remains most competitive.

CRE CLO issuance has accelerated meaningfully over the year, and debt funds, mortgage REITs and insurance companies are all pursuing similar loan opportunities. Furthermore, the material tightening of corporate bond spreads has made real estate credit an attractive relative value investment, which has resulted in an influx of capital to the CRE debt sector providing liquidity and causing competition among lenders.

Despite these competitive dynamics, we remain selective and disciplined in our approach to new originations. We continue to find opportunities in industrial, necessity-based retail, hospitality and student housing. We are seeing more attractive spreads on loans with strong credit characteristics.

Furthermore, with transaction volumes expected to increase in the first half of 2026, we expect to see significant opportunities for lenders with flexible capital to invest. Our pipeline is robust and well diversified, and we are currently evaluating over \$1 billion of loan opportunities.

Importantly, the composition of our pipeline has shifted toward a higher proportion of acquisition financing compared to refinancing activity, a trend that we view as a key indicator of renewed market confidence and a constructive environment for new lending. Our disciplined investment process supported by the broad RMR platform will allow us to identify attractive opportunities to maintain strong credit performance as market dynamics continue to unfold.

I will now turn the call over to Matt for an overview of our financial results.

Matthew Brown - *Seven Hills Realty Trust - Chief Financial Officer, Treasurer*

Thank you, Jared, and good morning, everyone. Yesterday, we reported third quarter distributable earnings of \$4.2 million or \$0.29 per share coming in at the high end of our guidance and in line with consensus estimates for the quarter. As it relates to third quarter distributable earnings, loan repayments since April 1 impacted distributable earnings by \$0.06 per share whereas loan originations over the same period contributed \$0.03 per share.

The \$53.8 million of loan repayments in July contributed \$0.01 of distributable earnings to third quarter results. We expect the loan originated in September and the loan origination under application to contribute \$0.03 of distributable earnings per share in the fourth quarter. Overall, we expect fourth quarter distributable earnings to be in the range of \$0.29 to \$0.31 per share, taking into account this loan activity and current SOFR expectations based on the curve.

As Tom mentioned, all but one of our loans contain interest rate floors ranging from 0.25% to 4% with a weighted average floor of 2.59%. With continued decreases in SOFR, certain of our loans will be subject to the floor, providing Seven with earnings protection, whereas none of our secured financing facilities contain floors. At quarter end, none of our loans had active interest rate floors. However, with SOFR now hovering just below 4%, certain of our floors have become active.

Please refer to page 17 of our earnings presentation for further details. We ended the quarter with \$77 million of cash on hand and \$310 million of capacity on our secured financing facilities. Our portfolio has an all-in yield of SOFR plus 397 basis points and a weighted average borrowing rate of SOFR plus 215 basis points. Our CECL reserve remains modest at 150 basis points of our total loan commitments, unchanged from last quarter and is supported by a conservative portfolio risk rating of 2.9, which is also unchanged from last quarter.

Our portfolio remains well diversified by property type and geography and all loans occurring on debt service. We did not have any collateral dependent loans or loans with specific reserves. This highlights the strength in our underwriting and asset management functions to provide long-term value for shareholders.

That concludes our prepared remarks. Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Matthew Erdner, JonesTrading.

Matthew Erdner - *Jonestrading Institutional Services LLC - Equity Analyst*

Hey, good morning, guys. Thanks for taking the question. Could you rehash through the repayments that you were expecting for the remainder of the year? I picked up the \$15.3 million, but was there another loan that I was missing in there?

Thomas Lorenzini - *Seven Hills Realty Trust - President, Chief Investment Officer*

No, Matt, that's the only one that we expect to come back potentially before year-end. Everything else really will be 2026 with the bulk of our scheduled repayments in Q3 and Q4 of '26.

Matthew Erdner - *Jonestrading Institutional Services LLC - Equity Analyst*

Okay. Got it. Yes, that makes sense. And then based off of the College Park loan closing, I've got the portfolio around \$680 million, seeing that last year at the end of the year was about \$640. So that leads me to believe that you guys are expecting a couple more loans to close throughout the year.

Could you talk a little bit about how you guys are sourcing those. And just speak a little more on the competition of what's causing you guys to win loans over certain people and just the characteristics that you guys are bringing to the table?

Thomas Lorenzini - *Seven Hills Realty Trust - President, Chief Investment Officer*

Sure. So I'll start with how we're sourcing those loans. The majority of the transactions are coming in through the traditional channels, such as the mortgage banking community, the [JLL, the CBs] new marks of the world, et cetera. A certain percentage of our transactions also come in direct from sponsorship. It's probably 80% from the brokerage, 20% direct, something along those lines.

And as far as how we're winning those transactions, really, I think that a couple of things. I think we have a solid reputation in the marketplace that we deliver as advertised, which is critical to sponsors today and especially to the brokerage community. Certainly, want to remind themselves with lenders that will close as advertised.

And also, I think we're also -- we've been very judicious about trying to uncover loans with a little bit higher yielding. We can follow upon the expertise here at the broader platform, learn something about the asset, the market and really lean in and take the deal away from a competitor because maybe we have a better understanding of it.

So all that translates really across the product types for everything that we're looking at currently. As you saw, we're just -- we're under (inaudible) on the student deal. We like that business. We continue to chase multifamily, grocery-anchored retail, select hospitality opportunities certainly exist out there as well. So for the foreseeable future through the end of the year, I think we're looking at probably another 3 to 4 loans that we're comfortable with that we're going to close upon.

Matthew Erdner - *Jonestrading Institutional Services LLC - Equity Analyst*

Got it. That's very helpful. Thank you.

Operator

(Operator Instructions)

Christopher Nolan, Ladenburg Thalmann.

Christopher Nolan, CFA - *Ladenburg Thalmann & Co Inc - Analyst*

For Matt, does the CECL reserve change or does the requirements under CECL for the allowance go down with lower rates, lower SOFR specifically?

Matthew Brown - *Seven Hills Realty Trust - Chief Financial Officer, Treasurer*

They could. There's a lot of factors that impact the CECL reserve. I think it's important to note that we add back any CECL reserve to our distributable earnings because it is a noncash item and we have not -- we do not have a history of recording any loan losses for Seven. So there's macroeconomic factors.

There's factors with our existing portfolio based off property level performance, repayment activity, origination activity. So it's a blend of factors that are driving that. Overall, we're 1.5% of total loan commitments, which we think is very conservative for our business.

Christopher Nolan, CFA - *Ladenburg Thalmann & Co Inc - Analyst*

Because my thinking is if SOFR is going down and your loans are spread over SOFR from that, we can -- its increased probability that the allowance reserve as a percentage of loans will go down. Is that -- does that follow or not?

Matthew Brown - *Seven Hills Realty Trust - Chief Financial Officer, Treasurer*

It does. But like I said, there are a lot of factors that go into it in addition to just SOFR.

Christopher Nolan, CFA - *Ladenburg Thalmann & Co Inc - Analyst*

Got it. Okay. And Jared, thank you for the overview of the market. For multifamily and your comments on multifamily debt, does this also imply increased demand for multifamily equity as well? Or is there sort of -- is that a different market in terms of its dynamics right now?

Jared Lewis - *Seven Hills Realty Trust - Vice President*

Well, I would say there's certainly always a demand for equity capital. Given the amount -- just the sheer volume of loan maturities from '21 and '22 vintage assets, a lot of those deals are going to require either additional equity. So if you're refinancing a property and if it doesn't refinance the current standards, then it may require additional equity capital. So sponsors and borrowers are out sourcing additional equity for those opportunities.

But then there's also on the acquisition side, plenty of capital that's been raised over the years that is seeking to be deployed in the multifamily sector because of its attractiveness and liquidity. So that's going to also help drive financing activity.

So it's sort of a two-way street. Yes, there's going to be the requirement for new debt going forward in the multifamily sector. But with that comes the requirement of additional equity as well. So I think there is a lot of capital chasing those opportunities because of the online fundamentals. And so I expect that to continue into 2026 and '27.

Christopher Nolan, CFA - *Ladenburg Thalmann & Co Inc - Analyst*

Great. And final question on that line. In your observation, are you seeing banks become less participant in multifamily debt markets or more? Any characterization there?

Jared Lewis - *Seven Hills Realty Trust - Vice President*

Yes. So the larger banking community, the money center banks are very active today and they've become competitive, and they're another cohort of lenders that are chasing these opportunities, specifically in the multifamily space. Smaller regional banks may not be as active.

As you've read in headlines, I mean, there's still a concern or questions over bank balance sheets in certain sectors. And so I think some are still taking a more conservative approach. But generally speaking, the larger banks are active, smaller banks are a little bit more selective.

Christopher Nolan, CFA - *Ladenburg Thalmann & Co Inc - Analyst*

Interesting. Okay, thank you very much.

Operator

Chris Muller, Citizens Capital Markets.

Chris Muller - *Citizens JMP Securities LLC - Analyst*

Hey guys, thanks for taking the questions and congrats on a solid quarter. So cash balances jumped up a little bit in the quarter. I guess the question is, is that due to timing of repayments coming in? Are you guys holding a little bit of extra liquidity ahead of some of those originations you expect in Q4?

Matthew Brown - *Seven Hills Realty Trust - Chief Financial Officer, Treasurer*

It's really driven by the sources and uses of the quarter. We had \$54 million of repayments come in, in July, and we only put out about \$34 million of new loans. As we noted, we do have a \$37 million loan opportunity that we expect to close in the near future. But that cash balance also allows for the additional originations that Tom noted through the end of the year.

Chris Muller - *Citizens JMP Securities LLC - Analyst*

Got it. And I guess, I like the slide you guys have with the EPS bridge in the deck. Does that \$0.03 include origination fees? And then I guess, a follow-up question on that is, what does a typical quarter look like for origination fees? Is it kind of that \$0.01, \$0.02, \$0.03 type number? Or can we see that ramp up if you guys can really start deploying capital in 2026?

Matthew Brown - *Seven Hills Realty Trust - Chief Financial Officer, Treasurer*

Yes. The origination fees are baked into the yield.

Chris Muller - *Citizens JMP Securities LLC - Analyst*

Got it. And is that just like a \$0.01 or \$0.02 a quarter? Is that the right way to think about that?

Matthew Brown - *Seven Hills Realty Trust - Chief Financial Officer, Treasurer*

Yes. At best, it's probably \$0.01 a quarter is my guess.

Chris Muller - *Citizens JMP Securities LLC - Analyst*

Got it. And I guess just the last one I have here. So on the NIM compression, the other slide you guys have in your deck, it's been trending lower since the peak of the market when rates were at zero, which makes sense. But do you guys feel that you're either at or near a trough on NIM compression there? Or could there be some more pressure in the coming quarters?

Thomas Lorenzini - *Seven Hills Realty Trust - President, Chief Investment Officer*

Yes. I don't -- I think we're at the -- I would say that we're probably at the trough there. Part of that really just comes down to us identifying the appropriate transactions to invest in, right? So we're certainly mindful of that.

And again, I think we've been very good about sourcing outsized returns when we're able to do so. And that's obviously the goal going forward. So we're expecting that to bottom out and if not, almost reverse itself.

Chris Muller - *Citizens JMP Securities LLC - Analyst*

Got it. Appreciate you guys taking the questions and congrats again on a solid quarter.

Thomas Lorenzini - *Seven Hills Realty Trust - President, Chief Investment Officer*

Thank you.

Operator

Thank you. This concludes our question-and-answer session. I would like to turn the conference back over to Tom Lorenzini, President and Chief Investment Officer, for any closing remarks.

Thomas Lorenzini - *Seven Hills Realty Trust - President, Chief Investment Officer*

Thank you, everyone, for joining today's call. Please reach out to Investor Relations if you are interested in scheduling a call with Seven Hills. Operator, that concludes our call.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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