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SEVN.OQ - Q4 2025 Seven Hills Realty Trust Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the Seven Hills Realty Trust fourth-quarter 2025 earnings call.

(Operator Instructions)

Please note, this event is being recorded. I would now like to turn the conference over to 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, February 19, 2026, 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 our call today, I will start by providing an update on our fourth-quarter performance and an overview of our loan portfolio before turning it over to Jared to discuss current market conditions in our pipeline. Then Matt will discuss our financial results and guidance before we open the call for Q&A.

Yesterday, we reported strong fourth-quarter results driven by a fully performing loan portfolio and ongoing capital deployment. Distributable earnings for the fourth-quarter came in at \$4.6 million or \$0.28 per share. As previously announced, we successfully completed our rights offering in December, raising \$61.5 million in net proceeds. This transaction meaningfully increased our investment capacity by over \$200 million, allowing us to accretively deploy capital into compelling opportunities while maintaining a conservative balance sheet.

In addition, as part of the rights offering, our manager increased their ownership percentage to just over 20%, further aligning their interest with Seven Hills shareholders. Our increased capacity allowed us to accelerate our activity during the fourth-quarter, investing in three new loans with total commitments of \$101.3 million. These included a \$37.3 million loan secured by a student housing property in College Park, Maryland, the acquisition of a \$37 million loan secured by a hotel in Boston and the acquisition of a \$27 million loan secured by an industrial property in Wayne, Pennsylvania.

Following these transactions, we entered the first-quarter of 2026 with significant available capacity as a result of the rights offering, positioning us to continue executing on our strategy and selectively deploying capital into attractive opportunities.

So far in the first-quarter, we have closed one additional loan for \$30.5 million on a medical office property in Atlanta, have two loans scheduled to close within the next week or so for another \$37 million combined and two additional loans in diligence for approximately \$39 million scheduled to close at the end of Q1 or shortly thereafter. Collectively, these investments reflect the breadth of opportunities in our pipeline with new originations spanning multiple property types and geographies.

We also received the full repayment of a \$15.3 million loan during the fourth-quarter secured by a retail property in Sandy Springs, Georgia, which we were able to redeploy into new originations, consistent with our underwriting and return objectives.

Turning to our loan portfolio. As of December 31, 2025, we had total commitments of \$724.5 million across 24 floating rate first mortgage loans, including \$36.9 million of unfunded commitments. Year-over-year, we were able to increase our portfolio by \$83 million or approximately 13%. Our weighted average all-in yield was 7.92%. Our weighted average risk rating improved to 2.8, and our weighted average loan-to-value at origination was 66%. Importantly, all loans were current on debt service and we had no past due or nonaccrual loans at year-end.

In addition, all but one of our loans are covered by SOFR floors, which provide support to earnings in a declining rate environment and helped to partially offset the impact of lower base interest rates. Later, Matt will provide additional details on how active SOFR floors are currently providing earnings protection across our portfolio.

We expect limited repayments beyond perhaps one or two loans over the next several months, followed by almost \$300 million of maturing loans beginning in the second half of 2026. Many of these loans, particularly those secured by office properties with conservative leverage, will allow for increased investment capacity and further portfolio growth as they roll off.

In summary, we believe Seven Hills is well positioned to capitalize on attractive middle market lending opportunities. With enhanced liquidity following the rights offering and improving visibility into near-term repayments and originations, we remain focused on disciplined execution and capital deployment as transaction activity continues to improve. We look forward to providing further updates on our portfolio growth throughout the year.

With that, I'll turn the call over to Jared to discuss current market conditions and the opportunity set in our pipeline.

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

Thanks, Tom. During the fourth-quarter, market conditions continued to improve, supported by abundant debt liquidity and greater visibility around interest rates. As expected, we saw two additional 25 basis point rate cuts during the quarter, bringing the target Fed funds rate down to a range of 350 to 375 basis points, which helped to drive an increase in financing activity and investment volume during the quarter.

Although refinancing activity continues to be a key driver of new loan originations, we saw a meaningful increase in sales volume across all property types, making it the most active period for the industry since the third-quarter of 2019.

While multifamily and industrial continue to account for the majority of the investment and financing activity, we also saw growth in retail and hospitality. Most notably, office transaction volume increased 25% year-over-year, signalling that buyers and sellers are increasingly finding common ground on pricing and that debt capital is becoming more available for the asset class.

Despite increased acquisition activity, lender demand for our loan collateral continues to exceed supply. Many debt investors continue to view commercial real estate debt at an attractive relative value compared to corporate bonds and certain areas of private credit that have been under increased scrutiny as of late.

The competition for quality lending opportunities continues to put downward pressure on credit spreads, particularly in the industrial and multifamily sectors, where certain lenders continue to aggregate loan collateral to sell into future CRE CLO securitizations.

We believe that market conditions exist for transaction activity to continue to increase in 2026 as acquisition and refinancing volumes recover and pricing stabilizes across markets. Higher overall transaction volumes across all property sectors should lead to substantial increase in the number of viable lending opportunities available to lenders.

As such, we expect to remain disciplined while evaluating a broader range of transactions across property types and geographies. In many cases, we are identifying attractive risk-adjusted opportunities in sectors beyond multifamily and industrial, including medical office, necessity-based retail, self-storage and selectively within the hospitality sector.

Overall, demand for short-term, floating-rate bridge loans remains strong as improving fundamentals and expectations for a more accommodative rate environment in the latter half of the year drive borrowers to seek flexibility while they execute their business plans and maximize asset values.

Borrower and broker engagement with Seven Hills remains strong, and we are currently evaluating over \$1 billion of loan opportunities as we move through the first-quarter of 2026. As always, we remain focused on deploying capital into transactions that align with our underwriting standards and leverage our platform's expertise.

And with that, I'll turn the call over to Matt to discuss our financial results.

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

Thank you, Jared, and good morning, everyone. Yesterday, we reported fourth-quarter distributable earnings of \$4.6 million or \$0.28 per share, which included \$0.03 of dilution related to the shares issued in connection with our rights offering completed in December. Last month, our Board declared a regular quarterly dividend of \$0.28 per share, which equates to an annualized yield of approximately 14% based on yesterday's closing price.

Adjusted for the impact from the rights offering, fourth-quarter distributable earnings would have been \$0.31 per share, which was at the high end of our guidance range. Loan investments since July 1 contributed \$0.03 per share to distributable earnings, whereas loan repayments over the same period negatively impacted results by \$0.01 per share. For the full year of 2025, distributable earnings was \$1.21 per share. Our run rate annual dividend of \$1.12 per share represents a 93% payout ratio based on these full year earnings.

During the fourth-quarter, interest rate floors became active for seven of our loans, which limited the impact of rate cuts in the quarter and provided earnings protection of \$0.01 for the quarter based on SOFR as of December 31. As Tom mentioned, although one of our loans contain interest rate floors ranging from 25 basis points to 4.34% with a weighted average floor of 2.81%, further declines in SOFR would be mitigated by additional loans becoming subject to these floors. It is important to note that none of our secured financing facilities contain floors.

As Tom highlighted, since quarter end, we have closed one loan totalling \$30.5 million and have two additional loans expected to close in the coming weeks for approximately \$37 million combined. We also have two loans currently in diligence totalling approximately \$39 million that are expected to close at or shortly after the end of the first-quarter.

Overall, we expect first-quarter distributable earnings to be in the range of \$0.22 to \$0.24 per share. This guidance reflects the impact from our rights offering, which we expect to be temporary. As the proceeds from the rights offering are invested and capital from expected loan repayments in the second half of the year is redeployed, we expect the incremental earnings contribution to offset the impact of the higher share count.

Our CECL reserve remains modest at 130 basis points of our total loan commitments, down 20 basis points from last quarter and is supported by a conservative portfolio risk rating of 2.8, which has improved since last quarter.

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

We ended the quarter with \$123 million of cash on hand. Since quarter end, we extended the maturities of two of our secured financing facilities and increased the maximum size of one of these facilities by an additional \$125 million. Pro forma for this increased facility size, we have \$377 million of capacity on our secured financing facilities. This activity demonstrates our strong relationships with our banking partners and positions us to continue to grow our loan investment portfolio with proceeds from our rights offering.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jason Weaver, Janney Montgomery Scott.

Jason Weaver - *Jones Trading Institutional Services, LLC - Analyst*

Actually, it's from JonesTrading. I don't know how that got mixed up. But I wonder if you could talk a bit just given how the portfolio has evolved and how the pipeline is looking today. You mentioned one thing like moving from strict multifamily over to something like student housing and industrial and hospitality as well. How specifically are you thinking about finding pockets of inefficiency across the pipeline given the heightened amount of competition in the space right now?

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

Jason, this is Jared. That's a good question. So it's obvious that the multifamily sector contributes to the lion's share of the activity that we see both on our pipeline but also sort of overall in the markets. It's an extremely liquid sector. But what we found is that it's sort of a race to the bottom in terms of yield and pricing.

We certainly looked at a lot and we did a lot of those assets and transactions, but given the securitization markets' demand for that paper, we just haven't decided to go there yet. And where we do find opportunities, and I think a big part of that is because of the breadth of the platform that we have here with our manager, we see assets in the pockets, as I mentioned, storage, industrial, medical office.

We've got a pretty wide range of property level managers and asset managers that see opportunities across the country. So we don't have to deploy billions of dollars of capital. We can be really selective and find good opportunities that we can get outsized risk-adjusted returns rather than just bidding multifamily assets at the bottom, if that makes sense.

Jason Weaver - *Jones Trading Institutional Services, LLC - Analyst*

Got it. That's helpful. And then I wonder, without implying taking risk up to a huge degree, are there any opportunities that you're sort of evaluating outside of the first lien space maybe in a bit more of the junior tranches?

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

At this time, we're not really focused on that, Jason. We like to stick with our knitting currently, which is senior secured positions. We've certainly discussed mezzanine and preferred equity and things and we certainly understand that space and have those capabilities. But the focus remains on senior secured positions.

Operator

Christopher Nolan, Ladenburg Thalmann.

Christopher Nolan - *Ladenburg Thalmann & Co Inc - Equity Analyst*

Matt, on your \$0.22 to \$0.24 distributable EPS guidance, does that assume that the incremental capital that you raised is fully levered and deployed in the first-quarter?

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

No. So we talked about in the first-quarter, we've closed one loan for \$30.5 million. We have two loans expected to close in the near term for another about \$37 million and then two loans under app that will close kind of towards the very end of Q1, if not trickling into the beginning of Q2 for about \$39 million. So by the end of Q1, we haven't fully deployed the rights offering capital.

But we have increased the weighted shares for the period, and that's really driving down earnings for the first-quarter. As I noted in prepared remarks, this is temporary. We expect by the end of the year to get DE back around where it was in the fourth-quarter of this year.

Christopher Nolan - *Ladenburg Thalmann & Co Inc - Equity Analyst*

Understood. Also with the change in the bank facilities, was there any change in the advance rate?

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

No, no specific changes to the advance rates. But what I will say is that all of our banking partners have been really supportive of what we've been doing here with the upside of one of the facilities and the extension terms that we've received. They continue to support what we're trying to accomplish here. So it's been super helpful.

Christopher Nolan - *Ladenburg Thalmann & Co Inc - Equity Analyst*

Great. And then I noticed that your investment spreads widened a little bit in the quarter. Is there a delayed impact from rate change from Fed moves of short-term interest rates? Does it take a quarter or two for it to filter down to you guys?

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

No, it doesn't take any time to filter down. I think part of what we're seeing is we have seven active floors. So that's kind of supporting the trends a little bit. In addition to that, on loan investments being made, that's further supporting our total portfolio net spread.

Christopher Nolan - *Ladenburg Thalmann & Co Inc - Equity Analyst*

Great. And final. Am I correct where, when you guys did the rights offering, the current dividend is secure at least through the end of 2026. Is that still the case?

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

That is. We still remain committed to our \$0.28 per quarter dividend. We know there's a temporary drag on earnings as we deploy the rights offering capital. In addition, we have a lot of loan repayments in the second half of the year. Some of those have reduced leverage, which should increase our overall investment capacity and get us back to more current levels. So we do remain committed to the dividend for the foreseeable future.

Operator

Chris Muller, Citizens.

Chris Muller - *Citizens JMP Securities LLC - Analyst*

Congrats on a solid quarter here. I guess originations came in really strong in the quarter, and it looks like the first-quarter is on a similar pace. Do you guys expect that run rate around \$100 million to continue into 2026? And then I guess the flip side of that is, how are you guys thinking about portfolio growth this year following the rights offering? Do you have a target portfolio size that you would like to reach by year-end?

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

Yes. So I think from a production standpoint, I think across the industry, everybody is seeing more transaction flow, which is very welcome. We're expecting Q1, depending on timing, it could be about \$100 million. We might see one of those trickle into Q2. And then Q2, Q3 and into Q4, we're hopeful about \$200 million per quarter of new originations. And part of that will be driven by the repayment that we're going to see in the back half of the year, Chris.

As far as where we hope to end at the end of the year or expect to end at the end of the year, it should be close to about \$1 billion of total loan portfolio size. And part of that, again, just depends a little bit on some of the repayments that we're expecting into Q3 and Q4.

Chris Muller - *Citizens JMP Securities LLC - Analyst*

Got it. Very helpful. And then I guess just a quick clarifying one. On the two loans you guys acquired in the quarter, were those purchased from another lender? Or did that come through the RMR pipeline?

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

Those loans were underwritten and were asset managed by our team. They were loans that would have just, under normal circumstances, gone into SEVN as a production. RMR had them on their balance sheet. If you recall, RMR was considering a private financing vehicle. These were going to be seed assets for that.

But they were originated by our team here, closed by our team and the asset managed by our team. So they met our approval and credit requirements. So there was really no uncertainty when we acquired those loans as to what we were buying. So they fit very nicely into the portfolio. And given the rights offering, with the excess capacity that we had, it just made sense for us to acquire those loans and put them into the SEVN portfolio.

Chris Muller - *Citizens JMP Securities LLC - Analyst*

Got it. And are there additional loans like that, that could filter through in the coming quarters? Or is that kind of the rest of it?

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

Those are the only two. We don't expect any other loan acquisitions to occur.

Operator

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*

Thanks, 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

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

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