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SEVN.OQ - Q1 2026 Seven Hills Realty Trust Earnings Call

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PRESENTATION

Operator

Good morning and welcome to Seven Hills Realty Trust's first-quarter 2026 financial results conference call.

(Operator Instructions) Please note: This event is being recorded.

I would now like to turn the call 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 Hills' beliefs and expectations, as of today, April 29, 2026. 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 on 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.

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

Thank you, Matt. Good morning, everyone.

On our call today, I will start by providing an update on our first-quarter performance and recent investment activity, followed by an overview of our loan portfolio. Then, Jared will discuss current market conditions in our pipeline, before Matt reviews our financial results and guidance.

Yesterday, we reported solid first-quarter results, reflecting the continued strength of our fully performing loan portfolio and our disciplined underwriting approach.

Distributable earnings for the quarter came in as $5.3 million or $0.24 per share, which was at the high end of our guidance. We reached a new-high water mark, with approximately $776 million in total outstanding loan commitments, after originating three new loans totaling $67.5 million during the quarter, reflecting our continued progress in deploying the capital raised from our December rights offering.

First-quarter closings included a $30.5 million loan secured by a medical office property in Atlanta; a $19.5 million loan secured by a grocery anchored retail property in Palmdale, California; and a $17.5 million loan secured by a select service hotel in Scottsdale, Arizona. We also have three additional loans in process that we expect to close in the near term, totaling approximately $78 million, which Jared will speak to in more detail.

These originations reflect our ability to source opportunities across property types and geographies, while maintaining disciplined underwriting. Importantly, we remain selective in deploying capital and continue to focus on opportunities that meet our return thresholds.

Originations, so far, in 2026 have been executed at a net interest margin of approximately 195 basis points, representing the highest level we have achieved over the past four years. When including the impact of exit fees, total returns are incrementally higher. We believe this reflects both the strength of our platform and an improved first-quarter transaction environment.

Turning to our loan portfolio, as of March 31, we had total loan commitments of approximately $776 million across 26 floating-rate first mortgage loans. Our portfolio continues to demonstrate strong credit performance, with a weighted average risk rating of 2.8, no realized losses, and all loans current on debt service.

Our weighted average all-in yield at quarter end was 7.8%. Our weighted average loan-to-value at origination remained conservative at 66%.

During the quarter, we received the full repayment of a $16 million loan secured by a hotel in Lake Mary, Florida. Subsequent to quarter end, we received an additional $54.6 million from the repayment of a multi-family loan in Ohio.

We are also expecting the repayment of a $26.5 million loan secured by an office building in suburban Chicago as early as this week. Upon payoff, this will reduce our overall office exposure to approximately 21% of the current portfolio.

This repayment activity meaningfully increases our available capital and supports continued deployment into new investments. With recent loan repayments, we currently have approximately $110 million of cash on hand and nearly $400 million of available capacity under our secured financing facilities.

As previously announced, we extended the maturities of our UBS and Wells Fargo financing facilities to 2028 and doubled the capacity of the Wells Fargo facility to $250 million, further enhancing our ability to deploy capital and continue growing the portfolio.

In summary, we believe Seven Hills is well-positioned to capitalize on an active pipeline of middle-market lending opportunities. While recent headlines have raised concerns around private credit, it is important to note that Seven Hills remains narrowly focused on senior-secured commercial real estate lending.

This approach is reinforced by RMR's multi-decade track record managing and operating commercial real estate, providing deep asset-level insight, disciplined underwriting, and proven experience across market cycles.

With strong liquidity, expectations of improving transaction activity, and attractive lending spreads, we remain focused on disciplined execution and generating compelling risk-adjusted returns for our shareholders.

With that, I'll turn the call over to Jared.

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

Thanks, Tom.

Since our last call, we have seen increased volatility across the capital markets, driven, in part, by the ongoing conflict in Iran and its impact on investor sentiment.

Interest rates have also moved higher, with the ten-year treasury rate increasing from approximately 3.95% at the end of February to 4.39% today. The expectation is that the FOMC will maintain its target range for the federal funds rate at 3.5% to 3.75% later this afternoon.

While the year began with strong transaction activity, continuing the momentum we saw at the end of 2025, recent market volatility has started to have an impact on owners' decision making. Over the past month, we have seen some moderation in acquisition and sales activity, as market participants take a slightly more cautious approach due to the uncertainty around interest rates, inflation, monetary policy, and broader geopolitical developments.

With respect to debt capital markets, CMBS market appeared to slow a bit earlier this month, given the macroeconomic uncertainty and interest rate volatility. Overall, we have not seen a meaningful pull-back in capital availability.

Banks, debt funds, life companies, and government-sponsored enterprises all remain active. Importantly, our bank partners continue to support transactions through our secured financing facilities.

From an activity standpoint, we are seeing a divergence across asset classes. Multi-family refinancing continues to dominate, as borrowers work through maturing bridge and construction loans originated in 2021 and 2022.

In contrast, for new acquisitions and in many other asset classes, owners that are not under pressure to transact are generally waiting for greater clarity on macroeconomic conditions before moving forward with buy, sell, or refinance decisions.

However, despite this period of slow acquisition transaction volume, assets still need to be financed. We continue to see consistent demand for flexible lending solutions. As a result, our pipeline remains strong.

We have over $125 million of term sheets outstanding for new loan opportunities and three loans totaling $78 million currently in diligence that we expect to close imminently. These include a $39.2 million loan secured by a multi-family property in Georgia, a $22.7 million loan secured by a medical office property in Texas, and a $16 million loan secured by a self-storage property in Pennsylvania.

In addition, we continue to evaluate a range of opportunities across the industrial, storage, retail, and hospitality sectors, where we believe we can achieve more attractive risk-adjusted returns, relative to more competitive segments of the market.

Importantly, we remain disciplined in our approach. While competition remains elevated in certain sectors, particularly multi-family, we are focused on transactions that offer attractive yields. We believe our ability to provide certainty of execution and flexibility to borrowers is a key differentiator in the current environment.

Overall, while near-term transaction activity may remain somewhat uneven, given ongoing macro uncertainty, we believe the current backdrop represents an attractive opportunity for lenders with available capital and a disciplined underwriting approach.

As conditions stabilize, we expect to continue to selectively deploy capital into opportunities that meet both our credit standards and return thresholds.

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. Good morning, everyone.

Yesterday, we reported first-quarter distributable earnings of $5.3 million or $0.24 per share, which includes $0.08 of dilution related to our rights offering in December.

As expected, the rights offering has impacted earnings in the near term. However, deployment of the proceeds is progressing well.

New loan investments over the last two quarters have contributed $0.03 per share to distributable earnings in the first quarter. As Tom mentioned, originations, so far, in 2026 have been executed at net interest margins of 1.95%, the highest level over the past four years.

During the first quarter, interest rate floors remained active for seven of our loans, a structural feature of our portfolio that actively protects earnings in a declining rate environment. These floors contributed $0.01 per share of earnings protection for the quarter, based on SOFR, as of March 31.

All but one of our loans contain floors, ranging from 25 basis points to 4.34%, providing a meaningful baseline of downside protection, as the rate environment evolves.

Earlier this 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.

Although distributable earnings have not covered our dividend over the past quarter, we remain committed to this dividend level through 2026, at a minimum; and expect distributable earnings to trend back to our quarterly dividend level by the end of this year.

Overall, we expect second-quarter distributable earnings to be in the range of $0.23 to $0.25 per share. As the proceeds from the rights offering are invested and capital from loan repayments is redeployed, we expect the incremental earnings contribution by the end of the year to offset the impact of the higher share count.

Credit quality remains strong at Seven Hills. Our CECL reserve stands at a modest 130 basis points of total loan commitments, flat from last quarter; and is supported by a conservative portfolio risk rating of 2.8, also unchanged.

The portfolio is well diversified by property type and geography. All loans are current on debt service.

Importantly, we have no [5-rated] loans, no collateral-dependent loans, and no loans with specific reserves. This reflects a disciplined underwriting and asset management process that we believe creates durable long-term value for shareholders.

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

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session.

(Operator Instructions)

Jason Weaver, JonesTrading.

Jason Weaver - *Jonestrading Institutional Services LLC - Analyst*

Hi. Good morning, guys. Thanks for taking my question.

I thought it was notable about your origination NIM of [195] in this quarter being about 35 basis points wider than last year's average. Is that a function of just mix? Is it pocket to the market that you're able to access that others aren't? We're just seeing opposite trends at some of your peers.

And then, where do you see the rest of the year's NIM settling? How much of that is step of the base rate?

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

Yeah. Thanks for the question.

The loans that we did in Q1 -- the properties were medical office, retail, and hospitality. There was no multi-family in there, which is where we see the tightest pricing and the narrowest margin.

We were able to attract some outsized returns, especially when we look at select-service hospitality, which, technically, tend to price at a little bit wider spreads. And then, medical office, as well; and then retail. Those are just -- it's really product mix, I think, on those.

I would also say that it's -- we take a rifle-shot approach to the originations, right? While we have a lot of transactions come through the shop, robust pipeline, we really pick our spots.

We're looking to take deals off the Street, where we're going to achieve that outsized return, rather than get into a commodity situation where we're simply bidding against several other lenders and we're just -- everybody's cutting their spreads by 1 basis points or 2 basis points to win the business. We try to avoid those auction-type situations.

For the going forward, I would tell you that the three loans that we're anticipating closing here in short order, net interest margin on those is probably a little bit inside of that 195; probably closer to about [180]. That is just, again, as a function of the product types there.

We do have a multi-family loan in there that's fairly sizable, relative to the three, which drives down that net interest margin a little bit. nd then, the other properties -- another medical office and a self-storage, as Jared had mentioned -- help round that out.

We're able to maintain a healthy margin. But it's really the multi-family loans where we're seeing the most compression.

Jason Weaver - *Jonestrading Institutional Services LLC - Analyst*

Got it. Understood. That's helpful.

I wanted to ask, after the Olmsted Falls repayment in April, I think you're sitting on a pretty large chunk of liquidity; almost $0.5 billion. What does the qualifying pipeline look like by sector and size, as well as probability of closing, in the near term? What's the realistic deployment timeline?

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

Thanks, Jason. This is Jared.

Right now, the pipeline averages about $1 billion. It continues to turn over pretty frequently. We're seeing a lot of transactions.

As we mine through them and meet up the ones we want to look at, they get replenished. We're still seeing quite a bit of activity.

The majority of the activity we are seeing today is really for refinancing of assets, as opposed to acquisition. Those are a little bit more challenging to underwrite.

We do have three loans, right now, that we're negotiating term sheets on for about $125 million. The average deal size there is -- it's a little bit barbell. But we're targeting deals that are in the $25 million to $40 million range as a sweet spot.

But when you have the pipeline with the majority of it being refinance, they're a little bit harder to quantify because we're trying to determine whether or not the borrowers -- we want to do deals where borrowers are bringing new cash to the table. We want to do deals that we understand a reset basis in the transaction. A refinance is much harder to do that than in an acquisition.

In terms of our ability to deploy the capital that we have now, like I said, we're negotiating three term sheets at $125 million. We're far along in a couple of those, right now. I can't handicap whether or not we'll win all of them but we feel pretty good about it.

And then, going forward, we'll continue to evaluate quite a bit of multi-family. The majority of our pipeline is in multi-family. But we're not going to -- again, as Tom mentioned, we're not going to chase deals down to win business by 5 basis points, 10 basis points, 15 basis points.

I think the point is that, over the next two quarters, we should have the ability to meet our targets of origination activity in that [100] to [300] over the next two quarters.

Jason Weaver - *Jonestrading Institutional Services LLC - Analyst*

Got it. Thank you. I appreciate the color.

Operator

(Operator Instructions)

Chris Muller, Citizens Capital Markets.

Chris Muller - *Citizens JMP Securities LLC - Analyst*

Hey, everyone. Thanks for taking the questions.

1Q originations were pretty diverse. You guys touched on this a little bit.

But is there a particular asset type that you guys do want to increase exposure to? Or are you more just looking at the best opportunities across the board that aren't in super competitive asset classes?

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

We would certainly like to increase exposure further to multi-family. I think that's beneficial, given it's an extremely liquid market, right, with Fannie and Freddie playing there, et cetera; and then, from an investor standpoint, as well.

But the transactions that we are going to pursue there are going to be ones where we feel that we're making a decent return. That said, other product types certainly make sense in today's world.

We've seen the self-storage; like that product. Student housing has been attractive to us. Medical office has been attractive to us. Industrial still remains an attractive asset class. The only thing we're not actively pursuing, right now, really, is new office loans and healthcare-related assets.

We don't target per se and say, hey, we need to have X percentage per property type. It's a little bit more of a holistic -- making sure we have a diverse portfolio, which we do. We want to continue to maintain that.

But we're really looking for just making the proper returns -- risk-adjusted returns -- right? If we can pick off a few multi-families, we'll do that.

But we're more than capable with the other products, as well. Grocery-anchored retail is somewhere that we are focused, as well.

I know that's a broad-based answer for your question. But it's a little less formulaic and more about taking that rifle-shot approach; and making sure that we're lending against quality real estate and making an outsized return to do so.

Chris Muller - *Citizens JMP Securities LLC - Analyst*

That's helpful. And then, were 1Q origination volumes impacted, at all, by the geopolitical disruptions? Just how are you thinking about net portfolio growth over the coming quarters?

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

Yeah. I think we touched on a little bit.

Certainly, the first quarter we saw quite a bit of activity. We were very happy with what we saw coming through the pipeline.

With the war in Iran, things have slowed a little bit, from a transaction standpoint. I think borrowers and investors, if they don't need to make a decision right now, they might pause, just to see what's going to happen with interest rates, given all the volatility that there's been.

That said, there's still adequate flow. We anticipate this quarter -- with the loans that we've closed, the loans that we're closing, and add a couple spec loans in there -- probably $200 million.

We are really -- from a repayment standpoint, we mentioned we do have an office loan that we believe is repaying possibly this week. Beyond that, we're not expecting any other payoffs in the quarter.

We should have pretty good net portfolio growth, maybe $50 million, $75 million -- something along those lines -- compared to where we are today.

And then, Q4 -- or Q3 and Q4, another $200 million of net portfolio growth.

Chris Muller - *Citizens JMP Securities LLC - Analyst*

Got it. Very helpful. If I could just squeeze one last one in?

Are there any updates you guys could share on the plans for the Yardley REO property?

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

That property, it continues to perform just remarkably well. Occupancy, right now, remains at about 81%, 82%. We did renew a large tenant in there.

The [WALT] is almost six years now on that asset. There's been quite a bit of activity over the last quarter of new tenants coming in and looking at. We've done some test fit-outs for a few tenants that are looking for space.

Our goal there, really, would be, if we're able to lease a little bit incrementally some additional space, then we can consider chatting with the Board and looking to dispose of the asset maybe late this year.

Chris Muller - *Citizens JMP Securities LLC - Analyst*

Got it. Very helpful. Thanks, again, for taking the questions.

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

Yeah.

Operator

Christopher Nolan, Ladenburg Thalmann.

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

Hi. Just to follow up on the last question, in terms of the portfolio growth, did you say that you're expecting roughly a couple hundred million in incremental portfolio growth for 2026?

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

Yeah. Ideally, Chris, we end up close to [$950 million] or so at the end of the year for total portfolio size.

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

Great. And then, on the allowance reserve, does the steeper yield curve impact the reserving? What I'm thinking about is, if someone has a property and interest rates are higher and they have to refinance, they're going to have to toss in more equity to do that.

Does CECL require you to increase your allowances, as loan rates go up?

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

Yeah. It's an interesting question.

There's a lot of factors that go into the CECL reserve. Some of them are related to our specific portfolio, maturities, et cetera, as well as a lot of economic factors.

What I would say is, we would expect our reserve at 1.3% of total commitments to be probably hanging around there for a while. It could tick down a little bit.

Tom mentioned an office loan we're expected to repay in the near term. We have some other office loan maturities coming up this year.

But, overall, we have a pretty modest overall reserve at 1.3%, which, I think, is on the low end for some of our mortgage REIT peers.

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

Great. Final question: Given the jump in fuel prices, for projects which are being repositioned with the developer, is there any requirement for the developer?

Obviously, the construction costs are going to go up; the input's going to go up. How does that impact your underwriting? Do you require the developer to put in more equity or no real impact, at all?

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

A couple things:

One, our portfolio, as far as future fundings, is really somewhat limited. I think it's 6% of the total commitment so it's not that sizable.

But, if we're in a situation where it's a value-add transaction and there are cost increases beyond what we have budgeted for, when we close the transaction, there's typically going to be an equity rebalance that's required from sponsorship.

Meaning: If a project is started; they commence rehab or construction, what have you; and there's X dollars available inside the loan to fund those cost, but the costs actually come in higher, they would be required to rebalance and come to the table with equity to do so.

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

Great. Thanks, Tom.

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.

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

Thanks, everyone, for joining today's call.

We look forward to seeing many of you at the upcoming Nareit Conference in New York City this June.

Please reach out to Investor Relations, if you're interested in scheduling a meeting with Seven Hills.

Operator, that concludes our call.

Operator

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