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SEVN.OQ - Q2 2026 Seven Hills Realty Trust Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Seven Hills Realty Trust second-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.

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

Good morning. Joining me on today's call are Tom Lorenzini, President and Chief Investment Officer; Matthew 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, July 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 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 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'll begin with an overview of our second quarter activity and portfolio performance. Jared will then discuss market conditions and our investment pipeline before Matt reviews our financial results and outlook.

The second quarter reflected continued progress for Seven Hills as we deployed capital raised through our rights offering while also strengthening our overall portfolio composition. During the quarter, we generated distributable earnings of $5.1 million, or $0.23 per share.

Distributable earnings came in at the lower end of our guidance range, primarily due to several loans closing later in the quarter than initially expected. Despite these delays, we continue to make meaningful progress deploying our available capital, growing the portfolio, and remaining on pace to have a covered dividend by year-end. Our second-quarter investment activity reflects the strength of our origination platform and the flexibility provided by our balance sheet. We closed three new loans totaling $75 million, including a $36.3 million loan secured by a multifamily property in Roswell, Georgia, a $22.7 million loan secured by a medical office property in Sugar Land, Texas, and a $16 million loan secured by a self-storage facility in Philadelphia.

Subsequent to quarter end, we also closed a $24.3 million loan secured by a retail property in Park City, Utah. Together, these four investments reflect our ability to source attractive opportunities across varying property types and geographies. As a result, we have grown our portfolio by approximately $65 million year-to-date to roughly $790 million today. The portfolio continues to perform well with no realized losses, all borrowers current on debt service, and a weighted average all-in yield of approximately 7.7% at quarter end. Credit performance also remained stable during the quarter, with a weighted average risk rating of 2.9.

More than 80% of our current portfolio has been originated since 2022, meaning the vast majority of our investments were underwritten in the post-pandemic environment and reflect current market conditions. Turning to Yardley, our sole REO property, the asset services team here at RMR has done a terrific job positioning the assets for an eventual sale. In addition to various lease renewals over the past 24 months, we recently signed one new lease and have another lease under LOI. As a result, the property is expected to achieve occupancy over 90%, well ahead of comparable properties in the market. Repayment activity during the quarter also enhanced the overall composition of our portfolio while providing flexibility to pursue new originations.

We received over $85 million of repayments, including the full repayment of a $54.7 million loan secured by a multifamily property in suburban Cleveland, a full repayment of a $26.5 million loan secured by an office building in suburban Chicago, and a $4 million partial repayment in conjunction with a one-year extension of a $37 million loan secured by a hotel in Boston.

Following this repayment activity, we ended June with approximately $70 million of cash on hand and nearly $400 million of available capacity across our financing facilities. Importantly, our legacy office exposure continues to trend downward from 24% at year-end to 19% today, and we expect this number to decrease even further with three office loans scheduled to mature later this year. The repayment of these relatively underlevered loans should also increase our capacity to grow the portfolio through new originations later in the year.

Overall, Seven Hills enters the second half of the year from a position of strength with reduced office exposure, a largely post-pandemic loan portfolio, and ample liquidity. Looking ahead, we remain focused on thoughtfully growing the portfolio and increasing earnings throughout the remainder of the year.

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

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

Thanks, Tom. Since our last earnings call, market activity has been influenced by a combination of geopolitical uncertainty and interest rate volatility. During the quarter, concerns surrounding the conflict with Iran, the potential impact of higher energy prices, and renewed inflationary pressures contributed to a meaningful increase in treasury volatility, with interest rates ranging from between 4% and 4.7%.

As we have discussed previously, periods of treasury rate volatility often create hesitation among commercial real estate investors as they contemplate buy and sell decisions. We saw evidence of that during April when transaction activity slowed noticeably as market participants took a cautious approach. However, activity accelerated as the quarter progressed through May and June. Against that backdrop, transaction activity today continues to be driven more by refinancings and acquisitions, as lenders are increasingly requiring borrowers to repay maturing debt rather than extending. Additionally, many of these properties have not yet reached the level of stabilization needed to secure permanent financing or achieve optimal sale proceeds.

Therefore, floating-rate financing remains an attractive option due to its lower borrowing costs and flexibility relative to longer-term fixed-rate debt. From a capital markets perspective, liquidity remains abundant. The banks have meaningfully reentered the market as lenders. Debt funds continue to compete aggressively for new lending opportunities, and the securitization market continues to be extremely active. These competitive dynamics have led to credit spreads tightening across many property types.

Multifamily continues to be the most competitive segment of the market, despite the fact that many of these assets and submarkets are still contending with elevated supply, slower absorption, and persistent rent concessions. While we continue to evaluate a large volume of multifamily opportunities, we remain selective at current pricing levels and instead have found recent success in sectors such as retail, medical office, self-storage, industrial, and student housing, where we believe returns are more compelling relative to the underlying risk profile. From a pipeline perspective, activity remains healthy. We continue to see a steady flow of financing requests across multiple property types. We currently have 7 outstanding term sheets representing approximately $300 million of potential lending opportunities.

This provides a strong foundation for continued portfolio growth as we move through the third quarter. While competition has increased, we remain focused on opportunities where pricing, structure, and sponsorship align with our underwriting standards. Borrowers continue to value financing partners that can provide certainty of execution, structural flexibility, and customized solutions as they navigate upcoming maturities and an uncertain macroeconomic backdrop. We believe this environment will continue to benefit floating-rate lenders like Seven Hills that can provide bespoke financing solutions for its borrowers.

I will now turn the call over to Matt to review our financial results and guidance.

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

Thank you, Jared, and good morning, everyone. Yesterday we reported second-quarter distributable earnings of $5.1 million, or $0.23 per share, which was at the low end of our guidance.

As Tom mentioned, this was largely driven by delays in forecasted loan closings in the quarter. While deployment in the quarter was delayed from our assumptions, it is important to note that originations so far in 2026 have been executed at net interest margins of 1.86%, the highest level over the past four years. 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. While the rights offering has continued to impact distributable earnings, resulting in our dividend not being covered over the past two quarters, we remain committed to this dividend level through 2026 at a minimum and expect to cover our quarterly dividend level by the end of this year.

Overall, we expect third quarter distributable earnings to be in the range of $0.23 to $0.25 per share. As we deploy our available capital toward third and fourth quarter targets, we expect the incremental earnings to offset the impact of the higher share count by year-end. Credit quality remains strong at Seven Hills. Our CECL reserve stands at 190 basis points of total loan commitments, a 60 basis point increase from last quarter. While all office loans are performing and our exposure has declined to 19% with the full office loan repayment in the quarter, the increase is largely driven by increased reserves on two of our office loans with 2026 maturities.

Our full loan portfolio is supported by a conservative portfolio risk rating of 2.9. The portfolio is well diversified by property type and geography, and all loans are current on debt service. This reflects a disciplined underwriting and asset management process that we believe creates durable long-term value for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Marissa Lobo, UBS.

Marissa Lobo - *UBS AG - Analyst*

First, if you could speak to just the competition, commentary points to increased competition from banks, life companies, securitized lenders. Are you seeing that directly in your deal process?

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

Sure, Marissa, this is Jared. Yes, we're absolutely seeing more competition. Where we play in the middle market, borrowers have a lot of options. They can go to local banks, regional banks for their financing needs. The life companies are active as well as the securitization market, particularly for CMBS -- or excuse me, for multifamily loans.

So where we play in that -- our average loan size now is about $30 million. Borrowers have a lot of options, more so from the banks than they have in the past because they're getting -- they're becoming more active.

But what I will say is that competition and the activity that we're seeing with the banks returning to the market is also healthy for our business because what it's allowing our existing borrowers to do and it's providing more liquidity to refinance our assets as well. So loans that are on our balance sheet have a lot more options to be repaid or refinanced out at their maturity as well. So overall, it's healthy, but the competition certainly is having an impact on pricing spreads.

Marissa Lobo - *UBS AG - Analyst*

Okay, great. And just shifting, thanks for the color on Yardley, but is there any update on anticipated disposition timeline for that asset?

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

I think pending the lease negotiations that are happening now that we're -- that we believe will be finalized in the very near term, then we can consider bringing it to market towards the end of the year.

Operator

(Operator Instructions)

Jason Weaver, JonesTrading.

Jason Weaver - *Jonestrading Institutional Services LLC - Analyst*

Just a question on the $4.9 million provision with still no noncurrent, nonaccrual or realized losses. I have to think this is a specific reserve against an asset. And would that pertain to the Dallas multifamily property? And what sort of -- if so, what sort of factor drove that decision?

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

Sure. Thanks for the question. So we have three office loans that are maturing between August and the end of this year. And the increase in reserve of about $4.9 million in the quarter was really driven off of two of those office loans, just given the near-term maturity, thinking about collateral values, et cetera.

It's important to note that all of our office loans are performing and generating positive cash flow. We have a slide in our earnings presentation showing the details of those office properties, but it's really just a function of the near-term risk with the maturity.

Jason Weaver - *Jonestrading Institutional Services LLC - Analyst*

Got it. Okay. And then can you give any detail -- I didn't see anything in the deck regarding the Plano loan extension. Are there any rate changes? Or is there equity injection by the sponsor?

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

We did a two-year extension on that asset. That property is performing terrific, far outperforming their budget actually. So they paid an extension fee. They acquired a new interest rate cap. So they invested some capital in that regard.

But that's a covered loan with a debt yield that's, I think, approaching 12% and coverage, it's probably -- I think it's almost approaching 1.4x. So it's a very healthy loan. So there was no need to have a paydown on the principal balance for that loan.

Operator

Craig Kucera, Lucid Capital Markets.

Craig Kucera - *Lucid Capital Markets LLC - Equity Analyst*

I see the coupon on the Park City, Utah assets. Can we get the all-in SOFR spread for that one?

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

So the spread on that loan was 3.25% over. And then that also has an exit fee as part of the financing terms on that.

Craig Kucera - *Lucid Capital Markets LLC - Equity Analyst*

So, is that roughly 40 basis points above the coupon, or how should we think about that?

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

Yes, the exit fee, just amortized over three years, so 33 basis points is a way to think about a 1% exit fee, right? So you can just tack that on to the spread.

Craig Kucera - *Lucid Capital Markets LLC - Equity Analyst*

Okay, that makes sense. And I'm just curious, your comments about competition and a little bit of spread compression. I mean, you look at what you originated here in the second quarter versus the fourth quarter and first quarter. You know, SOFR spreads are a little bit down. How much of that would you attribute to mix versus just the overall market?

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

Well, I think a big part of it is mix. The assets that we originated were -- because they were largely commercial assets, we had additional pricing power, I think, with those. So that gave us -- that resulted in the higher returns for those loans that we originated.

I think we banked a pretty meaningful amount of net interest margin over the last two quarters. And so we've been selectively thinking about expanding originations in this quarter to do a little bit more in the multifamily where available. And so again, the pricing there -- market pricing for a full loan on a multifamily deal today is probably SOFR, it can range anywhere from SOFR 2.35% to 2.75% depending on who's providing the financing and the cash flow of the asset.

We're generally looking at those multifamily deals in the SOFR+ 2.65% to 2.95% range where we can achieve that type of pricing, again, round numbers. But I think we'll -- in the next quarter or two, we'll be able to originate a few of those loans at maybe a little bit tighter net interest margin to continue to grow the portfolio and balance the mix.

Craig Kucera - *Lucid Capital Markets LLC - Equity Analyst*

Got it. And I feel like earlier in the year, you thought you were going to grow your loan portfolio to maybe $950 million. Is that still the target for the year? And can you kind of talk about what's your anticipated pacing? Is that front loaded?

Is that back loaded? Just any thoughts would be helpful.

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

Yes. I think it's still on target to end that $950 million, $960 million number, which would put us about $200 million net of where we ended the quarter at, maybe about $170 million net of where we are today. And a significant part of that will be end of Q3 and then into Q4. I mean that's -- the pipeline of what we're looking at right now for Q3 closings would all be towards the end of the quarter.

Craig Kucera - *Lucid Capital Markets LLC - Equity Analyst*

Got it. Okay. That's helpful. Just one more for me. You had -- you were inside of a month from the maturation of the $44 million Dallas office loan.

Based on your conversations with the borrower, can you handicap whether or not you think that will be paid or extended?

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

We believe that loan will be paid off. We have been in negotiations. Now there's -- what happens with these extensions and these loan nods and payoffs when we get to the situation, oftentimes, it doesn't really come to a head until just prior to it needs to. So we are actively in discussions with the sponsorship, but we do believe that will be a payoff.

Operator

Christopher Nolan, Ladenburg Thalmann.

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

On the office question, is the reserve reflecting some sort of anticipation of a restructuring if these guys are short?

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

No, it's really more just a function of the overall CECL model and looking at kind of the current collateral value. As part of negotiations on this one, we did get an appraisal. And I would say that the stabilized value of that appraisal would show that we have a covered loan. So it's really just a function of where we are today in the maturity window of that loan.

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

Great. And they're going to be, theoretically, taken out by a bank, correct?

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

Most likely, right. We're not 100% sure on how they're going to recapitalize it, but that's our belief.

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

In that case, what's the current LTVs that banks are making for office loans these days?

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

You know what, Chris? We see it all over the map or all over the board, I should say. I don't know. My guess is maybe that's a 65% number, something along those lines.

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

And Chris, you've got great sponsorship here, too, that's been supportive of the asset. So we're not clear exactly on how they're going to recapitalize it, but they've been able to step up and support the asset when needed. So I'm sure that will happen come the refinance.

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

Great. And the follow-up is on the paid-in capital, saw a quarter-over-quarter increase of $340 million from $304 million. What was that related to, please?

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

I'm not sure I follow your question.

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

I'm looking on the balance sheet, paid-in capital. Maybe I missed it, like confused it. I'll take it offline. It's no big deal.

Operator

Chris Muller, Citizens Capital Markets.

Christopher Muller - *Citizens Capital Markets - Analyst*

So I see the comment in the deck on deploying the rights offering still ongoing. I guess the question is, how much of a drag on earnings in the second quarter was that capital not being fully deployed? I'm just trying to get a sense of run rate earnings ex that drag.

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

Yes. Thanks for the question, Chris. I would say it's a little bit of a drag, right? For the quarter, we were a net reduction of $10 million when you take the $75 million of production offset by the $85 million of repayments. So we're probably lagging a little bit behind our overall production forecast, but we still remain confident in hitting our numbers by the end of this year.

And that's consistent with the messaging we've been providing.

Tom mentioned about a net portfolio growth of about $200 million, and a lot of that's going to come September through Q4. So we still feel really good. Jared commented we have about $300 million of term sheets outstanding currently. So we remain very committed and supportive of our year-end forecast.

Christopher Muller - *Citizens Capital Markets - Analyst*

Got it. And then maybe shifting gears a little bit. So on repayments, what was the timing of repayments in the quarter? And I'm just looking at the $70 million of cash and wondering if there were late repayments that elevated that number at all.

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

Yes. So a lot of it was really the $55 million loan was repaid in early April, I think it was. So from an earnings perspective, we didn't replace a lot of that until later in the quarter. So that's why we saw a $0.01 decline from Q1. We were just sitting on that excess cash.

We also had proactively repaid the repo associated with that loan in Q1 just because of the surety of closing. So we received more cash as part of that repay.

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*

Thank you, everyone for joining today's call. Please reach out to Investor Relations if you are interested in scheduling a meeting 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.
