Starwood Property Trust

Second Quarter 2022 Earnings Call Transcript
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STARWOOD
PROPERTY TRUST

Call Participants

EXECUTIVES

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Chairman & CEO

Jeffrey F. DiModica
President & Managing Director

Rina Paniry
CFO, Treasurer, Principal Financial Officer & Chief Accounting Officer

Zachary Tanenbaum
Managing Director, Head of Investor Strategy

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Presentation

Operator

Greetings, welcome to the Starwood Property Trust Second Quarter 2022 Earnings Call. [Operator Instructions] And please note that this conference is being recorded. I will now turn the conference over to your host, Zach Tanenbaum, Director of Investor Relations. Thank you, sir. You may begin.

Zachary Tanenbaum
Head of Investor Strategy

Thank you, operator. Good morning, and welcome to Starwood Property Trust's Earnings Call. This morning, the company released its financial results for the quarter ended June 30, 2022, filed its Form 10-Q with the Securities and Exchange Commission and posted its earnings supplement to its website. These documents are available on the Investor Relations section of the company's website at www.starwoodpropertytrust.com.

Before the call begins, I would like to remind everyone that certain statements made in the course of this call are not based on historical information and may constitute forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of trends and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. I refer you to the company's filings made with the SEC for a more detailed discussion of the risks and factors that could cause actual results to differ materially from those expressed or implied by any forward-looking statements made today. The company undertakes no duty to update any forward-looking statement that may be made during the course of this call.

Additionally, certain non-GAAP financial measures will be discussed on this conference call. Our presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Reconciliations of these non-GAAP financial measures to the most comparable measures prepared in accordance with GAAP can be accessed through our filings with the SEC at www.sec.gov.

Joining me on the call today are Barry Sternlicht, the company's Chairman and Chief Executive Officer; Jeff DiModica, the company's President; Rina Paniry, the company's Chief Financial Officer; and Andrew Sossen, the company's Chief Operating Officer.

With that, I'm now going to turn the call over to Rina.

Rina Paniry
CFO, Treasurer, Principal Financial Officer & Chief Accounting Officer

Thank you, Zach, and good morning, everyone. This quarter, we reported distributable earnings, or DE, of $162 million or $0.51 per share. GAAP net income was $212 million or $0.67 per share. Our GAAP book value grew by $0.22 in the quarter to $20.68 with undepreciated book value increasing $0.25 to $21.51, an increase of 26% from a year ago. We had an active quarter with $3.8 billion of new investments across our businesses and fundings of the same amount. The investments were funded by available cash and loan repayments as well as existing and expanded asset-specific debt capacity, which I will discuss later.

Beginning my segment discussion this morning is Commercial and Residential Lending, which contributed DE of $153 million to the quarter or $0.48 per share. In Commercial Lending, we originated $2.2 billion across 15 new senior loans, all of which were floating rate. We funded $2 billion of these loans as well as $239 million of pre-existing loan commitments with most of our funding back ended to the last month of the quarter. Given decreased and delayed market transaction volume, repayments were lower than our typical run rate at $319 million this quarter. While levels will still likely be lower than normal for the remainder of the year, we expect them to exceed what we had in the second quarter. To that end, for the month of July, we have received $283 million in repayments.

Our loan portfolio ended the quarter at a record $16.5 billion, up 43% year-over-year. Of this amount, 92% represents senior secured first mortgage loans and 99% is floating rate. Although we did not see a meaningful impact this quarter from rising interest rates, due in part to some of our higher LIBOR floors, we expect to benefit more going forward. Company-wide inclusive of floating rate assets and liabilities in all of our businesses, a 100 basis point increase in base rates would increase annual earnings by $33 million.

With our continued investing outside of the U.S., particularly in Europe and Australia, international loans represented 58% of our second quarter originations and 28% of our loan portfolio at quarter end. We hedge 100% of our expected foreign currency cash flow exposure on these loans, including both principal and interest. As a result, despite significant volatility in currencies this quarter, the impact to book value was an increase of just $0.06.

The credit performance of our portfolio continues to be strong with the second quarter origination LTV of 60%, a weighted average LTV of our overall portfolio of 61%, a weighted average risk rating improving to 2.5 from last quarter's 2.6 and 100% of loans current as of quarter end. On the CECL front, our general reserve increased by $8 million from last quarter to a balance of $59 million, reflecting market uncertainty and the impact of rising rates.

During the quarter, we foreclosed on a 5-rated $50 million first mortgage and mezz loan related to a 41-story office building located in the Galleria Office District of Houston. The net assets of the property, including the assumption of an $88 million third-party first mortgage, were recognized at the carryover basis of our loan because the appraised value of the property exceeded the debt. Our last dollar basis in the property is $102 per square foot.

Next, I will walk through our residential business, where $1 billion of purchases were offset by sales and securitizations of the same amount. Despite repricing in the securitization market and significant spread widening in the residential loan space, we securitized $828 million of loans in our 18th and 19th securitization and sold $220 million of loans, all at breakeven as a result of related interest rate hedge unwinds.

For the loans remaining on the balance sheet at quarter end, we recorded a $108 million unrealized negative mark-to-market adjustment for GAAP purposes, along with an offsetting $22 million unrealized positive mark-to-market on the related interest rate hedges. We continue to believe in the credit quality of these low LTV, high-FICO loan, and as a result, have not recognized any DE losses for the loans remaining on balance sheet.

Our loan portfolio ended the quarter at a balance of $2.2 billion, including $400 million of agency loans, average LTV of 68%, a weighted average coupon of 4.6% and average FICO of 745. Our retained RMBS portfolio ended the quarter at $416 million after retaining $142 million of bonds in our Q2 securitizations.

Next, I will discuss our Property segment, which contributed $21 million of DE or $0.07 per share to the quarter. Our Florida affordable housing portfolio continues to perform exceedingly well. For GAAP purposes, we recorded an unrealized fair value increase in the Woodstar fund this quarter of $292 million, or $232 million net of noncontrolling interests. The vast majority of the increase was driven by the fair value of the property, which increased by $263 million. In-place NOI increased this quarter due to the impact of HUD's recently released maximum rent levels, which were 9.7% higher than last year. The majority of these new rents were implemented in June so you will see just a partial impact to earnings this quarter. Our valuation only factored in these increases to NOI. We did not assume any change to the cap rate, which continues to be based on the third-party transaction price established at inception of the fund in November of last year. We also recorded a $24 million increase related to the favorable debt on the portfolio due to market interest rates exceeding the 3.7% blended fixed and floating rate debt we currently have in place.

Next, I will discuss our Investing and Servicing segment, which contributed DE of $34 million or $0.11 per share to the quarter. In our conduit, Starwood Mortgage Capital, we completed 2 securitizations and priced an additional securitization totaling $372 million in the quarter, all at profits consistent with historic level. Consistent with past practice, the transaction which priced in June, but settled in July, is treated as realized for DE purposes. As of quarter end, all securitizable loans have been priced or securitized, leaving no mark-to-market exposure on balance sheet. And in our special servicer, we obtained 9 new special servicing assignments totaling $9 billion during the quarter, bringing our named servicing portfolio to $105 billion, its highest level since 2016.

Concluding my business segment discussion is our Infrastructure Lending segment, which contributed DE of $13 million or $0.04 per share to the quarter. We funded $191 million of our $196 million in new loan commitments along with $14 million under preexisting loan commitments. These fundings outpaced repayments of $58 million, increasing the portfolio to $2.4 billion from $2.2 billion last quarter. We also entered into a new $500 million credit facility, which carries a 3-year revolving period and two one-year extension options. This is a non-mark-to-market facility where the margin call provisions do not permit valuation adjustments based on capital market events.

I will conclude this morning with a few comments about our liquidity and capitalization. In addition to the new infrastructure financing facility, we entered into new facilities and Commercial Lending totaling $920 million and completed $300 million in upsizes. As a reminder, 90% of our outstanding on- and off-balance sheet debt is non-mark-to-market.

We also entered into an ATM agreement with a syndicate of financial institutions to sell up to $500 million of common stock through an at-the-market equity offering program. We issued 1.4 million shares this quarter for gross proceeds of $33 million at an average share price of $23.54. In addition to financing capacity available to us via the corporate debt and equity and securitization market, we continue to have ample credit capacity across our business lines, ending the quarter with $9.3 billion of availability under our existing financing lines, unencumbered assets of $4 billion and an adjusted debt to undepreciated equity ratio of 2.3x.

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

Jeffrey F. DiModica
President & MD

Thanks, Rina. As Rina said, we once again used market volatility to our advantage, adding nearly $4 billion of investments in the quarter, bringing our portfolio to a record $27 billion today. We have already closed $1 billion of CRE loans in Q3, which will bring our total for 2022 floating rate CRE lending to over $5 billion year-to-date. That said, we reduced our investment pace in recent months, recognizing that there would be a great opportunities to invest at higher returns later in the year. In early COVID, we had the unique ability to create significant liquidity from our unencumbered assets and owned CRE portfolio, and we have the option to do that again today should loan repayments decline.

Reduced investment pace does not mean reduced distributable earnings. In lower volume periods, we have a sharp shooter mentality to laser focus on only the most accretive deals and that is our second half plan. Executing our plan is less dependent on volume of investments and is more dependent on timing sector rotation, the performance of our credit and staying optimally invested, therefore, not sitting on too much or too little capital.

Finally, interest rate sensitivities continue to move in our favor. Rina mentioned our interest rate floors and SOFR is now over 150 basis points above our average floor so we will continue to make more money as rates rise. And importantly, our new loans will have floors at today's SOFR levels, which will have a big benefit should SOFR decline in the future faster than the forward curve.

Our $3 billion owned property portfolio continues to be our best performing investment, and as Rina mentioned, we wrote up our Florida multifamily valuation, not on cap rate, but based on experienced rent growth, which we expect to continue to rise with median income growth in the future. We still believe the cap rate on our minority sale last year is significantly higher than where a similar portfolio would trade today and are optimistic we will recognize more embedded value in this portfolio in the coming years. Our net lease and medical office assets also continue to perform exceptionally well and have significant gains. At our marks, we have nearly $5 per share of gains in our owned property portfolio today that can be harvested, reinvested, distributed or we can continue to create long-term shareholder value by holding them.

Today's higher borrowing costs will not hurt our owned real estate portfolio in the coming years. We have significant remaining term on our debt across this portfolio and don't need to refinance any debt until November 2024 for our medical office portfolio, August 2026 for our Woodstar portfolio, and October 2027 for our triple-net portfolio. Our below-market debt on this portfolio is a valuable asset as long-term holders.

Our CRE lending business had another great quarter with $2.2 billion of new originations at just 60% loan to value. Inclusive of A-notes sales we have made, our CRE loan book is now $20 billion for the first time, with 2/3 of those originations coming post-COVID. Although CRE transaction volume is expected to slow in the second half, lending competition is thinner as the single-asset CMBS market, less well-capitalized debt funds, and many banks are on the sidelines. We, therefore, expect to get better structure and pricing on what we do in the second half of the year than at almost any time in our history.

The $3 billion of CLO's we issued in prior years at very low borrowing rates are "actively managed", giving us the ability to replace assets that pay off in them with other assets that would otherwise be financed at today's higher spreads. Reinvesting allows us to finance higher coupon loans originated in 2022 and 2023, at 2020 and 2021 financing spreads, which are 100 to 150 basis points lower than today, and among the lowest in history. 100 basis points of tighter financing increases the return on these new investments by almost 500 basis points. We have replaced over $600 million of maturing loans in our CLOs over the last 12 months and have projected reinvestment requirements of $1.5 billion through 2023. Said simply, in the next year, we expect to be able to lever $1.5 billion of higher coupon new originations at financing spreads well below current market rates, and earn an outsized levered return.

You will see in our supplemental that we have completely repositioned our loan book since COVID, focusing on the most defensive sectors, multifamily and industrial. As the agencies and CMBS market were forced to pull back post-COVID, we filled the void. More than half of the loans we wrote since COVID are multifamily, which is now by far our largest asset class, representing 1/3 of our portfolio versus just 13% pre-COVID and 11% in Q1 2020. We have significantly decreased our exposure to office, hotel and mixed-use investments in that time as well. With a payoff and a loan sale at par on a previously disclosed 4-rated loan subsequent to quarter end, we now have zero loan exposure in the difficult San Francisco market, and less than 3% of our assets are on loans in Manhattan, making our 61% loan-to-value portfolio the most diversified, recession-proof in our history.

International Lending continues to be a growing and important part of our CRE origination. We have had large teams in these markets for decades, and this exposure provides diversification in our lending segment collateral types at attractive levered and unlevered returns that continue to increase as rates move higher. As a reminder, we fully hedge foreign exchange risk for interest and principal payments through our expected maturity. Given dollar strength this year, those hedges have a very significant $118 million gain that will protect us should the dollar weaken in the future.

Non-agency credit spreads have widened significantly since the Fed stopped buying mortgage-backed securities in February, as a pullback in senior bond buyers with concern about fixed income outflows has kept spreads wider than expected. In our Residential Lending portfolio, we always hedge interest rate risk, but the spread widening has made financing our loan book more expensive. We were able to execute two securitizations in the quarter at breakeven after unwinding hedges. Over the past couple of weeks, liquidity is returning to the non-QM securitization market as 5 to 6 deals priced this past week alone and spreads are moving in. At the same time, we are buying significantly higher coupon loans that we expect to be accretive in the future.

As the markets repair, we will look to securitize the balance of our loans, which will remain on our financing facilities until securitization is more economically viable. Like in our CMBS, CRE and Energy Infrastructure Lending businesses, we have the balance sheet to be long-term holders who will securitize when accretive.

Our 59% LTV energy infrastructure portfolio increased to $2.4 billion, and we were on pace for a record originations year in a very accretive return environment. Our LTV's have fallen this year as power plants became more profitable. There is significantly less competition lending in this space. We like the credits and expect to earn mid-teens returns on current originations. We recently added an experienced Houston-based originator with over 2 decades of lending in the energy market to take advantage of these opportunities. As Rina mentioned, we added another term financing facility in this sector as well and hope to execute our third CLO later in the year.

Finally, in REIS, our CMBS conduit originations business continues to outperform in a volatile environment. As Rina mentioned, our named special servicing portfolio is now back over $100 billion. This is important as the servicer is a long-term positive carry credit hedge that will make more money for shareholders should markets roll over in the future.

With that, I will turn the call to Barry.

Barry Stuart Sternlicht
CEO & Non-Independent Executive Chairman of the Board

Thank you, Zach, Rina and Jeff, and thank you for joining us again this morning. I thought I'd start my comments in the big picture, which is probably the most important thing, our strategy to navigate the turbulence we see in front of us. First, I think you all agree that the Fed was way behind raising rates and let the casino society move too far too fast and induced really unusual consumer behavior, reflected in the stock market and the tech sector, and undisciplined investing.

Having said that, they're now trying to make up for being so far behind by using a sledgehammer, increasing interest rates at a pace we've hardly ever seen to try to get in the way of inflation, which is really being driven by the commodity complex, particularly in oil and gas, and it affects everything oil and gas. It affects transportation costs, which affects food costs. It affects oil prices. It affects air fares, which are sky high. And in fact, the consumer significantly -- and obviously, using a tool like interest rates to dampen oil demand is, really, the only way that happens is if they really crush the economy.

So I'd be very surprised if the Fed didn't go forward and just kept rates here, the economy didn't soften materially coming out of the summer months, which are somewhat of a party from the extended period that people found themselves in COVID. There's no question that Europe is going to have a very tough winter and it's already in recession. German industrial production has to be cut back. China is growing very slowly, so there will be no way to pull the global economy forward, and as you know, global growth rates have been reduced -- all the estimates have been reduced.

So I wouldn't be surprised if the third quarter and fourth quarter GDP numbers were bad. And the question really will be, how bad? The consumer, which is the backbone of the U.S. economy, well, he may still be spending but his confidence is the lowest point it's been in decades and it's even worse in Europe. So, there's no question that the consumer will stop spending the way he has spent, in my mind.

And you can't look backwards. You have to look forward at what you're facing and he's facing dwindling savings rates because he's spending his money on gas, on food, on rents and housing prices and interest expense. I don't see the offset. We see, obviously, the significant decline in both the stock market and in crypto markets, which have taken something in excess of $12 to $15 trillion out of global wealth, just in the equity markets. That's not including what's happened in private markets, in PE and tech, which have seen such dramatic increases in cost.

Against this, back to the real estate markets, they have held up very well. And the -- oil and gas increases are really temporary. It's easy, or it may take 18 months, either for Germany to turn on their nuclear plants, or for us to come up with ways to get increased gas production out of the wells that have shuttered or get oil out of the ground. And the energy curve, the oil price curve shows that.

In addition, you're now seeing a parabolic, even negative yield curve, but you see the markets are expecting that rates will fall sometime in the middle of next year, and I agree with that. I think the economy will roll over, the Fed foot will have to come off of the gas pedal of rising rates. And we will all settle into this period of time where we'll be sort of in a slow stock negative cycle, but it will be easy to build off of that. We'll move forward, I think, expeditiously.

We'll have the elections in November. We'll get through that period, and CEOs and capital plans will adjust to the new cycle and their forecast. I couldn't really disagree more with Bill Ackman about the Fed being – having to increase rates. I think he must be short the stock market because the economy is going to roll over on its own. And you're seeing that in the housing market, which is always the leading sector. Obviously, people won't be buying cars, if they feel they -- not only can they not afford them when they can't get them, but they can't be financed at 0% anymore. There's no easy way to push car sales.

So getting back to real estate and the fundamentals of real estate remain excellent. Apartment rents continue to rise.

We're the nation's largest owner of apartments at the moment. So we have a pretty good view from 130,000 apartments. Hotels are having a wonderful season there. It just reported, you've seen their numbers. We're a little concerned that that's sort of the Super Bowl effect, extended summer Super Bowl - people traveling, seeing friends, going to Europe, with the dollar where it is.

Industrial markets remain very strong despite Amazon cutting back on some of its growth. The markets continue to have single-digit vacancy rates. The only real cause to concern from 800 feet are the office markets, and there you have to actually separate market by market and good buildings from bad buildings. There are leases to be had in Class A buildings, buildings that are fun for people to go back to work and most management teams want people back in the office. And then there are commodity buildings that are dark and dreary and have no windows and have no life and full of cubicles. People don't want to go back to work in those buildings, and there's no bid. So you're seeing a bifurcation in the office markets, and we just have to be careful what we lend against.

On the good note in the real estate markets, there's a benefit to rising rates and increasing the cost of capital, and that is construction. We would expect construction to drop significantly, and many of the permits that have pulled, many of those projects will never get built. And that will help things like the apartment market and obviously, the hotel market. As many of these projects are shelved, they may never get built because not only is it more expensive because your construction loan, you can get one that's more expensive, but also labor costs have continued to rise. And the value of your building, you probably don't think you're going to sell it at the cap rate that you expected when you announced you were building that building. So if I were thinking I would sell my apartment at a 3.5% yield, maybe the market's moving to 3.75 or 4 or maybe 4.25. It's not clear. But you thought you were building this to a 5.5 unlevered and now you're building it to 4.75 because it's costing more, taking longer and material prices, obviously, component prices have gone up dramatically, too. So, I think you'll see a drop in construction starts, which, by the way, falls into the category of a slowing economy. Construction and capital spending is a big part of GDP.

So, with that, we are running our company cautiously from the perspective of retaining liquidity and keeping access to liquidity and running multiple scenarios. There's -- in fact, the markets get weaker and what they might do in response to weakening U.S. economy.

Our business has been performing very well in the quarter, other than the resi markets where we think our loans have great credit quality, but we have some temporary marks on the book. And we'll navigate our way out of that position as we have other marks that we've taken in the CMBS book at moments in time and other areas where we had mark-to-market losses. The credit quality of the loans are exceptional and FICO scores of our borrowers are great, and the loan to values are more than adequate and protected.

So the book is good, it’s a question of liquidity for us and the securitization market shutdown, and we didn't want to force selling into those markets, and we don't have to force selling, so there's no reason to do that. It was amazing that our conduit business is profitable in this incredibly volatile market, and our energy lending business is having a field day relative to when we started with loans at tremendous ROEs to us, and we would like to continue to increase that business. Obviously, the energy complex is having a bit of a boondoggle. So there's lots to do, and we're trying to organize ourselves, take advantage of those opportunities from here on out for the rest of the year.

And I think that is our biggest challenge today is how to position ourselves to take advantage of the great lending opportunities that we see, which is as good as we've seen in a long time. Most commercial banks have stepped back from the market. That creates incredible opportunities for alternative lenders like ourselves with the footprint that we have, both domestically and internationally and should pave the way for exceedingly good investment going forward.

One other hidden jewel for us is REIS, the former LNR that we call Starwood Real Estate Services. As Jeff mentioned, the book will soon cross $100 billion because of main servicing. That's as large as the book has been since basically we started in the business and will soon we think become the largest service in the country.

There will be a lot of workouts people. There will be a lot of loans that will need to be extended. A lot of people will find that covering 2.5% interest is quite different than covering 6.5% interest charges. If they didn't buy caps, even if they did when their loan matures, they're going to need some help in building an opportunity to pay down the loan between

Starwood Capital on the equity side and Starwood Property Trust on the debt side. We're going to have a first-row seat at this restructuring, which should lead to exceedingly exciting opportunities for our firm, across the breadth of what we do.

I'd say that we've also run our firm with very light leverage versus our peer set at 2.3 so times and our competitors at 3.6 and 3.8. We have margins of error that maybe our peer set doesn't have, including should we choose to, selling some of our real estate assets which are quite liquid, and we have significant gains in. So we can always peel them off at the right time and then provide an additional source of liquidity besides the undrawn lines and cash we have on hand. I think that's really going to position us well in a turbulent market. So we are all hands on deck. I think Jamie Dimon said, this is a hurricane. It feels to me like at the moment, we're in the eye of the hurricane. We don't know if the worst is behind us, I tend to think not, but it may be shallow if the Fed pauses.

If the Fed goes too far too fast, and I was encouraged by Chief Powell's comments about their signs of softening. You should look a little closer because you would have seen the signs of excess, and you would have raised rates. But there's a lot of softening in the economy. And I don't know about you, but whether I'm on Potterybarn.com or Zillow, I see price reductions and certainly in secondary markets for homes, and I see lots of sales at Pottery Barn, West Elm and Bloomingdale's and other companies trying to clear inventory and you obviously saw Walmart's report. If you want to take a look at the economy, look at Walmart. When was last time Walmart missed earnings like that? So American consumers are in a pinch. I think we own the kinds of assets and have loans to kinds of assets that will perform exceedingly well in this climate.

And again, we thank you for your support, and I thank my team for doing an extraordinary job through a complex time and working hard in staying in their seats. We're all in our seats. Thank you very much.

Jeffrey F. DiModica
President & MD

Thanks, Barry. Operator, with that, let's turn it over to questions.

Question and Answer

Stephen Albert Laws
Raymond James & Associates, Inc., Research Division

Jeff, I wanted to start with Woodstar and the positive valuation gains there, much larger than I think I expected. Can you talk about, with a little more detail in the assumptions? I know -- I think Rina provided up 9.7% on the NOI. Is all of that factored into this new valuation estimate or only the rents that rolled up in June? How do we think about how the rent increases over the balance of the year may impact the fair value estimate of Woodstar?

Jeffrey F. DiModica
President & MD

Thanks, Stephen. It's an annual reset, as we talked about before. Rina, do you want to take it on or do you want me to?

Rina Paniry
CFO, Treasurer, Principal Financial Officer & Chief Accounting Officer

Sure. Sure. I'll take it. So, Stephen, the 9.7% is just the rent increase and the valuation adjustment factors in the entire amount. So, it's the NOI effectively that's in place at June 30th, capped. So, it's fully affected in the fair value that you see. The other thing I would mention though is NOI is not 9.7%, NOI is actually higher. It's about 12%, and that's because your cost didn't go up by 9.7%, right? So your overall NOI goes up by more than your growth rate.

Stephen Albert Laws
Raymond James & Associates, Inc., Research Division

I appreciate the color on that, Rina. Looking at the loans held for sale...

Barry Stuart Sternlicht
CEO & Non-Independent Executive Chairman of the Board

I just wanted to -- it's Barry. Hold on. It's Barry. One other thing is, the debt is fixed, and it's 3.60% or something like that. So, there's no impact to rising rates on the portfolio. And one other comment, of course, is the rents can only go up in affordable housing that cannot go down. So -- and we think we're using a cap rate that is wide as the market as well. So we're being conservative, and we know where the market is because the equity group has been selling some multis and almost all the market rate sales have been actually inside of this cap rate materially and the affordable effect just caught in stance, because of its defensiveness, obviously.

Jeffrey F. DiModica
President & MD

And Stephen, as I said in my prepared remarks, they are driven by median income and inflation in the median income numbers. We have most of the inputs for the next couple of years, the 3-year look back, and we do expect a couple more years of pretty significant increases.

Stephen Albert Laws
Raymond James & Associates, Inc., Research Division

Fantastic. I appreciate the details from everyone. As a follow-up, maybe touching on relative attractiveness of kind of new CRE loans in the U.S. versus Europe. I know that's -- I think it was Rina who mentioned, almost 1/3 of your portfolio. But what's the relative -- from a new dollar standpoint, kind of how do they compare today?

Jeffrey F. DiModica
President & MD

Barry, do you want to start?

Barry Stuart Sternlicht
CEO & Non-Independent Executive Chairman of the Board

Sure. So we've, like, done, it just happened in a better return. We just did a large deal in Australia. So that kind of tilted the book to a little more European than it normally would be. Historically, we kind of leaned - preferred even spreads we'd probably wind up in Europe because of the lack of pressure on rates. I don't think rates in Europe will rise anywhere near the treasury rates rising in the U.S., but -- and the difficulty from there of generally adding new supply. At the moment, I'd say that markets like the office markets, people are returning to office in Europe, pretty much in Asia, pretty much the way it was pre-pandemic. It's not the case in U.S. So it's a little bit of asset class shift in the U.S. as well, but spreads are attractive in both places, and we're now picking our poison, what do we want to -- what exactly do we want to lend against in the cornucopia of lending opportunities right now. So we're just very cautious that we are being careful.

Jeffrey F. DiModica
President & MD

I will add. We didn't give much detail on the Australia asset, but Barry brought it up, and you may have heard about it on the Blackstone call. It is the Crown Casinos. There's $3.5 billion of new cash equity in front of us. We believe it's about 51% LTV and 44% of replacement cost. It's probably the highest quality casino in Australia, and we feel super comfortable with that asset, but that definitely drove the international number this quarter, Stephen.

Operator

Our next question comes from the line of Rick Shane with JPMorgan.

Richard Barry Shane
JPMorgan Chase & Co, Research Division

Look, for a really long time -- and I don't think this has changed, a big part of your narrative is the disconnect between value and stock price. For a long time, this was actually reflected in you guys not issuing equity at levels that your peers or multiples that your peers certainly would have taken advantage of.

If we think about what's evolved, you guys did an equity issuance at the end of last year. You have an ATM program in the market today. I'm curious what's changed? Is it just that you see the marginal opportunity in terms of deploying capital to be so attractive? Or is it a relative value versus your peers that sort of driven the shift?

Jeffrey F. DiModica
President & MD

Barry, if you don't mind, I'll start. In December, when we issued equity, I think the stock was at $25.75, and we issued debt multiple times previous to our last regular way equity transaction in December 2016. It's super important to us that our bond rating makes its way towards investment grade at some point. That's been our holy grail. We've spoken about that. To do that, one of the most important inputs is that our debt-to-equity ratio stays low. We were 2.1x last quarter and we're 2.3x this quarter without reciting all of our peers, we are significantly lower than our peers, as Barry talked about.

The only way, if you're going to continue to grow the book with good opportunities to make loans to keep it down, is to have some amount of equity go along with that. So, for every billion dollars of debt, you would need $400 million of equity plus/minus, and we had gone with a few billion dollars of debt without any equity. So, December was really more about balancing our debt-to-equity ratio as we hope to improve our credit rating across the board to BB+, for others to join our one BB+ rating, and then hopefully, eventually get to BBB-. So, I think we looked at equity not as equity was cheap at that dollar price, but we looked at equity as a way to balance our debt-to-equity ratio and our goal to get to

investment grade.

This quarter was interesting. This quarter, we saw high-yield bond markets and credit markets widen much more significantly than the stock market early on in the quarter. And early on in the quarter before our stock ended up getting down to, I think, $19.70 at a low in the high 23s, we decided that high-yield bond issuance would be very expensive in the run that we had had in the second quarter. And we decided that it made sense if we were going to choose to have a little bit more liquidity, if loan repayments slowed, that raising $33 million - that's all we raised - in the ATM, it felt like a decent spot vis-a-vis our debt.

Our debt had moved into being sort of within 100 basis points or so of our dividend yield. And historically, that's been closer to 400. We thought that raising debt was too expensive, and so we took a little bit of equity at a time we thought we might need a little bit of capital later in the year. The high-yield markets have repaired massively, and we are probably 200 basis points inside where we were at the worst if we came with a high-yield bond deal now. So, we feel a lot better about that mix, but there are different reasons at different times where I would have chosen equity.

Richard Barry Shane
JPMorgan Chase & Co, Research Division

Okay. Jeff, that's a really interesting answer. So, to some extent, it is relative value, but I wasn't thinking about it in the context of the relative value across your balance sheet. Just -- it kind of feels like it is going to be a -- and I guess this is the nature of ATM programs, an on-demand source of capital as you needed it, if you continue to deploy at sort of the rate you are.

Jeffrey F. DiModica
President & MD

Yes, I think that's right. I don't think we looked at $25.75 as the price that we wanted to necessarily sell stock, but we think if we get to investment grade, it's a $30-plus stock. And we have to balance that, and we have to have some equity to go along with debt in order to get to that investment-grade goal.

Operator

And our next question comes from the line of Doug Harter with Crédit Suisse.

Douglas Michael Harter
Crédit Suisse AG, Research Division

You mentioned the significant percentage of your portfolio that is kind of a post-COVID vintage. I guess how are you thinking about the ultimate maturity of those loans given that rates are higher and some of your other commentary around kind of the cash flows of higher coupon debt and kind of how that ultimately plays out when those loans reach maturity?

Jeffrey F. DiModica
President & MD

Yes. Barry, why don't I -- go ahead, Barry. You go ahead.

Barry Stuart Sternlicht
CEO & Non-Independent Executive Chairman of the Board

I'll start. I think our 60% LTV is our biggest protection from risk. I think you're asking about rollover risk with any loan. I think they probably will stay out longer. We've always modeled the company to manage this expectation of repayment. We actually had no scheduled repayments this quarter, although we had a pay off early. So it was kind of an aberration that we had a quarter where we had no actual maturities of loans to speak of.

And we are looking at our expectations of repayment, whether an asset -- most of our assets are transitional. So, if they have a tenor, they can take construction, maybe refi us out, and we're doing the work to figure out will they refi us out. And obviously, the money will stay out, earning an attractive ROE, but it doesn't mean we will have less cash to invest in new opportunities. So, I think the LTVs will give people comfort. We hate to say it, because we are a borrower, we're not a treasurer or lender. We're not trying to get these assets back, right? But if we do, we'll be buying a 4.5% cap multi at a 6.5% cap which is our loan leverage or something like that. We will make money, as I think we have on every asset we have ever foreclosed on. So we don't look forward to that, but for us, given that we run the nation largest servicer, special servicer with almost 300 people involved in that business. And I don't know the number, but probably 40 or 50 of them are doing workouts. We're happy to -- we did not want it to happen. It would not have been the worst thing that could have happened. Jeff, you want to add?

Jeffrey F. DiModica
President & MD

Yes. I'll just add that we run a ton of debt yield sensitivities when we write a new loan. And given rents are up over this period over the last 2 years, significantly more than we underwrote, we underwrite these loans to maybe 1% rent growth to offset expense growth, but we don't expect rent growth. We've had massive rent growth, Doug. So, our debt yields are up significantly higher than what we thought they would be on our post-COVID originations today. So those higher debt yields will support a takeout at a higher interest rate level, and I think our LTV has actually gone down in this period and not up.

And so as Barry said, the 60 LTV is super important, but given business plans are executing at a faster pace than we would have expected, I think that more than offsets the higher rate environment for the takeouts. And I would expect these loans to repay at a similar timeline because of these rent increases and people wanting to take some of that cash out on their executed business plans.

Douglas Michael Harter
Crédit Suisse AG, Research Division

Great. And if you could just a -- little more detail on the newly foreclosed Houston office. Just what type of timeline should we expect a resolution? And kind of how are you thinking about the options there?

Jeffrey F. DiModica
President & MD

Yes. I went down and toured it. Our whole team has toured it a number of times. It's a fantastic building in the Galleria District. There's some -- Houston is definitely starting to benefit a bit from some of the change in the energy policies that people are looking forward to, and certainly, commodity prices have changed.

So the outlook is better today for Houston than it was a year ago. This is a fantastic building. There's a lot of tenants circling. We feel really strong that this is a building that we're going to have a -- much like what we've done when we've taken back assets, as Barry said, whether it's in Orlando or Montgomery, Alabama, the assets that we've taken back, we've made more money on the assets that we've taken back than not. And putting Starwood in front is what created that leasing momentum at the other assets. We believe that our expertise in office markets is something that's going to play out and that we'll be able to execute significant leasing. We're a little over $100 a foot on this asset. So it's something that I think we owned a really good basis to be able to bring in large tenants. Barry, do you have anything to add?

Barry Stuart Sternlicht
CEO & Non-Independent Executive Chairman of the Board

Commodity prices rising the way they are, we can sell the steel for $100 a foot and move on. We'll take it down and build a camp. It's an iconic asset. It's the tallest asset in its neighborhood by some ways. And I've been in Houston for longer than I want to say. So, everyone knows this asset. We used to own the Oaks and Galleria hotels, the Westin Oaks and Westin Galleria Hotels at the Galleria Mall. It's right next to that. And we're trying to figure out if -- what we ought to do with it. Should we convert, should we see it as an office building or convert to a residential site. We'll have this in 6

months I would think.

Jeffrey F. DiModica
President & MD

Sorry, I think he faded a bit there, but -- yes, I think Barry said, we'll probably have it resolved in the next 6 months. We'll be able to report back to you in the next 3 to 6 months, Doug.

Operator

And the next question comes from the line of Eric Hagen with BTIG.

Eric J. Hagen
BTIG, LLC, Research Division

Just a quick follow-up on the Woodstar asset. Are you able to borrow against the appreciated value in the asset? In other words, can you -- is it a source of fungibility or liquidity on the balance sheet having appreciated?

Jeffrey F. DiModica
President & MD

Yes, we can take stuff -- go ahead, Barry.

Barry Stuart Sternlicht
CEO & Non-Independent Executive Chairman of the Board

I was going to say we can do that or we can sell additional interest in it. Those are our 2 options. Yes, there is availability to increase the leverage on the portfolio.

Jeffrey F. DiModica
President & MD

Yes, we can probably increase the leverage by a couple of hundred million dollars today if we chose to. So that's something that we look at.

Eric J. Hagen
BTIG, LLC, Research Division

Got you. That's really helpful. And then just looking at the market...

Barry Stuart Sternlicht
CEO & Non-Independent Executive Chairman of the Board

One nuance -- I was just going to say, one nuance of that is the 2 agencies are wide open for business, and so they will save -- they savor affordable housing. So this is not -- you're not getting caught in the CLO execution out of multifamily that somebody bought it at a 2.5% and its forecasting after they gut it, it will make 6%. This is a stable asset, so that the financing tends to be more attractive and it's available.

Eric J. Hagen
BTIG, LLC, Research Division

Right. That's helpful. And then just looking at the market overall, there's this wall of maturities that are coming up in the CMBS market at a point in the cycle where obviously it could be tough for those sponsors to refi in the capital markets. Can you talk about the relative attractiveness you think they might be able to refi some of those loans? And just what it could mean for the market if those folks are having trouble rolling over?

Barry Stuart Sternlicht
CEO & Non-Independent Executive Chairman of the Board

We can't wait. We can't be happier. You should have as good a cycle for lending as you had in -- in '09, '10, probably at the end here. I think -- and particularly, because once again, the field of competitors has narrowed dramatically. And the banks are definitely -- I query the senior officers for some of the lending banks and for scale, Starwood Capital, just domestically, I think, borrowed $34 billion last year.

So, these are near and dear relationships, and obviously, we're in the – equity and debts markets all the time. And I guess they're all pointing to regulatory issues, that the regulators are on them, and that's why the banks are pulling back. So, for some situations, these alternative lenders, of which we're the largest, we should have a pretty good opportunity and we're always now checking our spread that we're doing in the property trust against what we're getting as buyers of assets on the other side. So -- we've never had such coordination between our borrowing group at the Capital Group and the lending group at Starwood Property Trust because we -- the markets are fluid and the spreads are in and out. The markets are capping out and capping in. As volatile as the treasury is, that seems to be where spreads are and a number of participants. It's interesting. There are a lot of banks that are looking, but not a lot of banks that are doing deals.

And sometimes now, they're offering spreads that are more than what we would offer. So, they are 300 over, 400 over and over is over a real number now, it's not over 0. So it's going to be -- it's going to set up for an interesting cycle. That's for sure. If you're not well capitalized and build the opportunities to deploy more capital, certainly on both the equity and debt side as people go to refinance these assets.

Operator

At this time, we have reached the end of the question-and-answer session. And I will now turn the call back over to management for any closing remarks.

Jeffrey F. DiModica
President & MD

Barry, any closing remarks?

Barry Stuart Sternlicht
CEO & Non-Independent Executive Chairman of the Board

No, but thanks team and thank you for listening today. Enjoy the rest of the dog days of August. Speak to you soon. Thank you.

Jeffrey F. DiModica
President & MD

Thanks. Thanks, operator.

Operator
Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.