

Starwood Property Trust

Fourth Quarter 2025 Earnings Call Transcript
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Presentation

Operator

Greetings, and welcome to the Starwood Property Trust Fourth Quarter 2025 Earnings Call. [Operator Instructions] It is now my pleasure to introduce your host, Zach Tanenbaum, Director of Investor Relations. Thank you. You may begin.

Zachary H. Tanenbaum

Managing Director, Head of Investor Strategy

Thank you, operator. Good morning, and welcome to Starwood Property Trust earnings call. This morning, we filed our 10-K and issued a press release with a presentation of our results, which are both available on our website and have been filed with the SEC.

Before the call begins, I would like to remind everyone that certain statements made in the course of this call are forward-looking statements, which do not guarantee future events or performance. Please refer to our 10-K and press release for cautionary factors related to these statements. Additionally, certain non-GAAP financial measures will be discussed on this call. For reconciliation of these non-GAAP financial measures to the most comparable measures prepared in accordance with GAAP, please refer to our press release filed this morning.

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

Today, we reported distributable earnings of \$160 million, or \$0.42 per share for the fourth quarter. While our reported results reflect the timing of capital deployment and balance sheet optimization initiatives, our underlying earnings power continues to build. Importantly, we exited 2025 with enhanced liquidity and embedded earnings from this year's investments and unfunded commitments, all of which will increasingly contribute in 2026, with our dividend coverage expected to improve steadily throughout the year.

Our quarterly results were impacted by temporary timing issues, adjusted for which DE would have been \$0.49. The first is our newest net lease cylinder, which on a run rate basis would have contributed \$0.06 of incremental DE to the quarter, but instead contributed \$0.03. We anticipated this dilution at acquisition, knowing that we would have near-term carry from capital raised and there would be a timing gap, while we ramped acquisitions and optimize the platform's capital structure. As Jeff will discuss further, we have made progress towards these initiatives and expect to see reduced dilution going forward. As a reminder, the weighted average lease term of this portfolio is 17.3 years with occupancy of 100% and 2.3% annual rent escalations.

The second timing issue was higher-than-normal cash balances, which led to \$0.04 of reduced earnings. We completed three securitizations in the quarter, one in each of commercial lending, infrastructure lending and net lease, that combined created incremental proceeds of \$290 million. We also continued to shift secured debt to unsecured debt, issuing \$1.1 billion of high yield in the quarter and executed a takeout refinancing on part of our affordable multifamily portfolio, which generated cash of \$240 million in late September and October. All of this cash will ultimately be a source of incremental DE as it gets deployed into new investments across our diversified cylinders.

Stepping back to the full year, we reported DE of \$616 million, or \$1.69 per share. As we continue the theme of

proactive capital repositioning, we had temporary reductions to earnings of \$0.14 this year, resulting from our \$4.4 billion of equity, unsecured debt and term loan issuances, along with our new \$2.2 billion net lease acquisition. DE adjusted for these timing issues and the \$0.12 realized loss we recorded upon sale of a foreclosed asset earlier this year was \$1.95 versus our full year dividend of \$1.92. Given our enhanced earnings power as a result of this year's strategic transactions and as we continue on our path to resolving our nonaccrual and REO assets, we see a clear line of sight to earnings that cover our dividend, a dividend that we have never cut.

Our diversified lines of business continue to perform at scale, allowing us to deploy \$12.7 billion in 2025, our second largest investing year to date. This included \$6.4 billion in Commercial Lending, a record \$2.6 billion in Infrastructure Lending and \$2.4 billion in net lease. \$2.5 billion of our deployment was in the fourth quarter, bringing total undepreciated assets to a record \$30.7 billion at year-end. As a testament to our continued diversification, commercial lending now makes up just 54% of our asset base.

I will now take you through our individual segment results, beginning with Commercial and Residential Lending, which contributed DE of \$176 million to the quarter, or \$0.46 per share. In Commercial Lending, we originated \$1.7 billion of loans, of which we funded \$1.2 billion, along with \$223 million of pre-existing loan commitments. After factoring in repayments of \$670 million, we grew the funded loan portfolio by \$823 million in the quarter to \$16.6 billion, our second highest level since inception. In addition, we have \$1.9 billion of unfunded commitments, which will generate future earnings as these loans fund. We also completed our fourth actively managed CLO for \$1.1 billion with a weighted average coupon of SOFR plus 1.65%.

On the topic of credit quality, our portfolio ended the year with a weighted average risk rating of 3.0, consistent with last quarter. We have \$680 million of reserves, \$480 million in CECL and \$200 million of REO impairment. Together, these translate to \$1.84 per share of book value, which is already reflected in today's undepreciated book value of \$19.25.

This quarter, we classified a \$91 million 5-rated first mortgage loan on a multifamily property in Phoenix as "credit deteriorated". The loan already maintained an adequate general reserve, but based on a recent appraisal, we reclassified \$20 million of our reserve from general to specific. Jeff will go into more detail on our credit migration and asset management initiatives.

Turning to Residential Lending. Our on-balance sheet loan portfolio ended the year at \$2.3 billion, consistent with last quarter, as \$58 million of repayments were largely offset by \$31 million of positive mark-to-market adjustments, resulting from slightly tighter credit spreads. Our retained RMBS portfolio remained relatively steady at \$405 million.

Next is Infrastructure Lending. This segment contributed DE of \$27 million, or \$0.07 per share, to the quarter. Our strong investing pace continued with \$386 million of new loan commitments in the quarter and a record \$2.6 billion in the year. Repayments totaled \$568 million during the quarter and \$2 billion for the year, with the loan portfolio increasing \$300 million this year to \$2.9 billion. We also completed our sixth actively managed CLO for \$500 million and priced our seventh for \$600 million at record low spreads over SOFR of 1.72% and 1.68%, respectively. Nonrecourse, non-mark-to-market CLO financings now constitute 75% of our infrastructure debt.

In our Property Segment, we recognized \$49 million of DE, or \$0.13 per share, in the quarter. In our Woodstar Fund, comprising our affordable multifamily portfolio, we recorded a net unrealized fair value increase of \$17 million in the quarter for GAAP purposes. The value was determined by an independent appraisal, which we are required to obtain annually. Also during the quarter, we sold a 264-unit multifamily portfolio for a net DE gain of \$24 million. The \$56 million sales price was in line with our GAAP fair value. And finally, we completed the second part of our takeout refinancing that I discussed earlier. The independent appraisal, third-party sale at our carrying value, and take-out refinancings collectively provide market confirmation of our valuation.

Also in this segment is our new net lease platform, which reported its first full quarter of DE totaling \$12 million. We acquired 16 properties for \$182 million during the quarter, bringing post-acquisition purchases to \$221 million, in line with our underwriting, but with the timing back ended to the last month of the quarter. On the capital markets front, we completed our first ABS transaction since acquisition, with \$391 million of financing at a weighted average fixed rate of 5.26%, a record-tight spread for this platform. Given the back-end acquisition timing and mid-quarter execution of

accretive ABS financing, our reported DE understates the earnings power embedded in this platform.

Concluding my business segment discussion is our Investing and Servicing segment. Collectively, the cylinders in this segment contributed DE of \$46 million, or \$0.12 per share, to the quarter.

Our conduit Starwood Mortgage Capital completed three securitizations totaling \$276 million at profit margins that were at or above historic levels. This brings our year-to-date total to 16 securitizations for \$1.2 billion.

In our special servicer, our active servicing portfolio rose to \$11 billion, with \$1 billion of new transfers in. Our named servicing portfolio ended the year at \$98 billion. As a result of near record maturity defaults in CMBS, servicing fees increased to \$38 million this quarter, bringing year-to-date fees to \$107 million. This is up 47% from last year and the highest level they have been since 2017. We've always told you that our servicer is a positive carry credit hedge that earns more money in times of real estate distress, and that hedge is once again proving itself this quarter.

Our CMBS portfolio grew by \$82 million during the quarter, primarily driven by new purchases of \$101 million, offset by cash collections of \$17 million. As a result of the maturity defaults noted above, we also recognized net DE impairments of \$13 million.

And lastly, on the segment's property portfolio, we sold a mixed-use property and retail center for a total of \$36 million, resulting in a net GAAP gain of \$10 million and a net DE gain of \$3 million.

Turning to liquidity and capitalization. We had our most active capital markets year in our history. We executed a record \$4.4 billion of corporate debt and equity transactions, including \$1.6 billion in unsecured notes, \$1.6 billion in term loan repricings, a \$700 million Term Loan B, and a \$534 million equity raise that was accretive to GAAP book value. We continued our focus on conservative leverage, ending the year with a debt-to-undepreciated equity ratio of 2.4x, more than a full turn lower than our closest peer. With this year's continued shift away from repo, our unsecured debt now represents 18% of our total debt, up from 16% a year ago, and our off-balance sheet debt now stands at 22% of our debt, up from 17% a year ago.

Our current liquidity is \$1.4 billion with availability across our financing lines of \$11.9 billion. This, along with our ability to consistently access the unsecured and structured credit markets at attractive spreads and across multiple asset classes, reflects the strength of our platform and provides significant flexibility as we enter 2026.

With that, I will turn the call over to Jeff.

Jeffrey F. DiModica
President

Thanks, Rina. As we enter 2026, our priorities are clear: resolve legacy credit, maintain a conservative balance sheet, and selectively grow our highest returning businesses to restore full earnings power. We exited 2025 with continued stabilization in credit markets and improving transaction activity. Activity is still below peak levels, but trending positively as liquidity returns and rates move lower, supporting originations, refinancings and more constructive resolution outcomes.

Real estate as an asset class has taken longer to normalize than many other parts of the economy and performance remains uneven across sectors and geographies. We don't expect the volatility in corporate credit markets to have a large impact on CRE fundamentals, which are largely insulated and outperform in the lower rate environment.

We built Starwood Property Trust to operate through cycles, and this year reflected that. In 2025, we raised and repriced a record \$4.4 billion of capital in corporate debt, with our debt issued at the tightest spreads in our 16-year history, strengthening liquidity, preserving flexibility to deploy capital accretively while maintaining low leverage and significantly extending corporate debt maturities.

We continued to diversify our business in 2025 with the acquisition of our net lease business, which added over \$2 billion of long-term accretive assets, with 2.3% annual rent bumps that will add incremental future distributable earnings for years to come. Cap rates have come down since we closed, as have financing costs, which increases the value of the existing portfolio we purchased as we have optimized their financing structure, adding to the long-term tailwinds of the business.

As Rina mentioned, we closed one securitization in Q4 and another after quarter end, both at a lower cost of funds than we underwrote, and we are in the process of significantly improving our bank line financing spreads.

We continue to increase our pace of investing across businesses in 2025, investing \$12.7 billion, including \$2.5 billion in the fourth quarter alone. This was our second largest investing year in our 16-year history, and notably, our global team achieved that volume in an environment where overall industry transaction and origination volumes remain well below historical averages. We anticipate another robust origination year in 2026, which will produce additional earnings along with the funding of \$1.9 billion of unfunded commitments Rina mentioned.

In Commercial Lending, we originated \$1.7 billion in the fourth quarter and \$6.4 billion for the full year. Our portfolio is expected to grow to a record \$17 billion in the first quarter, and we expect to continue this momentum in 2026.

U.S. office loans represent only 8% of our diversified asset base, the lowest percentage in our history, and well below that of our peers. We have done this by repositioning our loan book to more stable assets like multifamily and industrial, which accounted for 72% of 2025 originations.

I will start my discussion on credit and asset management with some positive outcomes starting with multifamily loans to undercapitalized borrowers who are unable to continue to fund through resolution. We have executed multiple sales of multifamily REO at our original basis and have more slated for sale, at or near our original basis. We have intentionally avoided forced liquidation and in doing so, have protected shareholder value by taking over management, executing unfinished business plans, and increasing occupancy and property values.

We're seeing tangible improvement across portions of our office portfolio, highlighted by approximately 800,000 square feet of leasing finalized during the fourth quarter, the highest quarterly leasing volume of the year. This total includes a 200,000 square foot lease at a Brooklyn property that was previously risk-rated 5. That 630,000 square foot asset was vacant coming out of COVID and with the pending execution of a third substantial lease, will be 100% leased to 3 strong credits on a 32-year weighted average lease term, with average annual rent escalations of 2.2%. This is a great outcome for shareholders, again, reflecting our patience, active engagement, and improved leasing momentum.

Sales activity has also improved, allowing \$200 million of office loans to repay at par in 2025. Year-to-date, in 2026, an additional \$200 million of loans originated as office have sold, or in the process of closing, including \$115 million related to a formerly risk-rated 5 asset also in Brooklyn.

Patience has paid off for us in the past when managing foreclosed assets, and we present value and probability weight potential REO outcomes individually as we decide whether to liquidate or hold and reposition assets, bringing the full strength of the Starwood platform to bear on these situations.

We ended the year with approximately \$1 billion of commercial loans on nonaccrual and \$624 million of foreclosures. That exposure is concentrated in a small number of assets, and each of those is in an active execution phase with defined business plans being managed by our in-house asset management team at Starwood.

Turning to rating migrations. We had three assets migrate to 5 in the quarter. The first is a \$108 million studio production asset in New York that we co-originated pari-passu with 2 large U.S. banks and own 32% of the first mortgage. Utilization declined materially following the writers and actors' strike. The sponsor has invested substantial equity since origination, but the property has not yet stabilized as originally underwritten.

Second is a \$269 million industrial asset outside the Midtown Tunnel in New York. We increased the risk rating this quarter due to the sponsor's unwillingness to contribute additional capital. We have increased our involvement and are executing a revised plan with the sponsor who is currently negotiating lease proposals representing a substantial portion of the vacant space. This newly constructed, well-located asset is positioned for potential near-term stabilization.

We also downgraded a \$33 million multifamily asset outside Dallas. We anticipate assuming ownership via foreclosure in the near term. Upon transition, we intend to implement a focused value-add plan as we have successfully done on similar multifamily projects. Our basis is below replacement cost, and our captive asset management team expects to be able to execute on a value-add business plan in the coming quarters.

We also downgraded one loan to a 4 rating, a \$90 million mixed-use portfolio in Ireland that we restructured to extend term and provide flexibility while assets are sold down. While asset sales have taken longer than originally contemplated, transactions completed to date have been in line with underwriting and our base case continues to support full repayment over time.

These are active asset management situations with defined action plans, and while resolution timing may vary, we are highly focused on resolving non-earning assets. Redeployment of this capital will be a tailwind to earnings as we achieve resolution.

Our energy infrastructure lending platform had its largest origination year ever in 2025, investing \$2.6 billion across the segment. The portfolio now totals almost \$3 billion and remains diversified across power and midstream assets, and has one of the highest ROEs in our portfolio.

These are senior secured, asset-backed investments supported by durable cash flows and long-term demand drivers in energy and power markets. Loan-to-values continue to fall in this segment, as loan performance remains strong, power needs and capacity auction prices continue to increase and returns remain attractive.

Finally, with the pricing of our seventh CLO, 75% of our SIF loans now benefit from term, non-mark-to-market financing, reducing funding volatility.

Turning to our new net lease business, Fundamental Income. Rina mentioned our integration is on plan, and we currently have a large pipeline and expect to increase volumes over the course of this year, which, along with 2.3% annual rent escalations, will increase returns in this cylinder each quarter and year.

Rina told you we completed our first ABS financing in Q4, and subsequent to quarter end, we executed our second securitization for \$466 million, again, at tighter than underwritten spreads, which will allow us to continue to accretively invest in this cylinder at today's cap rate.

Our net lease business, along with our other owned real estate, adds duration and contractual cash flow to the platform, and over time we expect it to become a more meaningful contributor to run-rate earnings. We are a hybrid company, with approximately \$7.5 billion of owned real estate, or 24% of our balance sheet. We are different than other mortgage REITs in our peer group.

In a period where our stock has significantly underperformed, the stocks at equity REITs and triple net lease REITs have significantly outperformed STWD and other mortgage REITs, with the largest underperformance coming in the last few months.

It is important to remember that we are no longer simply a mortgage REIT. We operate a diversified real estate finance platform with true scale, operating businesses, and a strong, well-capitalized balance sheet with access to capital at the lowest spreads in our history. The diversity and stability across our portfolio continues to uniquely insulate us through periods of sector instability.

Our leverage is significantly lower than our peer group at just 2.4 turns today. While we could enhance near-term earnings by increasing leverage, we have deliberately chosen not to do so, instead prioritizing a strong, durable balance sheet to support our generational vehicle. Insider ownership further reinforces that alignment, standing at approximately 6% or \$380 million today, greater than the insider ownership of all our peers combined.

We continue to look internally for ways to improve how we operate. We are investing in tools and technology to streamline underwriting, asset management and reporting processes, and we expect to increasingly leverage data analytics and AI-driven tools as part of that effort.

The foundation is in place for STWD 2.0 to come out of this cycle successfully, as the only CRE mortgage REIT that never cut its dividend. Looking ahead to 2026 and beyond, resolving our nonaccrual in REO or increasing originations pace or volume would allow us to earn more than the \$1.95 we earned this year, excluding temporary items that Rina noted.

With that, I will turn the call to Barry.

Barry Stuart Sternlicht
Chairman & CEO

Thank you, Zach, Rina and Jeff, and good morning, everyone. I'm going to use a slightly different tack as I talk about our earnings and what's going on in our industry and the greater real estate markets this quarter.

I think you can see that 2025 was a transition year for Starwood Property Trust. I'm going to take some comments out of my earnings release and talk about some of the points I made and elaborate on them. The really good news is we built an incredible machine here. We have all the pieces in place to outperform for our shareholders in the long run. And some of our core business had exceptional years with a growing loan book, which has reached record highs, as well as the continued great performance of our multifamily book. Jeff mentioned that 24% or 5% of our assets are in real estate. Our affordable housing book is in some of the best markets in the United States, Orlando and Tampa, where rents remain roughly 50%, 40% below market rates, and we're exceptionally full and have great pricing power. And you can see that with the increase in value of the portfolio just in the quarter, that Rina talked about.

But in addition to our originations, which were strong throughout the year, our Infrastructure Lending business, Heritage GE Capital, GE itself I guess, had a great year. The conduit team had the second-best year in their history. It's rated one of the best conduits in the country. Our special servicing arm, formerly LNR, had a great year, also counterbalancing some of the weakness in some of the property lending earnings and continues to be the #1 or 2 special servicer in the country, with an ever-growing book of named servicing and active servicing in its belly. And those businesses delivered excellent results for the year. And even our Residential Lending business, which has been somewhat dormant, gained in value over the year as spreads and rates declined. Those are all really good news. So I tasked Rina telling me like "why are we not performing at the levels we have in the past with such good news in the portfolio".

And what we saw are three real reasons for that. One, the lack of prepayment penalties that have always been part of our business, but as our borrowers' stretch maturities and went to not prepaying them that disappeared. Equally important was, we've taken into our earnings noncash losses, and they are used differently by some of our peers. But if you actually include them because they're not noncash, we would have covered our dividend. That also included in that statement, the drag of having excess cash. We used to run this enterprise at 2.4 to 2.5x leverage. Beginning of the year, we started at 2.1x leverage, which is a turn to 1.5 turns inside many of our peers. It's really the nature of the composition of our business lines.

And then, with the fundamental investment we made in the third quarter of the year, we actually -- that business because of its stability and the duration of the cash flows, we levered 3:1. That dragged our overall leverage levels back to 2.4x at the end of the year. But the bulk of our business, ex the fundamental business - triple net lease business still remains historically underleveraged, and we have a lot of cash trapped in the business. We estimate the cash drag at something like \$0.07 for the year. If you add them combined, it's almost \$0.20 of earnings. I think it's \$0.12, \$0.07 and

something else, Rina can give you specifics. And that will reliably cover our dividend.

Then we look at our nonaccrual book, which some may look as a problem, and we kind of do, but we also look at it as an opportunity. It's future earnings power for us when we have first mortgages like Jeff said, along with 2 money center banks. It's inconceivable the property is not valuable. It's just probably a borrower, in many cases, we find our borrowers are underwater. They don't want to put the money in for TIs. They don't want to put their money into reposition or even fix out a space for a tenant. So, we have to take it back. That takes a lot of time and once we have control, we can re-tenant it, reposition it and in fact, then sell it.

So, we've chosen long ball. We've chosen the way to approach our company because we own 400 -- roughly \$400 million of stock along with our shareholders, as if your capital was our own. And we've chosen to do what's best for ourselves over the long run. A prime example would be an office building that we, was bought by a household name firm for \$400 million. Our loan was \$200 million. We took it back. We could sell it, but it's an office building. We're converting it to a rental building. We're underway. We've -- it's going to be a great building in the center of Washington, D.C. and we're confident that we'll return our investment or close to it and maybe make some money depending on how well we do with our renovation. But that's far more attractive to us than just dumping it and moving on.

So, you're going to see these assets because we are a real estate player at our heart. You're going to see us take back assets, reposition them and then sell them. Jeff mentioned in the prior years, we've made substantial earnings doing that. We didn't intend to be loan to own, let's not kid ourselves, but given what's happened in the marketplace with the massive increase in rents, rates, and then the slowdown of the recovery of rents as the market had opened overbuilt. We know that going forward, these assets will produce earnings for us in the future, albeit not at the pace that I might have hoped, but real estate isn't really that kind of business.

And we're going to -- we're very confident in the future earnings power of our business. And especially next year, as we continue to roll out the capital we've committed, but haven't funded on loans we've made this year, which Jeff mentioned in just one of our -- is almost, I think, \$1.9 billion. Our triple net lease business, which was dilutive, I think it was \$0.06 in the year, should turn accretive next year, and we love that business, 15-year plus leases, never a default, ever -- we actually underwrote it with defaults, but we've never had a default. And they're just getting to scale now with our capital.

We've also found that with our expertise in capital markets, we've improved, materially improved their financing. And so our ROEs are rising rapidly. We just have a lot of overhead on the scale of the business it is today. So, as we add assets, we get exponential, better contribution to our earnings going forward. And again, I think we will work through this REO book due haste. We've organized ourselves to do so. But we haven't netted those losses against the assets directly, and we continue to carry them in the manner that Rina has shown you, which is a little different than some of our peers.

I think if you look at the industry as a whole, we were facing headwinds for the last 3 or 4 years. I mean real estate wasn't going anywhere, rates were rising, everything was outperforming. But I think it's safe to say as we look forward that we have tailwinds now. The increases in supply in the multifamily market dropping 60%, 70%, eventually, we will see record absorptions of apartments in the last year in the United States, record absorptions. So, with supply down and people still being unable to buy homes, we expect the multifamily markets to turn around, and that will help our borrowers and that will lower LTVs. And right now, where we get an asset back, we're kind of not sure we should sell it, or fix it up, and then sell it later. But we also think the second big tailwind is interest rates. They're going lower. The pace of which nobody quite can figure out, whether AI, how deflationary it is, how fast it will happen, will it be deflationary, but interest rates will be lower.

The economy is bifurcated. I know the administration doesn't like to talk about a K-economy, but you see it. You see in the hotel industry, the only sector of the market that was up last year was luxury. Every other sector upscale, upper upscale, mid-scale, lower scale economy, everything was down.

And also cost to build, replacement costs have continued to stay high. And while they may have dropped a little bit, the cost of building a home, they still remain well above our basis in almost any of the assets in our book. So new supply will be hindered until rents begin to rise again.

I guess the negative and the thing that gets us concerned, of course, is AI, what it will mean for wealth, and potentially unemployment. But I think, this will be a little bit -- the market is wrestling with this right now. We're all watching it and deciding what we think.

I think there's one other positive I should mention, which is as rates fall, one of the -- our transaction volumes will pick up, and that will give us more opportunities to refinance other people and other deals or make new loans and new deals. And I think real estate, as it usually is, is usually a safe haven during times of tumult in the marketplace.

So overall, I think we had a solid year, and we positioned ourselves really well for the future for the next couple of years. We're excited with our team. I also think we're going to make an effort, a strong effort to reduce our costs, and use AI to do what we do like everyone else, with higher productivity and less cost embedded in the structure. And that's unique to us.

We have very large businesses tucked into our mortgage book that all of which are supported by the REIT. And we hope we can make our people more productive, and do so in an efficient manner, and we're very excited about taking on those challenges.

So, with that, I'll thank the team, and thank you for your support, and we'll take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Don Fandetti with Wells Fargo.

Donald James Fandetti

Wells Fargo Securities, LLC, Research Division

It seems like you're increasing the CRE loan portfolio again in Q1. Can you talk about the pace throughout 2026 and also the return profile of these originations versus historical?

Jeffrey F. DiModica

President

Thanks, Don. I think I mentioned in my script that we expect the loan portfolio on the CRE side to go over \$17 billion in the first quarter. That would be the first time. We've been growing the loan book for every quarter since COVID, every quarter in COVID, every quarter since we started, I think we've made commercial real estate loans.

So it's nothing new. We are obviously sitting on a little bit more liquidity after all the cash out refinancings and raises that we're able to do last year. So, our pace has increased as we try to deploy that. Rina spoke a little bit about drag. Last year I think we did \$6.5 billion or so of CRE lending. We expect to do at least that this year. My gut is that you're going to have more maturities this year.

You have -- people who have executed their business plans on post-COVID or post-rate rise loans. You have a number of loans from before that period that simply need to move out of the pipe, and we also have lower rates, which will create more transaction volume. In 2021, you had high \$600 billion of transactions in the market. You'll had 2/3 of that this year. So as transactions move up, as rates move down, as maturities come, we expect more opportunities.

We borrow inside most of our peer group. We -- our last term loan was at 1.75% over, I believe, on a new issue, which was incredible. And in the high-yield markets, we're somewhere around 2.00% over. No one in our space -- well, one person in our space can borrow there, but the rest can't. I think we have a cost of funds advantage.

Also being the biggest, we have a bigger relationships with the banks who we will tend to repo with. They pick up a cross from us. The cross is worth more with us than it is with anyone else because our lines are bigger, and we have relationships.

So, I think it looks like a very good year for originations. Last year was our second biggest, I would hope that we would be able to beat that number this year. We have \$2 billion closed or in closing in the quarter. So, we are still pedal down. We know we have to originate more loans and thoughtfully work out of the REOs and nonaccruals to get back to the run rate that we keep talking about by late '26 where we're covering the dividend.

Donald James Fandetti

Wells Fargo Securities, LLC, Research Division

Got it. And I guess what is your expectation for credit migration near term? I mean it sounds like you're playing the long game, which we appreciate. But I guess that also means that we'll continue to see these sort of like one-off type migrations.

Jeffrey F. DiModica
President

Yes. Barry, I'll let you go after it. Maybe I'll start.

Migration, there are people who sell things right away. There are people who -- and that is a business plan. There are people like us, who will work on them on each -- we don't have a business plan for what we do with a credit, and putting it -- the pig through the python. We look at every one of them individually. We try to present value what we think the value of getting the amount of cash we would get back in a distressed-ish sale today, without working on the asset, and then what's the present value of the cash we get back over the time that we would do it. And then against that, we make assumptions of where we think the property could end up, positive, negative. We look at our liquidity, our cost of capital, etc., and we look at what information can Starwood, the manager, bring to bear to make the asset better. We have a great history of making assets better than the next buyer.

The next buyer is going to be a 20% return, private equity guy who's going to buy from us at a 10% to 12% cost of capital. And then he's going to back up his bit a little bit because of the things that he doesn't know. We know the asset. We have a lower cost of capital. We can borrow against the asset significantly cheaper corporate debt than he can. That all goes into our individual business plans as we look at each individual asset, without having a business plan that we are a forced seller or a carrier of assets and when we look at those, we make the decision as a management team across Starwood Capital and Starwood Property Trust to either stay in and ride it, which we've done successfully. Barry gave you an example of another one that we're redeveloping, we expect to have successfully done. I gave you examples of a number of them, that I think we resolved \$300 million last year in actual resolutions, not foreclosures. We don't call foreclosures resolutions. Some people do. We had \$130 million more fallout, so it would have been \$430 million. We hope to resolve. We have a sheet, and we look quarterly at what we expect to resolve.

Our goal is to resolve most of \$1 billion this year. And if we execute on that, great. And if we don't, it's going to be because we looked at the present value of the cash flows and the cash flow we get [indiscernible] and we're going to make the best decision for shareholders on each bespoke asset. So we don't really have a plan.

But you asked about credit migration. I think we have our arms around where we think the potential problems are. As you look at that, property types are going to make a difference. The market it's in is going to make a difference. Tenant movements are going to make a difference. It's all very bespoke, but we feel like we really have our arms around where the potential problems are going to be.

Donald James Fandetti
Wells Fargo Securities, LLC, Research Division

Got it.

Barry Stuart Sternlicht
Chairman & CEO

Should I add a few things? Can you hear me, okay?

Jeffrey F. DiModica
President

Yes. Go ahead, Barry.

Barry Stuart Sternlicht
Chairman & CEO

Yes. I mean I hate to say we don't have a plan, and we have a business with a bunch of individual assets. And it's been remarkable the amount of money we had in one asset that the cash -- that was \$1 billion, the loan is \$400 million and the borrower walks. When they walk, they really haven't -- obviously, tenants want to lease. They know the building is in

trouble. They're not going to go in the building if they won't finish the TI.

The borrower has absolutely zero incentive to do anything. So, in multiple spaces in our pipeline, we expect that -- and like we are not supposed to be leasing their buildings for them. And if we're going to put the asset [indiscernible] for the TI, they want to get the asset back there's no reason to equitize their positions.

So we kind of -- once we play hard ball, we play fair ball and we try to work with our borrowers that we can. I think the multi-business is particularly interesting. I mean it's one of these businesses you all remember long ago, we started iStar, what was called Starwood Financial, it changed to iStar and wound up taking back a whole bunch of stuff in the GFC and turn themselves into a quasi-equity REIT and made a fortune.

Obviously, the best thing we can do in a loan is get our money back, and that's primarily our business, half our business, and we're happy to play in that ball game aside from the real estate part. But long term, we make more money owning the assets and we're comfortable owning great assets, although we are looking at what we can recycle once we stabilize the assets.

And I'd say like for the most part, it's mostly good news to get this asset back and find that there's great demand for it, and we expect to be able to move these properties. But I don't get to do this on a quarterly basis. Our tenants don't march to our quarter rhythms and our borrowers don't give up the keys to -- always willingly. In many cases, they do and work collaborative. In the exception, they might move slower.

I think people are surprised. I think in the real estate world today, I think borrowers are surprised at the slow pace of the multifamily market. And while you have some positive, to [indiscernible and maybe some of the blue-collar cities that saw no supply, but you haven't seen the green shoots you can look at various reports of every public company, maybe say one, when the growth rate of the Sunbelt markets is not great. The rental growth is not great. We're getting positives on renewals and negatives on new leases. Pretty much across the board. So maybe a plus 1 or minus 1 or plus 2 or minus 2, but it's not robust and expenses continue to march higher.

So you have stressed P&Ls. On the other hand, when we look at our attachment points, where our loan is as opposed to like where we build it or bought it, in many cases, our loans are transitionally, some the capital reposition multifamily. I'm kind of happy to get it back. We are able to move them, probably half a dozen assets in our pipeline in REO today.

But mixed emotions. If we realize the market, the Sunbelt may be overbuilt but it's where all the jobs are. It's where all the companies are moving their headquarters. It's where the factories are being built. And it's where the cost of living is generally less. It's where there are Right-to-Work states. They're attractive states and attractive markets for the reshoring of the industrialization of the country.

So, when you know there's a new factory going up in 1.5 years, take 1.5 years to build in the market, do you want to sell them multi now? Or do you want to be the guy, Jeff said, it's an opportunity fund that's going to buy the asset. And we're an opportunity fund is what we do in another part of our world. I always tell Jeff and Dennis, our head of originations, like we'll buy it. We don't do that, but we would. In any case, we already own it. So we'll just keep in the REIT. If we want to keep it, we'll just hold it.

So I think it's sloppy for you because we're not -- we're a unicorn in our space. And if we really thought we were -- we had an issue, were not worried. As Rina said, when you take out the noncash losses and take out some of the cash drag that we knowingly put into place, and we're pretty confident Fundamental, will reach -- very leveraged with overhead base.

And so once it reaches critical mass, it all -- we don't have to add a body or dollar to the overhead. So, it becomes pretty positive and reliable and recurring and stable, which is exactly metrics that we used to go public in 2009, consistent and reliable. We've had some potholes, but we are on the playing field to have this kind of disruption in our markets, including the pandemic and the office market is inevitable.

But I'm really proud of the way we're negotiating [indiscernible] on some of these REO assets. And we're looking at whether we should turn accruals back on in some asset cases because the performance has improved. So, it's a mismatch. It's unfortunately a little hard to take.

Operator

[Operator Instructions] Our next question comes from the line of Gabe Poggi with Raymond James.

Gabriel J. Poggi

Raymond James & Associates, Inc., Research Division

I wanted to talk about the residential portfolio and then the infra book. So on resi, Jeff, is there a point where -- I don't know, in the market where rates get to a certain level, where you guys look holistically and say that maybe you can sell the portfolio to kind of under the -- the capital that sits under that to go make more infra or CRE loans?

And then Barry, on the infra side, Barry and Jeff, what -- just remind us, what's the total opportunity set for the infra lending business? Who are your true competitors? And how big can that book get over time?

Jeffrey F. DiModica

President

Thanks, Gabe. Barry, again, I'll start, unless you want to start.

But on your first question on resi, resi performance has been great. I think we had a markdown on our GAAP book value of \$247 million back in '22 when the rate change happened. We are significantly below that today. I think it's 100 and after hedges might be a little bit higher than that. But we've got back a significant portion of that by holding on, the same strategy that we've used.

And also the thing that would surprise you is because we have a lot of legacy RMBS and bonds that we have, I think our ROE on our resi portfolio, that's hard for you to see because you see loans marked at 96% or 97% that we paid 101 or 102 for. I think our run rate ROE is around 11% today across the entire resi business.

So to your point, 2 things will make it get better, spread tightening or lower rates. Spread tightening has come our way. Spread securitization, spreads have tightened 25 basis points since January 1 alone. We're at the tightest securitization spreads since the middle of 2022. Securitization issuance, I think, is \$10 billion year-to-date versus \$5.3 billion at this time last year. Insurance cares about these assets. They get great insurance treatment and that along with the Street conduits and others, there's a great bid for the types of assets that we've historically liked. That's allowed us to mark them up. That's allowed us to reduce that GAAP book value loss significantly.

So from here, to get -- if we can't count on spreads being significantly tighter from here, they probably can tighten a bit, but they've made their move. So to get back from the \$96 or \$97 or \$98 price to par or \$101 or \$102 rates are going to be other piece. You mentioned that. Lower rates help us because it increases CPRs. We were running at 5 or 6 CPR in our non-QM book the last couple of years. We're up to 8 or 9 CPR today. We get more back at par when that happens, that's good.

I think "in the house", although we never make bets on rates, we believe rates are probably headed lower. It certainly feels like the AI-driven productivity will match that of previous productivity gains that we've seen and drive rates lower. We don't make any real bets based on that. But if I'm betting on that and betting on rates going lower, that will certainly help that book.

As you know, we hedge that book. And so we're always moving our hedge around a little bit. The only way we probably get back to getting that full write-down back is by reducing that hedge a bit and being correct on rates going lower, not something we historically do. And I think we'll wait and see. You create a distributable earnings loss when you take that

GAAP book value hit into earnings. We like the assets. They're returning 11%. So I don't think we're going to rush to sell.

Barry, unless you have anything on rates, I would then move to infra and I have Sean Murdock in the room. Barry, do you have anything you want to add on residential?

Barry Stuart Sternlicht

Chairman & CEO

Not really. I mean we want to go back and start adding volume in there. We're going back into the business, it is a good business. We have the team in place following them, they're capable. We just have to make the numbers work. So, if we can, we would go back and anything to add that, one of the reasons you have a diversified business model is when some aren't available, you have money to put out in other verticals. And this introduction to Sean to give you perspective what went into that business and to have another material lending vertical. So Sean, all yours.

Jeffrey F. DiModica

President

Yes. Well, before we go, I will say we looked at, I think, 21 different resi originators last year. We've talked about getting back into resi originations. The combination of rates being a little bit low and spreads being a little bit tight make it a little bit hard to jump in today, but we're always looking. I can't imagine we don't get back in the origination game on the resi side in the near future. We're just waiting for the right opportunity.

And on the infrastructure side, you asked about the potential size of the market. So, I'm going to turn it to Sean Murdock, who's done a great job of doing sole originations to kind of get off the treadmill of what that market is. But Sean is here who runs that business for us.

Sean Murdock

President of Starwood Infrastructure Finance - Starwood Property Trust

Sure. I mean I think the best way to contextualize the opportunity is to just talk about energy consumption in the United States and a great -- a couple of great points, electricity consumption over the next 5 years is supposed to grow at sort of a 5% kind of annual CAGR.

Another good statistic to look at is the LNG (Liquefied Natural Gas) export boom we've had in the U.S. We're exporting roughly 15 Bcf (billion cubic feet) a day of gas to consumers around the world. That's supposed to double over the next 5 years. So we feel like there's a big tailwind to growth, both from the obvious AI data center value chain as well as LNG exports and other sort of new initiatives that create a bigger market for us in which to prosecute opportunity.

You asked about our competitors. I think it's similar to Dennis' business in CRE lending. We've got commercial banks that still make loans in our space. We also compete with alternative debt funds. There's just maybe not as many as either, given ESG constraints around some participants in the market.

The third issuer of infra CLOs did their first deal at the end of last year, concurrent with our seventh deal of Barings Asset Management. So competition is growing a little bit, but I think the tailwinds on demand for energy are significant and form a much larger opportunity set for us over time.

Operator

[Operator Instructions] Our next question comes from the line of Jade Rahmani with KBW.

Jade Joseph Rahmani

Keefe, Bruyette, & Woods, Inc., Research Division

Just at a high-level follow-up to Don's initial question. Do you think credit is getting better or worse? It does seem to

have deteriorated in the quarter. However, these could have been primarily problems you already knew about. And the new problems seem to be not in office. I think that everyone's called over the office exposure quite thoroughly, but in multifamily, where, as Barry noted, rents remain soft and also industrial. So could you just comment on your overall view on credit trends?

Jeffrey F. DiModica
President

Barry, I'll go first and you can go after.

We had -- I hope you heard in the beginning of my discussion, we had a lot of leasing last year across a lot of assets that we may not have thought we would have that. There are always some idiosyncratic things that might happen in the portfolio. And as you mentioned, a couple of industrials, one of them that we moved to a 5-rating, that we actually feel very good about potential leasing on, but we felt it was right to move to 5 because the sponsor stepped away. One was a studio deal, not something that was really in our office purview.

So I think where it comes from here, as we've seen green shoots, and I mentioned a number of green shoots in the REO sales at our basis in multi. As I look at our multi-book, even if you have a 4% cap asset from 2021 that you wrote a loan on expecting a 5.5% debt yield. If you only achieved a 4.75% or 5% debt yield, you're not losing much money on those. They're very close, and it's just a matter of which side of par are you on.

So, I think the multi losses across most of our books should be paper cuts unless someone made a really big mistake. So we -- rates will help bail that out, if you end up with a 3% area forward SOFR, which is what the market is saying today, those losses should be completely immaterial for just about everybody. If forward SOFR backs up to 4%, then there might be a slightly different discussion.

But you nailed it on a few bespoke industrial assets, whether it's market or tenant or other reasons, that's where we're seeing a couple of things pop up. But I would say, overall, the positives are better than the negatives. And when I say positives are better than the negative, to your question, to me, that means the credit cycle has turned a bit.

Barry, do you have something to add to that?

Barry Stuart Sternlicht
Chairman & CEO

No. If real estate is going to catch a bid I mentioned that whenever the equity markets rock or shake, people come back to the property sector, the largest sector, largest asset class in the world. We were operating in Europe, U.S., Australia and in general, markets are better. We're all confused, I think, would be the word I use size and tariff [indiscernible] talk about the world in this AI tumult and all the question marks and the fear and the anxiety.

And yet, if you see the markets, they're behaving pretty well. The New York City's office market, even despite Mamdani, has been pretty strong. Housing market remains very strong. So, the West Coast continues to perform pretty well. And I think the political class, the political interactions are something to watch. I think we have to be careful about both the union costs and assets we lend against and also cities like, of course, New York City how long they keep property taxes only 10%. I mean that takes the value of an office building down materially if they can actually do it.

So, we're blessed with not that big of a portfolio in New York City. And we've avoided most of those loans, but that's going to be an earthquake, if he passes that and it goes through. And then the interesting thing, if you have old leases, sometimes the tenant will pick up the real estate taxes. And if you don't, you do. We do on -- certainly on the rent roll -- on the rollover of the tenants.

So -- I don't know, but who needs this kind of uncertainty, it's a strange world. But in general, we definitely have tailwinds. I mean the tailwinds are here. I think what you're seeing in our -- we see it in our special servicing book is

some borrowers are just giving up. I mean they plan for things to get better. They stay alive to '25, '25 has passed. The interest rates fell, but the NOI line didn't go up.

And whether it's tariffs that kept rates up or immigration, 2.5 million people leaving the United States last year, growth with -- actually negative growth in U.S. population for the first time in, I think ever. I think it's [indiscernible] years than ever. So it might have to check that one.

But I mean that's definitely affected apartment markets. There's no doubt deportations and not only people immigrating voluntarily, but we used to get 1 million or so legal immigrants a year. And the U.S., just as you see international travel is not [indiscernible] the place at the moment for the better of people's profession. And so, they're not traveling here in the [indiscernible] Europe, people leave the country, its bad for economic growth.

I think some of the weakness in GDP is the fact that we have no contribution from immigration. So, I think most of us want to shutter, or lower the amount of illegal immigrants or shutter completely. But legal immigrants, I think most of us would be very much in favorable and we need to go out together and let these people in the country, will be good for the economy and real estate markets.

Jade Joseph Rahmani

Keefe, Bruyette, & Woods, Inc., Research Division

Just on the earnings path to covering the dividend, over what time frame is reasonable to expect? Is it your expectation that by the fourth quarter of this year, DE will be in line to potentially greater than the dividend? And are there any outsized gains you're expecting in 2026?

Jeffrey F. DiModica

President

Barry, do you want to start?

Barry Stuart Sternlicht

Chairman & CEO

Sorry, I'm on an airplane while I do this call, so I muted it. I think you'll see us get a little better every quarter. We have a lot of things. It's hard to say because there are some things we're considering. I mentioned turning on nonaccrual loans that we're still evaluating. And so -- and we have some really good things in the pipe, but we have to get them done.

So I'd say that, again, if you take out the noncash loss of DE [indiscernible] on some of the competitors by \$0.12 better. We have the earnings power. We have it any time we want it. We don't need to sell out assets that aren't defaulting to us. There are 56 of them, Jeff?

Jeffrey F. DiModica

President

Yes.

Barry Stuart Sternlicht

Chairman & CEO

Did you leave me Jeff?

Jeffrey F. DiModica

President

No.

Barry Stuart Sternlicht

Chairman & CEO

We're just trying to -- like I said, we're playing long ball and that the assets are great and contributing meaningfully and should have virtually no real serious competition. It is -- I have to say, if you don't know how hard it is to build affordable housing in this country, it is ridiculous.

And we are in the business; I sort of entered it in the equity side. And with all the -- what I'll call the grifters along the way that you pay off to consult, that grant you need, the not-for-profits you have to get involved. It costs almost twice as much now to build an affordable building as a market rate building. So, the way to do these is not the current structure. You basically should build a market rate apartment and then donate it to a not-for-profit, and we'd have more affordable housing.

It was an eye-opening experience for me. And it takes 14 different grants from 13 different associations, and you have to do the tax credit equity. It's quite a weird business, and it doesn't really work very well. They need to do something about this, but they should trash the whole structure and try something else because we need affordable housing in all these markets that we have done [indiscernible] on.

It's Miami, we're -- it's the most unaffordable city in the United States. Half the population makes less than \$50,000 a year. Occupancy in affordable housing is 99.5%. And don't -- remember, affordable housing rents never go down. It cannot go down anyway.

So -- what we're finding, though, is that the calculation of the rent growth is strong, but our ability to pass it on gets a little tough sometimes because you feel bad with people who have nowhere to go. So, it's a very odd corner of the world in real estate, but I think we're the nation's largest affordable housing owner, I think it was 62,000 units across our portfolio. So it's a fascinating business.

And you can -- and we look at markets where global rents have approached market rents, which like Austin, Texas, where you can't raise rents or people just move out. But in Orlando and Tampa, where the REIT owns it properties were, as I mentioned, 30% below market rent. So, we're pretty protected and we've got good runway. And they're also high-cost cities, high-cost cities by the federal government. So, we always wind up with rollover rents that, I think -- what's the number that rolled over from 2025 into 2026 that we can't -- that we couldn't take last year.

Rina Paniry

CFO, Treasurer, Principal Financial Officer & Chief Accounting Officer

Yes. It's about 9%, Barry, that's carryover.

Barry Stuart Sternlicht

Chairman & CEO

I mean 9% rent growth. So, it would allow us to take like 8% or 9% or 10% in individual markets and then the rest of it. The calculation of Orlando, I think last year was 15% rent growth they gave us, they wouldn't let us pass it on, but we saved 5 or 6 points in the next year. So, it's -- as I said, it's the gift that keeps on giving. And when we bought those, I think you know me, I said, I want to buy things in the REIT, we'll never have to sell, and I want my kids estates to have, and the grandchildren's, and their kids. And that is that book. It's a shame to sell it, but it does have -- we have no equity in the portfolio. We have refinanced all of our equity that we have just took another \$200 million to \$300 million out negative basis. And we have a \$2 billion gain, something like that. So that's even...

Rina Paniry

CFO, Treasurer, Principal Financial Officer & Chief Accounting Officer

About \$1.5 billion. Yes.

Barry Stuart Sternlicht
Chairman & CEO

\$1.5 billion.

Jeffrey F. DiModica
President

About \$1.5 billion, Barry.

Barry Stuart Sternlicht
Chairman & CEO

Yes. Well, there we go -- okay.

Jeffrey F. DiModica
President

Thanks, Barry. So Jade, I think the earnings trend is improving. I think as Barry just said, our Woodstar \$1.5 billion of Woodstar gains give us unique staying power, and we'll continue to work the year to maximize shareholder value. To Barry's other point, and I made it in my opening remarks, but I don't want to be lost on people. The equity REITs are doing really well. Owning real estate, long-term assets, like Barry said, has been a pretty good trade. For whatever reason, our stock is not trading very well, but we are 24% owned real estate with long duration and large gains. And...

Barry Stuart Sternlicht
Chairman & CEO

Can I -- Jeff sorry to interrupt because this is something we didn't say, and I think we should say. Our triple net lease business in the market would be valued, I think Jeff said 6% dividend yield. That's the comp. If you take the high end, there's some trading even higher than that. So if it gets to scale, and we're not getting the performance of our stock and they continue to treat us like a junk credit, we'll spin it out because we have a big gain in that business -- we'll have a big gain in the business. And we're -- it's obvious to us that a 6% dividend stream trading in a 10.8% dividend stock is ridiculous. So we're not idiots.

I mean -- but we'll grow the book and then we'll spin it out and create like we did long ago when we spun out our residential housing business and created Star Waypoint. We'll do the same thing. I mean we have to get recognized for the value of this portfolio and the stability of the income stream.

And our credit markets actually appreciate it. And we have the tightest spreads in our sector, but the equity markets don't. So -- and I think it's confusion over some of the different accounting methods between the different firms in our space. And also, I think some -- they don't have diversification. They don't have -- they don't have the kind of company we put together by purpose. We are continuing to look at other things, too. So Sean just lost a very large deal. Well, maybe he lost it. We're hoping to get it back. But there are other things that we have up our sleeve, which could deploy capital really rapidly and get us the earnings power we need faster. So that's why it's hard to answer that question that was asked earlier.

Jeffrey F. DiModica
President

Thank you, operator. Are there any more in the queue?

Operator

There are no further questions at this time.

Jeffrey F. DiModica

President

Thank you, Barry, any further remarks?

Barry Stuart Sternlicht

Chairman & CEO

Thanks, everyone. We'll be with you next quarter.

Operator

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