Transcript of Ladder Capital Corp’s Q1 2017 Earnings Call

May 9, 2017

Operator: Greetings, and welcome to Ladder Capital Corp First Quarter 2017 Earnings Call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions.] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Kelly Porcella, General Counsel of Ladder Capital Corp. Thank you, Ms. Porcella. You may begin.

Kelly Porcella

General Counsel

Thank you, and good afternoon, everyone. I'd like to welcome you to Ladder Capital Corp's earnings call for the first quarter of 2017. With me this afternoon are Brian Harris, the Company's Chief Executive Officer, and Marc Fox, the Company's Chief Financial Officer. This afternoon, we released our financial results for the quarter ended March 31, 2017. The earnings release is available in the Investor Relations section of the Company's website, and our quarterly report on Form 10-Q will be filed with the SEC later this week.

Before the call begins, I'd 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 these forward-looking statements. I refer you to Ladder Capital Corp’s Form 10-K for the year ended December 31, 2016, for a more detailed discussion of the risk factors that could cause actual results to differ materially from those expressed or implied in any forward-looking statements made today. Accordingly, you’re cautioned not to place undue reliance on these forward-looking statements. The company undertakes no duty to update any forward-looking statements that may be made during the course of this call.

Additionally, certain non-GAAP financial measures will be discussed on this conference call. The company's 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 are contained in our earnings release.

With that, I'll turn the call over to our Chief Executive Officer, Brian Harris.

Brian R. Harris

Chief Executive Officer & Director

Thank you, Kelly. I'm pleased to report that in the first quarter Ladder produced core earnings, a non-GAAP measure, of $31.6 million or $0.31 per share. This resulted in an annualized after tax return on equity of 9%.

We originated a total of $529.7 million of loans in the quarter of which $279.9 million of the total are held for securitization with a weighted average mortgage interest rate of 5.13%, while $249.8 million of the total will be held on our balance sheet with an average rate of 7.06%.

At the end of the first quarter, we held $516.6 million in loans for securitization and we added $93 million more at this point into the second quarter. We held a total of $2.3 billion in balance sheet loans at the end of the quarter with an additional $113 million closed in the second quarter.

We expect to return to the securitization market in the second quarter, although we are still evaluating which approach to take towards newly implemented risk retention rules. We have several choices and all seem attractive, but we are taking great care to choose the right path that will produce the best results for our shareholders.

The first quarter was a workmanlike quarter with almost all of our earnings coming from leases and net interest margin and very little attributable to gain on sale of assets that we have. While most of our earnings in the quarter were from passive income, the quarter was filled with a flurry of corporate finance activities that materially broadened our shareholder base, strengthened our balance sheet and enhanced our ability to grow in the years ahead.

When we began the new year, we executed the first part of a forecasted plan to refinance $290 million of our corporate bonds with a rate of 7-3/8 percent pre-payable at par in April of 2017. As we approached the end of 2016, we began to sell down our securities portfolio, lowering leverage and raising cash so we would be able to pay off our highest rate corporate bonds regardless of what market conditions might be in the first quarter of 2017.

After the tumultuous three months following the presidential election, we were pleased to be met with a welcoming bond market and successfully raised $500 million from the sale of unsecured corporate bonds at a rate of 5.25%. We refinanced our 7-3/8 bonds and borrowed an additional $210 million at a rate that was over 2% lower than our first offering just four and a half years ago. We also extended by two years and upsized our corporate revolver by $25.5 million, and also added term to several of our other credit facilities. These events were clear endorsements by various lenders and investors as to the strength of Ladder's balance sheet, our flexible business model, and our conservative management style.

In addition to the accretive steps we took on liability side of our balance sheet, we also took steps to broaden our equity shareholder base. After initial investors in Ladder sold 11.5 million shares in our first secondary market sale in December [2016], we followed that up in February with another strong endorsement when Related Companies purchased 5.4% of our outstanding shares in a private transaction and named a member to our Board. We followed that transaction with another secondary market sale in March of approximately $45 million worth of shares. Each successive secondary sale of stock was executed at a higher price per share than the transaction preceding it.

Ladder received no proceeds from these three secondary sales, but the sales greatly improved our average daily volume of shares traded, making our stock more investible for large institutional long term investors who need better liquidity in the stocks that they own.

In terms of general market conditions, it's worth noting that a trend that we'll be keeping an eye on. According to one industry publication, the first quarter of 2017 saw United States CMBS issuance of $15.224 billion, down from $19.286 billion in the first quarter of 2016 and dramatically lower than the $27.013 billion in the first quarter of 2015. This decline in securitization volume is meaningful and there are probably several reasons for it, including the implementation of risk retention rules in December of 2016.

Many originators that are not capitalized to hold interest in their loans for long periods of time have simply left the business, while others are struggling to find workable solutions. Regardless of what solutions others come up with, Ladder has numerous solutions available to us to take advantage of any market disruptions caused by risk retention.

Our strong credit culture, combined with our permanent capital base, will allow us to thrive in the recently less competitive loan to securitization business. Our diversified suite of investment products allows us to shift our capital around as the business climate changes. In today's market, a flat yield curve makes investments in short duration securities less attractive to us, as evidenced by our lower inventory of securities today versus where we were two quarters ago.

Although, the last two quarters, we sold $592 million of securities at an average gain on sale of 1.01%; not a very big profit margin, but this is due to the short duration of our securities portfolio, which also experiences less price volatility as interest rates fluctuate. Since our securities portfolio is the safest and most liquid product in our inventory, it also employs the greatest amount of leverage. By selling a large portion of our securities over the last two quarters, we also reduced our leverage at Ladder.

At the end of the first quarter, our debt to equity ratio was 2.9 times. An important item here is worth mentioning. When we issued $500 million in unsecured corporate bonds in the middle of March, there was a period of about two weeks where we still had our 7-3/8s bonds outstanding. As a result, we showed a debt to equity ratio of 2.9 at the end of the quarter but this dropped in the first week of April to 2.7, after we paid off the outstanding $290 million of our 7-3/8s bonds. While we lowered our inventory of securities, our bridge loan product continued to be one of the more attractive profit centers and we are focusing on that today. Against the backdrop of bank regulation and a relative lack of competition for loans where cash flows at the property level are depressed due to several factors, we are seeing robust demand for loans that we hold on our balance sheet, secured by these transitional properties.

In 2017, our first mortgage bridge loan inventory contributed $30.5 million of core earnings in the first quarter versus $25.4 million in the first quarter of last year. We continue to see strong demand for this product. And while we expect market forces to create more competition in this space, we feel we are differentiated enough in our approach to this business to maintain strong profitability.

With that said, let me now turn you over to Marc Fox.

Marc A. Fox

Chief Financial Officer

Thank you, Brian. I will now review Ladder Capital's financial results for the quarter ended March 31, 2017.

Ladder generated core earnings of $31.6 million in the first quarter of 2017. This amount compares to $38.2 million in the first quarter of the prior year. Core EPS for the first quarter was $0.31 per share compared to $0.38 per share for the same quarter a year ago.

On an after tax core basis, Ladder generated a 9% return on average equity during the first quarter, down from 10.8% in the first quarter of 2016. This is based on an average equity balance, excluding non-controlling interest of consolidated joint ventures, of approximately $1.5 billion. On a GAAP basis, Ladder generated net income before taxes of $18.3 million during Q1 17. This compares favorably to a net loss before taxes of $12.3 million for the comparable period in 2016.

Net results of derivative transactions, our interest rate hedge gains and losses, were the major cause of the swing from loss to profit in this year-over-year GAAP comparison. In the first quarter of 2017, interest rates changed only slightly, resulting in a $2 million GAAP hedging loss attributable to hedging interest in comparison to the first quarter of 2016 when both the five and 10 year swap rates declined by over 50 basis points, resulting in $50.9 million of GAAP hedging losses.

This quarter's $31.6 million of core earnings were achieved without the benefit of any securitization gains, and less than $5 million of core gains from real estate and securities sales. The remaining core earnings were derived from Ladder's solid foundation of investments that generate recurring income in excess of Ladder's total corporate expenses.

During the quarter, recurring net interest, net rental, and fee income contributed $40.6 million to core earnings. These recurring revenues were more than 2.5 times the remaining core corporate expenses of $15.1 million incurred during the quarter. In other words, in the first quarter, Ladder generated over $25 million of recurring core earnings, net of corporate expenses. The largest GAAP to core earnings adjustment for the quarter related to real estate depreciation.

On a year-over-year basis, first quarter 2016 results were aided by $5.4 million of gains on the extinguishment of corporate debt and $3.7 million of securitization gains, net of hedging, that together more than account for the difference versus Q1 2017 core earnings. During the first quarter of 2017, Ladder originated total of $529.7 million of loans and did not participate in a securitization transaction as conduit loans were being aggregated in anticipation of a future transaction.

I’ll now review Ladder's income statement and balance sheet.

Interest income was $57.5 million in the first quarter of 2017 compared to $59.6 million in the same quarter of 2016. Net rental income, which includes operating lease income and tenant recoveries net of real estate operating expenses, of $13.7 million in the first quarter, was comparable to the net rental income earned during the same period in 2016.

Ladder's portfolio of loans held for sale or conduit loans stood at $516.6 million at the end of the first quarter, up over 44% from the end of last year, reflecting new loan origination activity during the first quarter. Similarly, Ladder's portfolio of loans held for investment, or balance sheet loans, increased over 15% to $2.3 billion from the end of 2016.

Ladder's portfolio of CMBS and U.S. agency securities investments decreased to $1.7 billion as of the end of March from $2.1 billion at December 31, 2016, as we sold a total of $361.3 million of securities, experienced amortization and pre-payments of $74.3 million and purchased $45.7 million of securities during the quarter. As noted previously, the net securities decrease is indicative of Ladder's move to reallocate capital between our business lines, specifically from investments in securities to newly originated loans.

With regard to real estate, our total real estate portfolio as of March 31, 2017 stood at $814.4 million. During the first quarter, Ladder acquired three properties for a total price of $3.9 million, bringing our portfolio’s total square footage to 7.2 million square feet.

In terms of key balance sheet metrics, as of March 31, 2017, 96.3% of our debt investment assets were senior secured, including first mortgage loans and commercial mortgage backed securities secured by first mortgage loans, which is consistent with the senior secured focus of the company. Senior secured assets plus cash comprise 75.2% of our total asset base.

Total unencumbered investments, including cash, were $1.6 billion and our unencumbered assets to unsecured debt ratio was 1.48:1 based on the terms of the $500 million of senior notes issued in March of this year.

In reviewing our March 31, 2017 balance sheet, you will note that it reflects a balance of $1.06 billion of senior notes, which includes the addition of $500 million of the new senior notes as well as $291.5 million of senior notes that were set to mature in the fourth quarter of this year that Ladder prepaid right after quarter end on April 3rd, as Brian noted.

The average coupon on the loans held for sale originated in the first quarter was 5.13% compared to 4.81% in the preceding quarter. The average coupon on the loans held for investment originated in the quarter reflected a weighted average spread of approximately 6.23% over one-month LIBOR versus 5.67% spread last quarter.

The weighted average loan-to-value ratio of the commercial real estate loans on our balance sheet at 03/31/17 was approximately 63%, slightly lower than the weighted average LTVs in recent quarters.

With regard to securities, 84.1% of our securities positions were rated AAA or backed by agencies of the U.S. government. As of quarter end, all of our CMBS positions were rated investment grade. The weighted average duration of our securities portfolio was 3.4 years, or 41 months, slightly higher than the average duration of 39 months at the end of the same quarter last year but lower than the 44 month average duration at the end of the prior year.

Ladder ended the quarter with total assets of $5.9 billion and total equity of $1.5 billion. Our core leverage increased to 2.9:1 from 2.6:1 during the quarter, impacted by the addition of new loan investments during the quarter and the inflation of other assets related to the bond payoff on April 3rd. Excluding the impact of this bond pay-off, our core debt to equity ratio would have been 2.7 times.

With regard to financing, we continued to enhance our maturity profile while maintaining a diverse set of funding sources. As of March 31, 2017, we had $4.3 billion of core debt outstanding and committed financing availability of over $1.8 billion for additional investments. Our FHLB borrowings stood at $1.48 billion as of March 31, 2017.

In addition to the successful $500 million five year unsecured bond issuance and the prepayment of the higher coupon bond that was scheduled to mature in October, Ladder also strengthened its capital base in other ways. During the first quarter, we added a new bank to our unsecured revolving credit facility which was extended and expanded to over $168 million, reflecting the new bank's contribution as well as increased commitments from two other syndicate numbers.

With regard to our committed secured loan repurchase facilities, since December 31, 2016, Ladder has expanded the final maturity dates of two of those facilities. As Brian discussed, Ladder also announced two secondary offerings of Class A common stock on behalf of some of the original investors and partners in the firm and we continue to negotiate facility expansions and additional financing sources for our loan and our securities portfolios.

So summing up, in the first quarter, Ladder generated $31.6 million of core earnings and a core after tax return on average equity of 9% over the first three months of the year during a period of no securitization activity; we continue to cover a $0.30 per share of cash dividend during the quarter; issued $500 million of 5.25% senior notes due in 2022; and the proceeds we used in part to repay bonds with an interest rate of 7-3/8s percent. And we continued to apply a disciplined approach to the use of leverage, to the allocation of capital on the face of the risks we encounter, and to the selection of longer term investments in loans and real estate.

At this point, it's time to open the line for questions and answers.

Q&A

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions]. The first question comes from Ben Zucker with JMP Securities. Please go ahead.

Ben Zucker
JMP Securities
I heard your comments about closing another $93 million of conduit loans subsequent to quarter end. But I think I missed the second part where you might have mentioned the held for investment originations too. Could you just repeat those numbers for me?

Brian R. Harris
Chief Executive Officer & Director
At the end of the quarter, for balance sheet loans, is that your question?

Ben Zucker
JMP Securities
Yes.

Brian R. Harris
Chief Executive Officer & Director
We held $2.3 billion and as of yesterday we had closed an additional $113 million in the second quarter so far.

Ben Zucker
JMP Securities
And based on your commentary, Brian, I kind of got the impression that you guys are a little less certain that you will issue your own securitization in the second quarter. Am I hearing you correctly? And if I am, what is changed since the last fall when it seemed like Ladder securitization was a little

more probable perhaps?

Brian R. Harris
Chief Executive Officer & Director
I think you're hearing something that's not being said.

Ben Zucker
JMP Securities
Okay.

Brian R. Harris
Chief Executive Officer & Director
So nothing has really changed. But keep in mind we're certainly open to changes, we just haven't really made any yet though.

Ben Zucker
JMP Securities
Really quickly turning to the property segment, is there any update that you could give on the condo development project that I think is held as a joint venture in the second half? How that's progressing and when do you think sales might be occurring there?

Brian R. Harris
Chief Executive Officer & Director
I know that they've got some pre-sales done. I think they sold three of the units but we're not really open yet and showing. I think those are friends and family. And I walk by the other day, it's actually very close to NYU so I happened to be there and walk by. As you know, we do have some concerns about high end condominiums because of what's going on in the uber high end area. But these don't really compete with us. There is a light amenity package and they are all about the same size, it's not a pent house heavy situation. So as of now, we're pretty comfortable with where we are. I think it's only 40 units.

Ben Zucker
JMP Securities
And then just lastly from a high level, could you touch on the competition. I think we've heard a lot about the increase in capital chasing these kinds of loans and maybe some competitive pressure weighing on coupons. Could you comment if you're seeing the same thing there?

Brian R. Harris
Chief Executive Officer & Director
I think there two things going on in the lending area as far as competitors go. I think the conduit business is actually getting less competitive, and that's because I remember, a year, year and half ago,

we were talking about how many people were in the business and all the volume. But I think risk retention has seemed to hurt a little bit there in the conduit side. And while lending at large is smaller and I don't think that's unique to us or the REITs, I think the banks are experiencing the same thing. So I'm at somewhat of a loss as to explain as to why lending volumes are not very strong; however, almost everything that's written is reasonable as far as credit goes. We're not seeing a lack of discipline there. And most of it is reasonably profitable also, at least as of now. So we're not seeing any thought leaders trying to pick up volume at great cost or risk to themselves. So the conduit business is smaller but healthy.

And I would say on the bridge loan side, there have been several new operations put into place recently and may be a couple of more coming. I think most of them are geared towards the larger loans. I think from what I've been hearing, we are not experiencing too much in the way of competitive pressure in the bridge loan portfolio except as we get up towards $50 million, but then we'll start to feel the pressures from some of the competitors that you know as well as some hedge funds and as well some new startup operations.

But our portfolio, we originated, I think it was almost $250 million in the quarter at an average rate of 7.06%. That's actually at a higher rate than last year, somewhat reflecting LIBOR. So again volume there is okay, it's not terribly competitive because there aren't a lot of banks in that area but we are seeing some hedge funds and some levered loan funds getting quite competitive in the over $50 million area. But we don't really hang around in that neighborhood.

Operator: Our next question comes from the line of Jessica Levi-Ribner with FBR. Please go ahead.

Jessica S. Levi-Ribner
FBR Capital Markets & Co.
Brian, I know you just talked a little bit about the pipeline for the second quarter, and I appreciate your comments around the transactions in the bridge lending space. But can you size your pipeline for the coming quarter and then may be give us an idea of the types of loans you made this quarter?

Brian R. Harris
Chief Executive Officer & Director
Well, I know the pipeline, I know what's under application right now, and it's reasonably strong. However, I hesitate to share that with you, because one or two loans could change that if they were to fall down for some reason. So I would just call it reasonably active, not blowing the doors off, but certainly doing fine against the current rate environment. I would say we're probably originating at a pace in the second quarter that's slightly ahead of the first quarter in both areas bridge loans as well as conduit loans.

Jessica S. Levi-Ribner
FBR Capital Markets & Co.
And the types of loans you originated this past quarter?

Brian R. Harris
Chief Executive Officer & Director
You mean property types or are you asking about bridge…

Jessica S. Levi-Ribner
FBR Capital Markets & Co.
Property type...

Brian R. Harris
Chief Executive Officer & Director
Common theme, we're cautious around certain types of retail. I think since we opened in 2008, I don’t believe we have funded a regional mall yet. I think we did a small sharing loan at one point awhile back, but we have avoided the regional mall space. Having said that, we do have some AAAs that are secured by regional malls but we feel that’s where you we want to be in those situations. But we are active in office right now. We’re not against retail, it’s mostly necessity based retail with a food or drug anchor, or else neighborhood - just nail salons, pizza places and things like that.

Apartments we’re seeing more in the bridge area, because I think that the GSAs take more of that in the permanent area but they incubate in the bridge loan portfolio. So we’re seeing a fair amount of that. Somewhere else if you see some of these big retailers that are cutting back and were closing since stores so they are using less retail. So I know that we financed recently a recently vacated Kmart shopping center -- on that shopping center warehouse that was re-tenanted rather quickly in our bridge loan portfolio.

We have some hotels, I’ve said in the past we are seeing a little bit of pressure in the hotel space, most of the pressure coming from high end hotels where there are a lot of alternatives, as in apartments that are vacant, because it I think has an impact there and also the limited service hotel business has had a lot of supply come on the market. So there is little bit of a press in there.

But overall I think we have an economy that’s reasonably healthy, and I don’t think it's as strong as most of the headlines I read on in the newspapers. But it's fine and it's doing okay. We are seeing some positive trends in leasing, but I don’t really see a lot of pricing power for a landlord to own a lot of space. So you’ve got pretty stable incomes, I don’t see anything that would cause me to believe that there is going to be big increases in cash flows in most real estate properties with the possible exception of apartments.

Jessica S. Levi-Ribner
FBR Capital Markets & Co.
And then just in terms of any securitization that you do during the second quarter. Could you size that for us?

Brian R. Harris
Chief Executive Officer & Director
I'd hesitate to size it, because I don't want to get on the other side of securities laws. But I think that we had $609 million effectively in the inventory, if you just add the March 31st plus production in April, and we're adding to that. So we have plenty of product, I don't know how we'll size the next transaction we do. But it will be -- it won't be a typical $150 million or $250 million contribution to a multi-originated portfolio. And I think it will have a lot of Ladder loans in it for sure.

Jessica S. Levi-Ribner
FBR Capital Markets & Co.
And just one last one on credit. If you're seeing any -- what kind of credit trends you are seeing in your portfolio?

Brian R. Harris
Chief Executive Officer & Director
Just I think in general, we are seeing the hotel space flatten out, some deteriorating credit conditions in certain areas. But for the most part, I think it's more about just slightly lower prices to try to hold occupancy; retail, typical big box not doing great, some of the restaurants aren't doing particularly well; hotels seem to be doing fine for the most part, but as I said, not increasing in cash flow; and apartments, some places are overbuilt but some of the student housing, some of the newer product, I think is doing pretty well, especially where there is waiting list for the associated institutions of education. But again, just no real increase -- no dramatic increases in cash flow or NOI, but certainly not any big downturns either. So it's one of these bouncing along economies that I would lean slightly positive towards as opposed to slightly negative.

Operator: The next question is from Jade Rahmani with KBW. Please go ahead.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
Can you provide a liquidity update in terms of available investment capacity?

Brian R. Harris
Chief Executive Officer & Director
I'll ask Marc for some of the details on it. But I will tell you, as we indicated in the call, we opened up the year with a fair amount of cash, anticipating the possibility anyway of some erratic market

conditions because of the new administration and tax planning and who knows what else. So we were probably a little cash heavy going into the first quarter. We thought we were going to try to refinance $300 million high coupon bond. We wound up financing a $500 million transaction so we paid off the $300 million. We raised an additional $500 million and we have the cash that we started the quarter with. So we got a little cash heavy there, I think a temporary condition probably of being over capitalized.

And then if you remember in the last call, we've been talking about the possibility of doing a short-term Ladder transaction, which was floating rate, but two to three years and we had about $1 billion we were looking at. We decided to hold on to that transaction and not securitize it because the real effect would have been had we held the first loss position, and we would have simply generated a couple of hundred million dollars more in cash which wasn't necessary at the time. We also had a situation for two weeks at the end of March where we had double counting in interest because we have all of the bonds outstanding, the $290 million at 7-3/8s as well as the $500 million at 5.25%.

We elected to do that before the call date because there were some activities going on with the Federal Reserve that we didn't want to fool around with and risk not being able to get financing. So we went a little early that probably cost us $1 million just for the quarter, so I guess that's penny a share in the number. But other than that, the secondary market sales that took place, they were cash neutral to the organization; however, they did lift our liquidity and our average daily volume.

So we currently have -- the company became more liquid because we sold a lot of securities over two quarter. As you know, those are highly levered positions. So while they generate about 15% cash, we sold $600 million worth of securities. We would have picked up $90 million in cash or so. So we have a lot of cash that I think we're working through. We still have a lot of cash presently, but I think that will probably get through that before, I would say July. I don't think we'll have worked our way through the cash until we get through the second quarter, it'll probably be just after that.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
And what's the amount of committed financing available for additional investment?

Marc Fox
Chief Financial Officer
$1.7 billion is the statistic. And I think that just to elaborate on what Brian said, I think in terms of our liquidity, I think over the course of the quarter, we become more flexible with respect to our liquidity. Adding on the $200 million of unsecured debt definitely is a more flexible situation than relying on secured debt instead. We added on another $25 million on to our unsecured revolving credit facility that also gave us some additional flexibility as to how we proceed.

Brian R. Harris
Chief Executive Officer & Director
And if you just take that $235 million there in three to one multiples, you are getting up around $900 million plus we had cash going into the quarter.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
And what is the unrestricted cash related to?

Marc Fox
Chief Financial Officer
Unrestricted cash is cash…

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
…the restricted cash.

Marc Fox
Chief Financial Officer
The restricted cash is a combination of escrow deposits that we might have, deposits from tenants that we might have on properties, it's what you'd call margin that we have on our derivative positions, et cetera.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
What was the aggregate amount of securities you sold in the quarter?

Marc Fox
Chief Financial Officer
We sold $361 million of securities, $361.3 million.

Brian R. Harris
Chief Executive Officer & Director
And how much paid off?

Marc Fox
Chief Financial Officer
And we had $74.3 million of amortization on pay-offs.

Brian R. Harris
Chief Executive Officer & Director
So, Jade, over the last two quarters, I think, we have paid off or sold, been paid off on pre-maturely or sold over billion dollars worth of CMBS.

Marc Fox
Chief Financial Officer
That is correct.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
Did you buy any CMBS in the quarter?

Marc Fox
Chief Financial Officer
We bought $45.7 million in this quarter we bought $124 million in the preceding quarter.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
Can you give an update on the aggregate number of condos that were sold in the quarter, and what the earnings were on those?

Marc Fox
Chief Financial Officer
We sold 18 condominiums during the course of the quarter the gain was $1.93 million on a core basis.

Brian R. Harris
Chief Executive Officer & Director
That was a pretty slow quarter for us. I don't have the breakout, but I know that Las Vegas in particular was very slow in January and February, or as in I don't think we sold any units. I don't have a good answer for why that is. We've had a meeting with them out there. It has to do with traffic. I'd say there wasn't a lot of activity in the quarter and all those things have picked up again.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
And how about the Florida property?

Brian R. Harris
Chief Executive Officer & Director
I believe Florida is doing fine. It's a low price point. I don't know -- how many did we sell in Florida?

Marc Fox
Chief Financial Officer
We sold six in Florida. I think the first quarter has historically been a lighter quarter overall.

Brian R. Harris
Chief Executive Officer & Director
And what did we sell in per unit, do you have them?

Marc Fox
Chief Financial Officer
Yes, $2.1 million in net proceeds from sales so we're still in that $300 to $325 a square foot range.

Brian R. Harris
Chief Executive Officer & Director
Florida, I would tell you my own opinion, having spent a little bit of time there in January at the CREFC conference, it looks a little overcooked to me on the condo side, especially along the beaches. I would point out that our only exposure is not on the beaches on the north land river and this cost basis the price point is a very low price point and fits a lot of people. So we're very comfortable where we are and we expect to continue selling those. Las Vegas, we're almost sold out, I don't know what the numbers we have left. I don't know if you have it Marc?

Marc Fox
Chief Financial Officer
Las Vegas, we have 47 units.

Brian R. Harris
Chief Executive Officer & Director
So we're almost done there.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
So six units sold in Florida, none in Vegas, so what was the other 12?

Marc Fox
Chief Financial Officer
We had 12 in Vegas. It's just the low level of…

Brian R. Harris
Chief Executive Officer & Director
I thought January and February, we…

Marc Fox
Chief Financial Officer
We did better in March.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
And just wanted to ask about this, I know you don't give earnings guidance. But it seems like you've noted that there are couple of drags on earnings in the quarter, namely no securitization activity, excess cash, double interest. And so looking at the consensus earnings expectations, the forecast is for sequential improvement in earnings. Is there anything that you would say to caution analysts and their estimates?

Brian R. Harris
Chief Executive Officer & Director
We don't give too much guidance. But as I said, we do expect to return to the securitization market in the second quarter, that's not a promise, but we think we will under normal market conditions. We also could be picking up some additional sales in real estate; I don't think the condo business will be slower than it was in the first quarter; but then we also have some other properties where we're getting some interest from people that may want to buy them. I don't know if they close in the second quarter, but they could.

Operator: [Operator Instructions] The next question is from Rick Shane with J. P. Morgan. Please go ahead.

Rick Shane
J.P. Morgan
Most have been asked and answered, but just curious. I mean, look, we're in a strange environment; there is little bit of uncertainty in terms of securitization execution; but that does seem to be improving; little bit more concern about credit and specific buckets; yet, we're seeing spreads really tight. Curious how you approach that, what your concerns are and when have you seen conditions like this before, where you start seeing technical factors overwhelm fundamental factors?

Brian R. Harris
Chief Executive Officer & Director
It's a mouthful, but I tend to agree. It's relatively flat yield curve. So the Federal Reserve has raised interest rates twice in a short period of time, and long-term interest rates have fallen. So that’s a clear flattener and with LIBOR at 1% and the 10 year treasury, or whatever that is -- and it’s a very flat curve. So when we have a situation like that, especially if you're hedging the financial instrument against interest rate movements, you really have no carry. It’s a very thin carry business, which is why I think you're seeing the banks get looked at by lot of the analysts fiscally, it’s how they make money.

Now the banks have an extraordinarily low cost of funds because of deposits and they don’t work off LIBOR. But anybody working off of LIBOR is experiencing flat curve. And as we said, we sold $580 million something worth of short-term securities. We did manage to make 1% on our profit margin there. So we’re pretty comfortable there, but we're not acquiring a lot of short-term securities right now because the levered return even at a low cost of funds is 4%. So we’re just not acquiring those. We have no appetite to add to that portfolio right now. We might add, on the longer end, there are some really strange things going on, as I think you pointed out, in that mortgage spreads are actually rather wide, where corporate spreads are incredibly tight, as well as high yield spreads.

So I'm little perplexed. Although I think the wider mortgage spreads have to do with absolute rates and in addition the discussions that’s in the news lately about the Fed unwinding their mortgage backed securities portfolio. So there was a press headline that went by saying somebody said that if the Fed unwinds their MBS portfolio, spreads won't widen. That’s insane, that’s absolutely not going to be the case, if they decide to unwind that portfolio. So I think that is a concern of some people. But I'm of the opinion the Fed really never has to unwind that portfolio, they can keep it forever. So I think that’s a very controllable instrument. I don’t think that they are going to do anything to disrupt things. But AAA 10 years and the commercial side is still trading and it was a spread of 100 over swaps. That’s relatively wide, especially when high yield index is probably at its low since -- low ever maybe.

We’re fortunate that we were able to $500 million at 5.25%, you saw some of our competitors do something similar to that. And the aftermarket on some of those positions they are trading incredibly low on yield, considering their own secured bonds. When I look at a CMBS five year versus an unsecured corporate five year, I will take the CMBS five year all day there. But that’s not the -- I think it has to do with liquidity and also the Fed scaring the hell out of everybody.

Rick Shane
J.P. Morgan
So did you just call Janet Yellen a hoarder?

Brian R. Harris
Chief Executive Officer & Director
No I didn’t.

Operator: [Operator Instructions] The next question is from Charles Nabhan with Wells Fargo. Please go ahead.

Charles Nabhan
Wells Fargo Securities LLC
Most of my questions have been asked, but I was hoping to get some color around your expectations for repayments and maturities over the next couple quarters. I appreciate the color on the pipeline and the origination pace. But just trying to get a better sense of how we should think about the trajectory of the overall portfolio, going forward?

Brian R. Harris
Chief Executive Officer & Director
You mean our pay-offs?

Marc Fox
Chief Financial Officer
Are you talking about just the refinance pipeline in CMBS world?

Charles Nabhan
Wells Fargo Securities LLC
No, within the balance sheet, within the held for investment portfolio…

Brian R. Harris
Chief Executive Officer & Director
Marc will answer it.

Marc Fox
Chief Financial Officer
So when you look at our loan portfolio, specifically our balance sheet loans because that's where you'd want to focus. Over the course of this year, we have, and this is just initial maturity base, $739 million of loans that are scheduled to mature. That said, a number of these loans have the ability to be extended and so they probably won't be paid off and that's something you just determine as you go on throughout the year. And these maturities of spreads spread throughout the year fairly evenly with a little bit of concentration towards the end of the year.

Brian R. Harris
Chief Executive Officer & Director
And Charles, we keep our portfolio rather on target with a relatively short maturity date. For the most part, and I don't have the numbers to support it, but I expect 10% to 15% of our portfolio to pay off every quarter. It's in general. It's a two year portfolio. And it's a fairly uniform string of maturity dates coming up. We've added one type of asset that we've been having a lot of success with because as the expectations of LIBOR going up are filtering through the system, most of the typical floating rate loan

quotes that are being floated to borrowers include cap rates; you have to buy cap because people are concerned, lenders are concerned about LIBOR going higher.

We are comfortable because of our diverse financing sources. We’re actually writing some fixed rate loans with three year maturities, where obviously no cap is required, and where we will handle the hedging portion of that;. We’re not overly concerned about LIBOR getting away from us; and we know how to hedge it. So for the borrower who has a relatively tight cash flow with a short window where he has to execute his business plan, rather than go out and buy cap rates with minimum interest, we are offering products where we will wave our prepayment penalties and also do a fixed rate loan for two or three or four years. And that’s been pretty popular.

Charles Nabhan
Wells Fargo Securities LLC
And I guess since you mentioned it, could you provide some color on maturity expectation, repayment expectations for the CMBS portfolio as well?

Brian R. Harris
Chief Executive Officer & Director
That’s a little trickier, because of I think what risk retention has done; you’ve got what I'll refer to as the banks; the large banks that are in the space; they seem to be deliberately targeting loans below 60% LTV; that puts them squarely in line with the competition with insurance companies. And the main reason for that is that under risk retention the B-piece buyers, and as well as the investment grade buyers, there is lot of sticky credit around right now where investors are demanding premiums for things that appear to be highly levered, highly levered these days is often times talked about as over 60%. I guess a lot has been learned in 10 years.

But from my prospective, I think that there is a world of business that can be done between 60% and 75%. And that’s really the opportunity that I see, because for the most part, some of the shadow banks if you will or the REITs that are making these loans, if they are looking to securitize them they won’t hold the position. What they will do is they will get a bank or somebody to finance a vertical strip and they will sell the first loss piece to a B-piece buyer. At Ladder, we feel very comfortable that we can originate loans with LTVs above 60, especially as we understand the real estate. And since we’re very comfortable also owning that first loss piece, we’re not really paying attention to where the large banks and the insurance companies are lending. And we are seeing some very attractive situations lending opportunities in the 60% to 75% LTV range.

But when you talk about the CMBS portfolios at large, I think there is a hell of a lot of maturities coming up – that’s well documented as the wall of maturities. I still think if you haven’t refinanced those yet, given where we’ve been on interest rate, I don’t think you're going to take a 60% LTV, because you would have done that already. So I think there are going to be some structures, some structured workouts with mezzanine position and possibly some, I would call it, a partial foreclosure where you give a kicker to a lender who lends you a lot of money. But I think that that’s going to be a slow process. I don’t think it's moving as quick as people would think. However, I do think that sometimes these borrowers little bit over-levered given where we are today. And the amount of capital chasing yield, I do think they can sell the properties. So that may suppress some of the CMBS activity that we might which was coming but there seems to be plenty to do.

Operator: The next question is from Jade Rahmani with KBW. He has a supplemental question. Please go ahead.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
Can you comment on that elevated stock compensation in the quarter? Wondering if you’ve at all changed the way employees are compensated, originators are compensated, as a result of the lower securitization volume?

Marc Fox
Chief Financial Officer
No we haven’t. The elevated stock comp number is simply a result of the vesting process taking its course that was defined in the plans that were set up a couple of years ago. I think when you look at the 10-Q you will be able to see the disclosures that are pretty clear.

Brian R. Harris
Chief Executive Officer & Director
Our originators and employees are paid, it's a performance based compensation scheme, as far as cash goes. So our accrual rate for cash accrual was lower this quarter than it was in the first quarter of last year. But we expect to catch up on that.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
And just secondly the triple net lease portfolio, I think the latest supplemental since the last quarter shows about 13% exposure the retail and I do see the properties listed for sale on the website, some of the retail exposure. But just overall, can you comment on the triple net lease portfolio? There was a prominent REIT that had an extremely messy quarter last week and noted an uptake in retail bankruptcies impacting the portfolio. So wanted to get some color there?

Brian R. Harris
Chief Executive Officer & Director
I think that you have to be a little bit careful. As I was reading a little bit about that situation and sometimes when we had applied a few long term flat leases, some people were saying well, I would rather have a short term lease that can raise the rent when the rent rolls. And I think what was formerly an opportunity is now starting to look like a problem in bricks-and-mortar. We have always taken an approach towards real estate with a dollar per foot concept in mind. So we do underwrite first on credit but second on real estate. And so if we had widespread bankruptcies in one of our tenants, we wouldn’t

expect to not take a loss but we do think it would be muted.

Some corporate tenants, especially tenants that are getting weaker, will sometimes hock their real estate portfolios at very high rents really in an attempt to assess the mortgage market rather than the corporate bond market. So we're constantly wary of that. What you also have to be aware of today is that even healthy retailers are closing down stores; companies that may not be anywhere near bankruptcy, but you still will have a vacant store. So you have to be very careful around that too. The situation I think that really got messy there was not so much attributed to triple net properties or retail in generally, it's actually one tenant that they had. And that's tenant where we had seen numerous AAA opportunities from that tenant and we turned them down on credit. We did not feel comfortable with those credits.

We do have some exposure to retail, but it's all looked at as necessity retail, not to say that Amazon couldn't get in the game on some of them; but we do have a lot of grocery stores; we do have a lot of drug stores; we have dollar stores; we don't have Family Dollar or Dollar Tree, we do have some Dollar Generals. And we're pretty comfortable but the only retailer that we have exposure to I think that I am not particularly comfortable with the way the private equity guys have taken dividends out of BJ's Wholesale Club. We have some of those but oddly enough, it's been reported recently that Amazon is looking to buy BJ's, perhaps, that is not anything I know about. So if we don't hear it the wrong way it just came across on the press. So to me it's a warehouse club and a lot of the retail that we own are often times in geographic areas and socioeconomic areas where we don't think that Amazon Prime is the natural course of business for a lot of them.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
And is 13% is there about total amount of retail exposure in the net lease portfolio?

Brian R. Harris
Chief Executive Officer & Director
Marc is pointing me at something here.

Marc Fox
Chief Financial Officer
So 13% in the real estate portfolio, right.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
So the Walgreens and those ranks have changed, et cetera that is all in that retail category not in another property type.

Marc Fox
Chief Financial Officer
Yes, that's correct.

Jade Rahmani
Keefe, Bruyette & Woods, Inc.
Thanks very much.

Brian R. Harris
Chief Executive Officer & Director
Hey Jade, I was just handed an index card that says we do on a couple of Family Dollar, sorry about that.

Operator: Ladies and gentleman, we have reached the end of the question and answer session. I would like to turn the call back over to Brian Harris for closing remarks.

Brian R. Harris
Chief Executive Officer & Director
Just thank everybody for joining us this afternoon or those of you who listen to it later. I do appreciate the time and we look forward to talking again next time. Thanks.