KKR Real Estate Finance Trust, Inc.

Second Quarter 2021 Financial Results Conference Call

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CORPORATE PARTICIPANTS

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Matthew Salem – *Chief Executive Officer*

Patrick Mattson – *Chief Operating Officer & President*

Mostafa Nagaty - *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the KKR Real Estate Finance Trust Inc. Second Quarter 2021 Financial Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key, followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*), then one (1) on your telephone keypad. To withdraw your question, please press star (*), then two (2). Please note this event is being recorded.

I would now like to turn the conference over to Jack Switala. Please go ahead.

Jack Switala
Thank you, operator. Welcome to the KKR Real Estate Finance Trust earnings call for the second quarter of 2021. We hope that all of you and your families are safe and healthy. As the operator mentioned, this is Jack Switala. Today, I'm joined on the call by our CEO, Matt Salem; our President and COO, Patrick Mattson; and our CFO, Mostafa Nagaty.

I would like to remind everyone that we will refer to certain non-GAAP financial measures on the call, which are reconciled to GAAP figures in our earnings release and in the supplementary presentation, both of which are available on the Investor Relations portion of our website. This call will also contain certain forward-looking statements, which do not guarantee future events or performance. Please refer to our most recently filed 10-Q for cautionary factors related to these statements.

Before I turn the call over to Matt, I will provide a brief recap of our results. For the second quarter 2021, we had GAAP net income of $29.3 million or $0.52 per share, which included a $0.6 million or $0.01 per share benefit from a lower CECL provision. Distributable earnings this quarter were $30.4 million or $0.54 per share, driven by the growth of our portfolio, benefits from in-place rate floors and continued strong asset performance.

Book value per share, as of June 30, 2021, increased to $18.91, which includes the cumulative CECL impact of $1.05 per share and $0.11 per share of offering costs incurred during the quarter in connection with our preferred stock offering as compared to $18.89 as of March 31. Finally, in mid-July, we paid a cash dividend of $0.43 per share with respect to the second quarter. Based on yesterday's closing price, the dividend reflects an annualized yield of 8%.

With that, I would now like to turn the call over to Matt.

Matthew Salem
Thank you, Jack. Good morning, everyone, and thank you for joining the call today. In the second quarter, we harnessed the power of the KKR origination franchise to originate 8 loans for $967 million. We have an additional pipeline of approximately $850 million in loans, which have either closed or are under exclusivity subsequent to quarter end. We also delivered another outstanding quarter of financial results with distributable earnings of $0.54 a share, covering the $0.43 dividend by 1.3x.

Our earnings continue to benefit from strong credit performance, existing LIBOR floors and net portfolio growth. In today's active origination environment, KREF is benefiting from its position as the flagship transitional senior commercial real estate loan strategy inside of a global asset manager with an established real estate platform. We have unique access to economic views

from our global macro team and real-time market and property level information from our partners in the real estate equity team.

This market connectivity is supporting a real estate credit franchise that has grown meaningfully. For perspective, at the end of 2019, our real estate credit franchise was comprised of 24 investment professionals compared to 46 today. This origination engine will be critical as we continue to see good progress on our sponsor's business plans, which we expect to lead to elevated repayments in the third and fourth quarters. Our investment focus remains the same: senior loans on high-quality real estate owned by institutional sponsors.

Our second quarter originations of 8 loans totaling $967 million, included 3 industrial loans, 2 multifamily loans and 1 loan in each of the office, student housing and single-family rental sectors. These 8 loans were underwritten at an attractive, low double-digit weighted average IRR, in line with returns pre-COVID. Net loan fundings this quarter was $288 million, and our portfolio grew to record size totaling over $5.6 billion as of June 30.

Our pipeline remains robust with approximately $850 million of loans either closed or under exclusivity subsequent to quarter end. We continue to be active in our historical segments of multifamily and select office. At the same time, our pipeline reflects our desire to capitalize on attractive opportunities in today's market environment, and we are constructive on certain newer segments such as life science, which has benefited from an increase in tenant demand, driving a need for new lab space.

In the industrial sector, we closed 3 loans this quarter for a committed loan amount of $410 million, secured by Class A properties. Our largest industrial loan this quarter was to a sponsor who has completed over 350 developments. As always, we will target the highest quality owners and operators. Our industrial focus aligns with our activity in real estate equity, where we own 65 million square feet across the industrial sector. Access to their expertise, market knowledge and relationships creates differentiated outcomes for KREF. With our focus on industrial development, there's more future funding than we have had in the past.

Given the simplicity of construction in the industrial sector, we expect those unfunded commitments to contribute to origination volumes over the next few quarters. Our portfolio composition remains consistent with previous quarters and is comprised predominantly of lighter, transitional floating rate senior loans. 83% of the portfolio is comprised of loans secured by multifamily or office properties. Retail loans continue to be underweight and represent just 2% of the portfolio. Industrial now comprises 3% of the portfolio on a funded basis. Overall performance remains strong, with interest collected on over 97% of the portfolio in the second quarter.

To support our growing opportunity set, we raised net proceeds of $167.1 million of perpetual preferred stock at a fixed-for-life cost of 6.5% in April. This permanent capital allows us to take advantage of current market opportunities, service our institutional clients and grow the portfolio, which should lead to improved operating leverage over time. Additionally, in early May, we completed an approximately $115 million secondary offering on behalf of our manager, KKR. One of our goals has been to increase the trading volume in our stock, and this sale added to the available float. KKR continues to be our largest shareholder with meaningful skin in the game at 26% ownership. This level of commitment is multiple times that of our peers, and we expect KKR to remain the largest shareholder in KREF over the long term.

In summary, we achieved another strong quarter across originations, portfolio performance and earnings. Our broader relationship with KKR and our scaled origination and asset management

franchise should benefit us in this active origination and repayment environment as we head into the second half of 2021.

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

Patrick Mattson
Thank you, Matt. Good morning, everyone. As of quarter end, a market-leading 76% of our asset financing remains fully non-mark-to-market, and the 24% remaining balance is only subject to credit marks. This is similar to the financing mix we had at the onset of the pandemic, which has served us well over the last 18 months. As of quarter end, our debt-to-equity ratio and total leverage ratio dropped slightly to 1.9xand 3.3x respectively. Following the success, we had in the April raise of $167 million in net proceeds of perpetual preferred stock at a fixed-for-life cost of 6.5%.

We continue to focus on optimizing our financing. This last week, we announced a new $1 billion CRE CLO. The offering was well received, allowing us to upsize by 30% and priced the $1.3 billion transaction on Friday. The CLO features a 2-year reinvestment period with an 84.25% investment-grade advance rate at a weighted average running cost of capital of LIBOR plus 1.3% before amortized expenses. In conjunction with this transaction, we'll call our first CLO, but the larger size of the new deal will increase the aggregate amount of matched term financing on a non-mark-to-market and nonrecourse basis. The combination of our brand, high-quality loan portfolio and track record as a manager, positioned us to achieve this attractive financing with a market-leading cost of capital.

As we have discussed in the past, we have a robust quarterly asset review process, and we evaluate every loan in the portfolio to assign a current risk rating. The current portfolio risk rating of 3.1 on a 5-point scale is consistent with the weighted average risk rating last quarter. Notably, 90% of our loans are now risk rated 3 or better, up slightly from last quarter. There were no changes to the composition of the watch list in the second quarter. However, we are seeing improving trends in properties, which may lead to positive credit momentum in other assets.

In the second quarter, we saw $27.6 million in pay downs on our New York condo loan. On our Brooklyn hospitality loan, occupancy rates ticked up nicely in the second quarter to 77% relative to occupancy rates of 53% in the first quarter. Our Queens industrial loan is approaching its next maturity and will most likely provide a short-term extension to allow the sponsor to finalize their sale process. As a reminder, we believe we have adequate CECL reserves with respect to our watch list loans and the broader portfolio. If a credit event does incur and a loss is crystallized, it will flow through our distributable earnings, but we would not anticipate a meaningful impact to GAAP net income or book value.

We received approximately $271 million of repayments in the second quarter, and while it's always difficult to predict repayments with certainty, our expectation remains for elevated repayment activity in the second half of the year, and our current projections are around $1 billion in each quarter. In the near term, KREF should continue to benefit from the in-place LIBOR floors and elevated effective net interest margins. This will decrease as the portfolio transitions to new loans at spot LIBOR.

Finally, KREF finished the quarter with a strong liquidity position of over $630 million. This total included $119 million of cash and $335 million in undrawn corporate revolver capacity available to us. In light of our liquidity position and the potential for elevated repayments in the second half

of the year, we feel well positioned to capitalize on the growing pipeline of investment opportunities.

In summary, another strong quarter with elevated distributable earnings of $0.54 per share, covering our $0.43 dividend by 1.3x. Robust originations across 8 loans totaling $967 million and an additional pipeline of approximately $850 million under exclusivity were closed subsequent to quarter end. We grew the portfolio to a record $5.6 billion, which compares to $5 billion at the start of 2021. Lastly, we completed an inaugural perpetual preferred stock issuance, adding permanent capital that positions KREF for portfolio growth and improved operating leverage.

Thank you for joining us today. Now we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star (*), then one (1) on your touchtone phone. If you are using a speakerphone, please pickup your handset before pressing the keys. To withdraw your question, please press star (*), then two (2). At this time, we will pause momentarily to assemble our roster. Our first question will come from Jade Rahmani of KBW. Please go ahead.

Jade Rahmani
Thank you very much and appreciate the detailed commentary. Starting with the dividend, you mentioned distributable EPS running 30% ahead of the current dividend. Then you mentioned your expectations regarding repayments, which would be elevated as well as a normalization over time in the net interest income margin. So, I was wondering, if you think, once things normalize, there could be room for an increase in the dividend? And if there were excess distributable earnings, is it your expectation that for this year 2021, there would be -- there could be a special dividend?

Matthew Salem
Hey, Jade, it's Matt. I appreciate you joining the call and thank you for the question. I'd say right now, we're focused on just the current dividend. Obviously, we'll readjust that after we -- future quarters meeting with the board, but from everything we see now, especially given the low interest rate environment, I think our target is still trying to meet the current dividend.

Jade Rahmani
And based on where distributable EPS has been running, do you think there's excess retaxable earnings that might require a special dividend?

Matthew Salem
Not at this point. We're not really focused on a special dividend. I think there's a number of factors that we'll take into consideration towards the end of the year as we meet with the board, but certainly haven't focused on that yet.

Jade Rahmani
The $1 billion of repayments you expect in each quarter for the third quarter and the fourth quarter, would that produce early prepayment income?

Matthew Salem
We'll have -- we'll have some pull forward on the OID to the extent they're prepaying before their initial maturity, which we expect. So that will generate a little bit more income. Most of them have run through their prepayment penalties or other call protection we may have in place, but you can get a little bit of that OID. So yes, that can drive earnings. Obviously, we don't originate a loan the exact day of loan pays off. So, there'll be some cash drag associated in the interim with a heavy repayment schedule as we ramp up and meet that with our new originations.

Jade Rahmani
Thank you. Lastly, just on credit. Could you give an update on the Portland retail loan? What's your expectation for that loan over the next few months?

Matthew Salem
Yes. Happy to. I think we're making good progress there as it relates to working with the next sponsor and the next phase of that investment, and our goal, we hope to come back to you next quarter with a broader kind of update on where we stand. So, stay tuned on that one.

Jade Rahmani
So, you say next sponsor, has the property gone through foreclosure? Or what is the current status?

Matthew Salem
No.

Jade Rahmani
I know it's on nonaccrual.

Matthew Salem
No, it's same status. It has not been foreclosed on and taken to REO. That, we're in the middle of all those discussions right now.

Jade Rahmani
Okay. Thanks for taking the questions.

Matthew Salem
Thank you Jade.

Operator
The next question comes from Steve Delaney of JMP Securities. Please go ahead.

Steven Delaney
Thanks. Good morning, everyone, and congratulations on another strong quarter. Matt and Patrick, I was wondering, we've been through so much with COVID and the demographic shifts that that and some economic things have highlighted. As your equity group, number one, and then your sponsors that you're lending to, are you seeing any type of definitive shifts into what geographic markets capital is flowing from the real estate equity side specifically? And are there any markets that - how dramatic is that? It's kind of what we hear about the license plates in Texas and things like this. Maybe just give us a sense for where is the money going from the real estate equity? And on the other side, where is it not going? Thank you.

Matthew Salem

Yes. Sure, Steve, it's Matt. I can take that and thank you for the question and joining us. I think that if you think about what COVID did, it accelerated some things and it dislocated some of the market, and certainly, in the geographic question that you're asking, I think there has been some pretty big acceleration in the growth markets, particularly in the southeast and certainly some of the tech cities, and I think the capital going into that is pretty pronounced. I mean it's very tangible.

We've seen good, whether it's multifamily or office. I mean you see very good leasing velocity in those markets still, and again, it was the theme before COVID. I just think it's been accelerated, and we will continue to focus on those markets from a lending perspective, and we're very active on the real estate equity side as you would suggest. I think we put it in our commentary every quarter, but the power of being able to sit alongside that and underwrite deals together and get that market information real-time is very powerful.

Steven Delaney
Are there any markets that - we all hear about Austin, right, and Phoenix and Denver and those places, are there any sleeper markets coming down, maybe second-tier cities that you see emerging that maybe aren't on the tip of everybody's tongue?

Matthew Salem
I mean nothing that's not obvious. I mean, Charlotte, I mean, I wouldn't call that a second-tier city, but Charlotte is obviously another growth area, and the Florida markets, again, similar theme pre-COVID, but I would say those are particularly strong as well, the Southern Florida markets.

Steven Delaney
Yeah, I should probably use the term non-gateway rather than, describe them a little better. Okay, and just to close, the comments about the portfolio. We were $6.5 billion at June based on the commentary about pipeline and closings. I mean, it seems to me that we should just model essentially a flat portfolio over the second half of the year. Does that sound reasonable to you guys?

Patrick Mattson
Steve, good morning, it's Patrick. That's right.

Steven Delaney
Yes, Patrick.

Patrick Mattson
I think that as we think about the course of the repayments here and our origination capacity and our ability to match that, we're assuming that we're going to be in that $6 billion area for the portfolio size.

Steven Delaney
Yes. Got it. I understand it can be lumpy month-to-month as we go through that in the next 6 months. Thank you both to your comments.

Patrick Mattson
Thank you, Steve.

Steven Delaney
Thank you.

Operator
The next question comes from Stephen Laws of Raymond James. Please go ahead.

Stephen Laws
Hi, good morning. To follow up on Steve's question, a good spot for me actually. As we think about redeploying that capital, Patrick, can you touch on anticipated cash drag? I mean, I want to make sure I don't overestimate my interest income just using spot quarter end leverage. Does it take 2 weeks to turn over the capital with roughly 1/3 of the portfolio, I guess, turning over in the next 6 months? I'm curious how we should think about cash drag or average leverage through the quarter? Or how you would term that?

Patrick Mattson
Steve, good morning, thanks for the question. Yes, I think that's right. I think what we're trying to highlight is, if you looked at the past couple of quarters, we haven't had a lot of turnover. So, we've gotten the benefit of collecting a full quarter's interest on a pretty robust portfolio size here. As we think about the latter half, there is going to be some amount of drag. It wouldn't be unreasonable to have a month or so gap, right, between some of those repayments and when sort of new closings come, and so it's difficult to quantify it because it really depends on the time lag between it, but we would certainly expect there to be something. So, when you're thinking about it from a modeling standpoint, I would certainly factor in some amount of drag.

Stephen Laws
Great. That's helpful. On your comments in the prepared remarks, Patrick, on the CLO, I think, what was it, the 2018 FL1 being called, can you give us a number on the -- any transaction expenses that are going to hit in Q3? Onetime. I assume that it will go into the quarter, and then I would think we would add that number back for distributable earnings, but can you talk about the onetime expenses around the CLO call?

Patrick Mattson
Sure. Steve, as it relates to the FL1 transaction, all those deferred financing costs have been amortized through. So, we actually didn't incur any in this quarter, and when we closed -- or the second quarter and when we close the transaction in the third quarter, likewise, there'll be nothing that has to get accelerated. The only thing that will happen is, upon closing, we'll have a set of costs that will need to be amortized for the new transaction that will need to be factored in. There's no drag from calling the first deal.

Stephen Laws
Great. Thanks for that color, and Matt, one for you. Just did the preferred equity raise, kind of you've got some converts outstanding. You've got an ATM available that you haven't used, and certainly, with the stock above equity, you could raise capital to be accretive to book. I know there's a lot of turnover coming in the next 6 months, so probably less, less relevant, but how do you think about your capital stack, what the right mix is and how you look at the market for cost of capital for those various options?

Matthew Salem
Yes. Thanks, Stephen. Happy to take that one. Well, listen, just having the diversified options, especially as it relates to the equity, I think has been quite powerful, and we were able to access the preferred equity market at a moment in time where it wasn't really accretive from a common equity perspective, and we had a big pipeline, and obviously, a client base that we wanted to serve. So, we thought that was particularly attractive. As we grow from here, I think we're looking

at both the common and the preferred as good options, and obviously, we need to keep the sizing appropriate for those. So that's really kind of the mix of those is something we are focused on, but I'd say they're both viable at this point in time.

That being said, to highlight your comment, with the repayment pipeline that we have, we're probably a little bit more focused on using our origination pipeline to fund those repayments, and so the need for equity currently is relatively low. Now that can change if our pipeline grows or these repayments are to get pushed out a little bit, we may need it. The pipeline side of the equation is very, very high right now, but again, so is the repayment. So just trying to match those up and predicting the future is difficult, but we're kind of ramped up expecting what we talked about.

Stephen Laws
Great. I appreciate the comments this morning, take care.

Matthew Salem
Thank you, Stephen.

Operator
The next question comes from Don Fandetti of Wells Fargo. Please go ahead.

Donald Fandetti
Matt, pretty striking increase in occupancy at your Brooklyn Hotel, which obviously reflects New York coming back. I was just curious what your current thoughts are, just given the delta variant in terms of interest in putting capital to work in New York? And are there a lot of opportunities that you're seeing in the area? Obviously, your watch list had several New York properties. So, maybe you're cognizant of that as well.

Matthew Salem
Well, Don, thanks for the question. As it relates to the delta variant, we're monitoring it very closely. I mean, clearly, our first thought is always to our employees' health and safety. So, we're watching it from that perspective. We're in the office working together, and so we want to make sure we're on top of it. As it relates to the portfolio and investment risk, clearly, it could have an impact on the cyclical nature of the hotels, but I think we've seen our portfolio through the depths of the initial of COVID volatility be pretty resilient. So, I think that we'll watch it, but it's not something that's giving us over -- making us overly concerned for our existing portfolio.

I would say on the New York City comment, we've seen a very big increase in activity in leasing. Not only at the hotel in Brooklyn, but through the multifamily properties that we've had, over the course of the last year, we've had some pretty sizable repayments in our multifamily portfolio in the Tri-state region. So, I don't think we're any more hesitant to lend on the multifamily sector in New York outside of the fact that you have to be more conservative on your lease-up assumptions and your concession assumptions, but we'll still focus on this market and look for good opportunities.

Donald Fandetti
I saw that you did a single-family housing loan in the quarter. I was just curious your thoughts on that market. You think you'll be more active there? Or if that was a one-off?

Matthew Salem

Yes. No, it's a good point to bring up. On the real estate private equity side of our -- of the KKR business, we're very active in all things housing, and we have a single-family rental equity platform there. So, we're very familiar with this sector. Obviously, the need for housing is quite dramatic, and you've seen that sector really become an institutional ownership. In this particular case, wekind of service one of our existing institutional clients that is in that particular business, and we did it out in Phoenix, which is clearly a growing market.

I wouldn't call it a one-off. We like this sector. We'd like to do more. We're seeing a number of opportunities that are attractive. I'm not sure how big it will be as a part of the portfolio because the commercial banks are very active in that sector. So, I think it's unclear how much of the opportunity set they will take versus lenders like ourselves. So, it's something we're following and hope to do more of, but unclear how big we can grow it.

Donald Fandetti
Thank you.

Matthew Salem
Thanks.

Operator
The next question comes from Rick Shane of J.P. Morgan. Please go ahead.

Richard Shane
Hey guys. Thanks for taking my question this morning. I'm curious when you think about the dividend policy, and we look at the impact of floor income. Obviously, there is a potential headwind as rates rise, but you guys are also talking about $2 billion of repayments in the second half of the year. I'm assuming that, that brings us effectively moves us along that floor income scale as you lose a lot of floor income. How much is that impacting the dividend policy?

Patrick Mattson
Rick, good morning, it's Patrick. I'll take that one. So, as we think about what's likely to transpire, right, over this next couple of quarters, we think that repayments will be elevated. As Matt had indicated, we'll get some pull-through on OID acceleration for those quarters. We'll start to lose some of that excess NIM that we've been able to capture through the LIBOR floors. The flip side of that is we're setting new loans at coupons that are almost entirely spread because spot LIBOR at less than 10 basis points means that we're earning all that income to spread, and so we're setting ourselves up well for the coming years. If you anticipate that there could be some rise in rates over time, we'll be much more positively correlated to that than we are today because of the benefit that we're getting. It's difficult to sort of quantify exactly the change or the quantum. A lot of that will depend on the timing over the next sort of quarter or 2 and sort of which loans actually repay.

Richard Shane
Got it. Okay, and one of the things that's interesting is -- and again, this is very back of the envelope math, but if we compare the percentage of loans in the first quarter, which was 69% with floors above 1%, and the percentage this quarter, which I believe is 57%, it looks like there was about a $465 million decline in loans with 1% LIBOR floors, but that's substantially above the repayments that you guys experienced during the quarter. So, I'm wondering, are there loans that are -- or terms that are being renegotiated to reduce floors? Is that something we need to consider as well?

Patrick Mattson
Yes, Rick, you highlight a good point, and that's a very -- a detailed point that you're sort of pulling out. There have been some instances whereas loans have come up to initial maturities or as we've provided any form of accommodation to the sponsors, we've recast the coupon. In a lot of cases, the coupon has stayed the same, but the mix of LIBOR and spread has changed, and so where we had perhaps varying the money floor, we reset closer to a spot LIBOR and took again a lot of that income -- the remaining income in spread just to, again, if the loan is extended longer, make sure that we're going to benefit from an increasing LIBOR rate. So yes, that's a good find and certainly something that we have been focused on.

Richard Shane
Got it, and so that is actually long term, and I apologize for the third -- second follow-up question, but that ultimately should turn into slightly wider spreads. That's the trade-off you're getting by giving up some of that floor?

Patrick Mattson
That's right. That's right. It's wider spreads, and you see that in the loans that we're making relative to some of the loans that are paying off. I think importantly, the last thing I just will highlight here is if you look quarter-over-quarter, over the last several quarters, we start at the year, our weighted average coupon was about 4.8%. It's gone down about 10 basis points in the last 2 sort of quarters, but still at 4.6% is a pretty strong number relative to our cost of liabilities.

Richard Shane
Got it. Okay. Thank you, guys very much. I appreciate all the questions or all the answer for all my questions.

Patrick Mattson
Thank you, Rick.

Operator
The next question comes from Tim Hayes of BTIG. Please go ahead.

Timothy Hayes
Hey. Good morning guys. Congrats on a nice quarter here. A lot of my questions have been asked and answered, but just maybe a couple more on the pipeline. I think you mentioned about $850 million of loans closed or are under exclusivity since quarter end. Can you maybe just provide a little bit of color there on LTVs and spreads how that compares, to maybe what you closed in the previous quarter? And then, I think you talked a little bit about seeing more construction loans in your pipeline as well. So just wondering, if all $850 were to close this quarter, the expectations or fundings of -- at a closing for those loans?

Matthew Salem
Hey, Tim, it's Matt. I can give a little bit of color around that. I mean, the pipeline is consistent with what we've been doing in the past. There is some construction in our current pipeline. There's life science. So, some of the newer sectors that we're looking at, and then, again, some of the traditional multifamily as well. I don't have the exact breakout of committed versus expectations around initial funding in front of me right now, but I would expect something in line with the current quarter, just because we do have some construction component in that origination pipeline. I don't think the - just the market commentary to cover your questions around spread, the market has been pretty consistent the last few quarters or last couple of quarters, I should say, in terms of spread and competitive dynamic. So, depending on the property type and whether

it's construction or not, I would say our coupons are largely in line with what we did this past quarter.

Timothy Hayes
Got it. That's helpful. Thanks Matt, but I guess just from a high level talking, keeping on the same team of construction lending. What percentage of the portfolio consists of construction loans today? And then where do you see that going? I know that your level of unfunded commitments jumped up a bit this quarter. I think it's at about 13% of the total portfolio. Where do you feel comfortable with that number going to? And your liquidity position seems pretty solid today, especially considering the repayments -- expected repayments over the next couple of quarters, but the pipeline is pretty solid too. So just wondering if you feel pretty good about where your liquidity is today relative to your pipeline and unfunded commitments?

Matthew Salem
Yes. I'd say a couple of things. A lot of the construction that we've done to date is in the industrial sector, so that will go into the ground pretty quickly, and so you don't -- it's not going to be out there for that long. It's almost just like forward originations for the next couple of quarters or few quarters. So, it's a little bit easier to predict, but that will be one. Given our expectation around the repayments, building some future funding over the next couple of quarters is going to be helpful to us, and then in terms of the size today of our construction budget, it's pretty small. I mean, it's less than 5%. So, we have certainly a ways to go before we would ever hit anything from a risk management perspective, portfolio perspective, portfolio management perspective that would give us any cause for concern, and there's just a lot of activity in that particular part of the market today, especially as it relates to the demand from e-commerce on the industrial sector. So, I think we'll continue to focus on it over the next couple of quarters if the returns are in line with where we see them today, but I understand your point around managing that future funding vis-a-vis the liquidity of the overall company.

Timothy Hayes
Okay, and then just on the industrial sector, you highlighted how active KKR is there and the resources that brings to you guys, and I think we've heard, and I think you guys have talked about in the past, it's not always easier for you to find industrial loans given the size of the loans you're focusing on versus where that market generally tends to be. So - and obviously, it's a very competitive asset class. So, I guess my questions here are just around how big you see that segment becoming as a percentage of your portfolio over time if it's easy, I guess "to find" those loans given the broader KKR footprint? And then what impact that should have on ROE, given it's a competitive asset class?

Matthew Salem
Right. It's a good point you bring up. It's historically been difficult to drive overall volumes and your portfolio allocation to industrial, just given the granular size of them. A couple of points to make would be: one, we are seeing some larger opportunities. Amazon and some of the other big e-commerce players in the market do have bigger footprints, and so that's creating some need for larger loan sizes. One of the deals we did this quarter was on more granular boxes. However, we did it on a portfolio wide basis, and we'll be effectively financing an entire year's worth of a pipeline for a national developer. So that's another way we can come at it.

If you think about our portfolio, round numbers today of $5.5 billion, could we get it up into the low double digits in terms of portfolio size? I think it's possible, but it obviously won't be our largest exposure by any stretch, but you could see it growing to that much. From an ROE perspective, we're doing these slightly. They're slightly more accretive than, obviously, what we're doing on

like a multifamily loan, but at a portfolio level, maybe it's a slight -- slightly additive, but I wouldn't think about this as like really driving the overall ROE of the business. Just think about as if it becomes a 10% part of the portfolio, it's earning slightly more than maybe the other sectors that we're lending in.

Timothy Hayes
Got it. Okay. Great. Well, thanks for taking my questions.

Matthew Salem
Thank you, Tim.

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Jack Switala for any closing remarks.

CONCLUSION

Jack Switala
Great. Thanks for joining, everyone. Please reach out to me or the team if you have any questions. Have a great day.

Operator
The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.

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