KKR Real Estate Finance Trust Inc.

First Quarter 2023 Earnings Call

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CORPORATE PARTICIPANTS

Jack Switala – *Investor Relations*

Matt Salem – *Chief Executive Officer*

Patrick Mattson – *President and Chief Operating Officer*

Kendra Decious – *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the KKR Real Estate Finance Trust Inc. First Quarter 2023 Financial Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

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

Jack Switala
Great. Thanks, operator, and welcome to the KKR Real Estate Finance Trust Earnings Call for the first quarter of 2023. 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, Kendra Decious.

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'll provide a brief recap of our results. For the first quarter of 2023, we reported a GAAP net loss of $30.8 million or negative $0.45 per diluted share, including a CECL provision of $60.5 million or $0.88 per diluted share. Distributable earnings this quarter were $33.1 million or $0.48 per share.

Book value per share as of March 31, 2023, was $17.16, a decline of 4.7% quarter-over-quarter. Our CECL allowance increased to $2.48 per share from $1.61 per share last quarter. The increase was primarily due to additional reserves for two 5-risk rated office loans, where the sponsors have commenced sales processes for the properties, as well as heightened market volatility, uncertainty and reduced liquidity, particularly in the office sector.

Finally, in March, we paid a cash dividend of $0.43 per common share with respect to the first quarter. Based on yesterday's closing price, the dividend reflects an annualized yield of 15.5%.

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

Matt Salem
Thanks, Jack. Good morning, and thank you for joining us today.

KREF generated strong distributable earnings this quarter of $0.48 per share relative to our $0.43 per share dividend as our 100% floating rate portfolio continues to benefit from the high interest rate environment. As you have heard us say for the last few years, we have been hyper-focused on our liability structure and liquidity. This focus has created best-in-class non-mark-to-market financing and very high levels of liquidity.

Maintaining KREF's defensive posture remains our primary focus today given current market dynamics. Rising interest rates and recession risks continue to weigh on real estate transaction volumes and valuations. Beginning in the summer of last year, the largest money center banks were largely inactive.

And since our last earnings call, we have seen two large regional bank failures. While KREF does not have any financing or direct exposure to regional banks, we do expect this to cause tightening credit conditions as regional banks take a more conservative posture and regulators increase their oversight. The expectation of tightening credit conditions has weighed heavily on non-bank financial institutions and created a narrative around already declining real estate valuations.

In our own portfolio, our asset management focus is on our loans secured by office properties. We have increased reserves this quarter and put two more office loans on our watch list with a risk rating of 4. The office sector continues to be challenged with limited liquidity and values down significantly.

Given KREF's high levels of liquidity, we have taken a proactive approach in working through resolutions on our identified loans with our sponsors. Our approach has been direct, and we are leveraging the full resources of KKR to optimize outcomes. But to be clear, we are not looking to kick the can down the road. Where we find reasonable liquidity and valuations, we will transact. However, we're not forced sellers. So where there is little liquidity, we will take title and manage the property at a lower basis. Patrick will discuss updates to our watch list in detail later in the call.

As we signaled last quarter, we expect the portfolio to turn over modestly throughout 2023. In the first quarter, we received loan repayments of $87 million and funded $204 million for loans previously closed in previous quarters for a net increase of $117 million. Our portfolio is built defensively with focus on resilient property segments of the market. Nearly 60% of our portfolio at quarter-end was comprised of multifamily and industrial properties. We had no new loan originations this quarter as we look to maintain our robust liquidity position.

Our partnership with our manager, KKR, and the strength of our real estate platform allow us to maintain a sophisticated view of the current operating environment. We have a dedicated team of approximately 60 real estate credit investment professionals. Beyond KREF, we are actively lending for our bank and insurance SMAs as well as our private debt funds. This diversified capital base allows us to stay active in the market and service our strong client relationships.

As a result of our defensive posturing, KREF was one of the first mortgage REITs to begin lending during COVID, and we feel we are well equipped to utilize a similar playbook when the market stabilizes. Also worth noting is our manager's long-term hold position of 10 million shares in the company, or approximately 14% of KREF shares outstanding today. We believe this is the highest ownership percentage held by a manager in the mortgage REIT sector and demonstrates meaningful alignment between KKR and KREF.

As I mentioned earlier, we were operating KREF with a high level of liquidity with nearly $1 billion as of March 31, including $254 million of cash and our $610 million corporate revolver, which was undrawn at quarter-end. As we have discussed in prior quarters, we added over $4 billion of additional non-mark-to-market capacity over the past two years with the support of the KKR Capital Markets team.

Approximately $2.5 billion was added in 2022, two thirds of which was done on a truly bespoke basis with financing providers such as foreign banks and insurance companies and away from public capital market sources. 76% of our secured financing at the end of the first quarter of 2023 was completely non-mark-to-market and diversified across a number of facilities and the remaining 24% is only mark-to-credit.

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

Patrick Mattson
Thank you, Matt. Good morning, everyone.

I'll focus today on our efforts on the liquidity and capital front. But first, let me provide an update around our CECL reserve and watch list loans. This quarter, we recorded a $60 million increase in our CECL reserve for a total reserve of $172 million or 224 basis points of our loan principal balance. Slightly more than half our total CECL reserve remains held against the two 5-rated office loans.

We have a total of 7 loans on the watch list as of quarter-end. As we detailed previously, we executed a modification of a Philadelphia office loan earlier this year and subsequently removed it from the watch list this quarter as anticipated. During the quarter, we downgraded two office loans to a risk rating of 4. And consistent with past quarters, we highlight those loans in our earnings supplemental.

Touching on our two 5-rated office loans in Minneapolis and Philadelphia, the respective sponsors have commenced sales processes for the properties, and we increased our reserves this quarter to reflect further weakness in the office sector. As Matt mentioned, we will evaluate the prices and determine the appropriate path forward with the option to sell or own and manage the properties ourselves. In either case, we anticipate some resolution in the coming months on both assets.

The two new watch list loans are secured by properties in two of the more challenged office markets, Washington, D.C. and Chicago. That said, both properties have experienced positive leasing momentum recently. The D.C. loan, which is the larger of the two, is backed by a well-located Class A office near Dupont Circle and following two recent leases is 84% leased. The Chicago property is also a Class A asset and is located in the central loop submarket. Following some known vacates, along with 83,000 square feet of recent leasing, the property is currently 70% leased.

Of the 14 office loans, 8 loans in our portfolio, equating to half of the outstanding principal balance, are risk rated 3. This segment of our office loan portfolio is 89% Class A and 91% leased with a weighted average debt yield of 8.3% and a median 8.8 years of weighted average lease term remaining. The average risk rating of the company's broader portfolio was 3.2, consistent with year-end. 87% of our portfolio is risk rated 3, and we collected 100% of scheduled interest payments across the entire portfolio in 1Q and through the April payment date.

An important differentiator for KREF, particularly in times of capital markets volatility, is how we finance our senior loan portfolio. At quarter-end, our diversified financing sources totaled $9.0 billion, with $2.7 billion of undrawn capacity. 76% of our outstanding financing is fully non-mark-to-market, and the remaining balance is mark-to-credit only.

KREF is differentiated in the diversity and resiliency of these sources, which includes not only two managed CRE CLOs, but also multiple bespoke financing facilities supported by a number of financing partners. We are not reliant on a single type of financing with no outsized exposure across any of these categories.

Additionally, in the first quarter, we extended a $600 million repurchase facility by two years to December 2025 and a $500 million warehouse facility to March 2026. In a challenging macro and banking environment, we were able to extend an aggregate $1.1 billion in financing by roughly 2.5 years between the two facilities.

KREF is well capitalized with a debt-to-equity ratio of 2.2x and a total look-through leverage ratio of 4.0x as of quarter-end. As of March 31st, we had $254 million of cash and $610 million of undrawn corporate revolver capacity. In addition to this, we had $100 million of unencumbered and unpledged

senior loans, plus underdrawn capacity on our credit facilities, bringing our total liquidity position to nearly $1 billion.

As noted, we have cash on the balance sheet plus ample capacity on the revolver to retire our May 2023 convertible notes maturing next month. Following the convertible note maturity and excluding match term secured financing, KREF has no debt maturities for nearly 2.5 years.

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 on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

And the first question will be from Don Fandetti from Wells Fargo. Please go ahead.

Don Fandetti
Can you talk a little bit about the new 4-rated loans and what sort of drove you to move those? And then I guess, are we looking at just a scenario where every quarter you're getting migration to the 4s and 5s? Why not just build more reserves today just given the economic environment and the pressures in office?

Matt Salem
Don, it's Matt. Thank you for joining, and I can start by addressing that first question around the new loans that we moved to a risk rating of 4. When you think about the overall office exposure, certainly, it's not our expectation that we'll continue to see all those loans migrate. I think Patrick did a nice job summarizing why some of the loans that remain a three within our office portfolio: they're well leased, long-term leases and some of which are in extremely strong markets as well from an office perspective. So, just as you start to think about the transition, it's certainly not our expectation. We look at it every quarter and are kind of evaluating all the loans in the portfolio for any changes, but there's a big component, about half of that currently, that we still feel very comfortable with on the office side.

In terms of the ones, we did transition over, I think that those two in particular are in some of the softer markets for office. Obviously, D.C. has got the impact of GSA and the work-from-home policies of those tenants. And Chicago is a particularly weak market as well. And so that was a lot of the reason why those were transferred in at that time, even despite some of the leasing momentum we've seen at those assets.

Don Fandetti
Thank you.

Matt Salem
Thanks.

Operator
And the next question will be from Stephen Laws from Raymond James. Please go ahead.

Stephen Laws
Hi, good morning. Matt or Patrick, can you talk about the reserve and kind of how we should think about that allocated across the 5s and 4s versus maybe a general for the remainder of the portfolio? And then if we read into kind of that rough allocation, what valuation does that imply for the 5-rated assets versus the valuation of the origination?

Patrick Mattson
Stephen, good morning, it's Patrick. I'll take that question. So yes, if you think about our 5s, what we had indicated was about half of our total reserve, a little bit more than half of our total reserve, is allocated to those. And then if you just sort of apply the math there, that implies a loss on those loans in the kind of magnitude of 25% to 30% against those 5-rated loans. If you remove those loans from the portfolio and look at our remaining CECL, it's about 1% across all of our remaining assets. Now there's obviously some concentration with our 4s because those are attracting a higher reserve than our 3 assets. But hopefully, that gives you some sense of direction. Clearly, when the assets move from a 4 to a 5, we're seeing sort of a jump in our reserve and sort of loss expectation, and that's reflected in our reserve analysis.

Stephen Laws
That's helpful. I appreciate that, Patrick, the comments there. With the many assets specifically next month maturing, I believe, and maybe even kind of apply this broadly across the watch list loans, but can you walk us through the process of how you determine what makes more sense as an REO, how you go about finding a new sponsor? Maybe to recap one of these deals and provide seller financing, how early can you start those discussions ahead of these watch list problem maturity dates? And maybe some color on how that process will play out on these handful of loans in the coming months.

Matt Salem
Sure. It's Matt. I can take that. Thanks again for the question, Stephen.

So specifically on Minneapolis and the two 5-rated loans and our Philly asset as well, those are instances where the existing sponsor is running a full sales process, and we're able to obviously modify and give short-term extensions to help effectuate those transactions. And we're also able to provide the market with information around where we'd be willing to provide financing on the potential acquisition. So, there's a lot of flexibility there.

In terms of how we think about owning versus potentially a sale and a finance is we're running very detailed analysis, similar to what the real estate equity team within KKR would run in terms of what does the go-forward look like from a return perspective, factoring in the current market environment for leases and kind of improvement costs and leasing commissions and cap rates, obviously. So, we're just evaluating all that information to make a buy or effectively a buy or sell decision at this point in time.

Stephen Laws
Great. Appreciate the color on that, Matt. Thank you.

Operator
And the next question is from Sarah Barcomb from BTIG. Please go ahead.

Sarah Barcomb
Hi, thanks everyone. So, as you've talked about earlier, both KREF and its peers are sort of playing defense right now with respect to maintaining liquidity and while you executed on some prior quarter fundings, it looks like there weren't any new originations in the quarter. Can you talk about any deals that you might have taken a look at that didn't cross the finish line and why those maybe didn't look as

attractive even with spreads where they are now? Or was it mostly just a function of preserving liquidity given the watch list migration? Thanks.

Matt Salem
Sarah, it's Matt. I can take that. Thanks for the question. I think for KREF in particular, it's more the latter point of your question. It's really about just preserving liquidity until we get into a more normal market environment. So, we weren't looking at a lot of new fundings for the quarter.

Of course, as we mentioned on the call, away from KREF we have a larger Real Estate Credit business here at KKR. We lend on behalf of banks. We lend on behalf of insurance companies. We have private debt funds that we lend on behalf of and all three of those are actively in the market lending today. We do like the market. We think it's attractive. And I think despite some of the headlines you may see, it is a fair and competitive market. And the insurance companies are very active, foreign banks are very active, regional banks are active. So, I'd say almost everyone, all the lending types are still actively lending in the market, albeit at a lower basis because values have come down and the market is just a little bit more conservatively postured, so LTVs have come down. So, we find it to be a pretty attractive overall lending market right now.

And obviously, as things stabilize, we hope KREF will be one of the first to come out and lend within the mortgage REIT segment again.

Sarah Barcomb
Great. Thank you. And just one more quick one. So, you talked about how the remaining office book, that 3-rated segment, 90% Class A, 90% leased. Are there any indicators of upcoming lease expirations that investors should know about? Or any other signs where you think there could be incremental risk to NOI at the property level for that bucket?

Matt Salem
I mean just given the median WALT on those, so for the most part, these are very well-leased for a pretty long time. But some of them are multi-tenant and do have—I'm sure there's some near-term lease expiration, but nothing, not one that comes to mind in terms of like one we're particularly focused on from a re-leasing perspective.

Sarah Barcomb
Okay. Thanks. That's it for me.

Operator
And the next question is from Jade Rahmani from KBW. Please go ahead.

Jade Rahmani
Thank you very much. Starting with the CECL reserve, it seems you've taken substantial reserves on clearly the risk 5-rated loans. The risk 4-rated loans, some math I was doing just assuming 50% to 75% of this quarter's $60 million provision would imply something like a 10% to 15% loss. I was surprised by that, given those are LTVs below 60%. But then addressing your comment about the 1% remaining CECL reserve, that's far below the bank's reserve levels on their CRE portfolio. Just two examples, USB at 2.5% and Wells Fargo at 1.76%. So could you comment on the overall reserve adequacy and how you're thinking about it?

Patrick Mattson
Jade, good morning, it's Patrick. I'll take that. So in terms of the latter part of your question, I think it's really a reflection of kind of where we would sort of view ourselves in this progression. Clearly, with the

asset earlier this year, where we had a realized loss, we've got, as you noted, heavier losses against these 5-rated loans. When we start to clean up that book, we would expect that we would get to a more normalized loss number. Think about what that portfolio looks like also when you start to remove some of those office assets, we're already 60% multifamily and industrial, remove the office component or a heavy part of it, and that's a pretty significant percentage of our overall book.

I think in terms of the change this quarter, clearly, a bulk of that, as we said, was in these 5-rated assets. But across both the 3-rated assets and 4-rated assets, we saw an increase and I think it's just a reflection of a market that's further deteriorated since the fourth quarter, and so those losses or loss reserves carried through. So, at the moment, we feel like we are adequately reserved across the portfolio. Obviously, we'll continue to evaluate next quarter, and we'll adjust as appropriate. But at the moment, we feel like we're at the right level.

Jade Rahmani
Looking at the office portfolio, you mentioned some statistics on the eight loans rated risk 3. Those seem pretty fully leased with the market where it is today. The debt yields do seem somewhat close to office cap rates given the uncertainty around secular changes there. So, what's the outlook for performance on those deals? Are you expecting further deterioration? I just wanted to mention, there's another D.C. office loan in that portfolio rated risk 3. The Plano, Texas deal was also originated right before COVID. And lastly if you could touch on Bellevue, Washington, that looks like a large construction loan. I believe Amazon is the anchor tenant there. What would be the prospects there as Seattle does have quite a lot of supply?

Matt Salem
Sure, Jade. It's Matt. I can take that one. So, let’s just work backwards. I think you threw out a couple of those deals. But when you think about that construction loan that you mentioned that’s in Bellevue, Washington, you identified the tenant there as Amazon, obviously, a very strong credit and that they have a signed lease for 16 years for that asset. So, we feel good about the prospects of that particular deal just given the long lease term and the strength of the tenant. They're going to actively build out that space, and we expect them to occupy it. So that would be the Amazon deal.

Plano, that's an asset that's done extremely well. We like the Dallas market a lot. We've got actually a couple of other assets in the portfolio that are in Dallas that are a little bit more close to rent and uptown in Preston Center. But all three, I would say, have experienced very strong leasing momentum and leasing rates and that deal has some long-term leases as well. So, I think that's why that remains at three and we remain confident in that asset.

And the D.C. office market is definitely a tough market. Two of our 4 rated loans are located in D.C. Again, I mentioned the GSA comment earlier. But that particular asset that you're highlighting remains a 3 because we have a very long weighted average remaining lease term to the U.S. government. So, we feel good about the credit, and we've got a lot of length there, decent debt yield as well. Each deal is going to be a little bit different, but a lot of how we're factoring this in is, obviously, what's the cash flow and how durable is that for how long? And I think in all three of those, we've got pretty long, very long lease terms.

Jade Rahmani
And just with the debt yield close to office cap rates, what are your thoughts on that?

Matt Salem
Well, certainly, we've seen leverage, our implied leverage increase on these loans as we've seen the widening of, as you mentioned, of these cap rates, not just for office but across everything, given the

interest rate environment. Obviously more acute in office, for sure. But when we're looking at values and revaluing the assets, and we do a lot of work on a quarterly basis to understand where we think the value is on each individual deal, certainly when we're looking at these 3-rated loans, we don't think that we're above the value of the asset by any stretch.

Jade Rahmani
Thank you.

Matt Salem
Thanks, Jade.

Operator
And the next question is from Steve Delaney from JMP Securities. Please go ahead.

Steve Delaney
Thanks. Good morning, everyone. And thank you for taking my questions. So, I think I'll give you a break from talking about office. The West Hollywood multifamily, $2.8 million per unit, that's obviously a nice property. Could you just give us some color as to what's going on, on the ground there in terms of the appeal of the project or the units and are there any conditions going on there with respect to homelessness or crime that could possibly impact that property? Thanks.

Matt Salem
Yes. I can touch on that. And Steve, thank you for the question. Matt again. So that, you're right. It's a relatively high per pound loan amount and that's because it's effectively best-in-class, kind of trophy type of asset in the market. It was built for condo sales, so it is a very nice project. It's well located, not concerned about crime or homelessness at all; I think it's extremely well located. And we had moved that to a 4 because we were in some modification discussions around an interest rate cap with that particular sponsor. So, it's not really necessarily an asset or value issue, and we hope to resolve that here shortly.

Steve Delaney
Got it. Sounds like more technical than fundamental, so thanks for that color. Just on your workout on the Philly office loan, just to confirm, your junior mezz or I guess we'd like to call them hope notes, there’s no carrying value associated with that on your books at this time, is it? Are you carrying that?

Kendra Decious
Steve, it's Kendra. That's correct. That was fully written off the $25 million on the senior mezz.

Steve Delaney
Okay. Got it. So, you would be obviously below the senior mezz that the sponsor has put up?

Matt Salem
That's right. The new money that's coming in is ahead of that.

Steve Delaney
Yes. Okay. Great. And then if you could, on the 4-rated loans, should we assume that all four of those loans, the fact that they are still 4 and not 5 that you are accruing interest or there is interest being paid by the borrower on those loans each month and quarter?

Kendra Decious
Yes. So, Steve, Kendra again. On the 5-rated loans, we are still current. The sponsors are still current on paying us interest each quarter. As you'll notice in the financial statements, we have put both of those loans on cost recovery. So, as you know, that means the interest is not running through the interest income line. It's actually being held against the carrying amount of the loan until there's a resolution or until we think it that there are indicators that we can go ahead and start recording that interest income again.

I can tell you that the run rate on the two 5-rated loans, interest income is about $7 million a quarter. And in terms of quarter-over-quarter because we kind of staggered when the two loans went on nonaccrual, the difference in interest income quarter-over-quarter from Q4 to Q1 was about $3 million. And you'll see another $3 million go into cost recovery in Q2, and then at that point it's stabilized on those loans.

Steve Delaney
Okay. Thank you. I apologize, Kendra, because I was actually asking about the 4-rated loans.

Kendra Decious
I'm sorry.

Steve Delaney
No, no, I probably didn't make it clear, no problem at all, but I assume that 5-rated loans each would be a special situation. But on the 4-rated, I just wanted to confirm that those are all accruing interest or borrowers paying interest one way or another.

Kendra Decious
Both things are correct, accruing and receiving.

Steve Delaney
Okay, thank you all very much. Appreciate the conversation.

Kendra Decious
Thanks, Steve.

Operator
Thank you. Once again, if you have a question, please press star then one. The next question is from Rick Shane from JPMorgan. Please go ahead.

Rick Shane
Thanks, everybody, for taking my questions this morning. I want to talk a little bit about capital allocation. Dividend yield is mid-teens now. In order to support the dividend on a book basis, you need to generate an ROE of north of 10%, which is a pretty high return even in this environment with high rates. At the same time, the stock is trading at a substantial discount to book value. Does it make sense to reallocate some of the distribution or return of capital to shareholders, reduce the dividend and be more aggressive in terms of repurchasing shares?

Matt Salem
Thanks, Rick. I appreciate the question. It’s Matt, I can take that one. Just as it relates to the dividend and the coverage, I think you had asked about there, obviously, this quarter, as we've seen over the last few quarters and as we look ahead a little bit, we're really benefiting from the current interest rate environment. And so, we've easily covered the dividend this quarter at $0.48 a share of distributable

earnings versus the $0.43 payout. So I think we feel good about the earnings power of the company just on an operating earnings basis, and so that's probably the biggest consideration when we start to think about the dividend.

Rick Shane
I understand that, but when we think about the reserves and the implication that the reserves will manifest into charge-offs, so there's an accounting narrative of distributable earnings that distributable earnings is the basis for dividend and it is impacted by charge-offs, not provision. But over time, accounting also suggests that distributable earnings and GAAP earnings should converge and presumably that's going to happen in the second half of this year and so that you're going to wind up in a situation potentially where distributable earnings is below dividend. Why not get ahead of that and also give yourself the opportunity to buy the stock at this discount?

Matt Salem
Let me touch on the share buybacks. I think we've been pretty consistent in terms of, certainly versus the peer set, in terms of buying back stock when we thought it was attractive. I certainly think the stock is attractive now. We've been weighing liquidity a little bit more heavily, given what's going on in the banking sector and the overall volatility in the market, and I think we'll continue to prioritize liquidity here in the near term.

And I understand the math that you're thinking through as it relates to what's the sustainable earnings power of the company. And certainly, if we thought that, that was going to decline significantly, and we couldn't sustain the dividend, then we would evaluate that. And obviously, the dividend is a Board-level decision. But right now, from what we're looking at with the existing portfolio, with the current interest rate environment and even thinking through the forward curve, which obviously is a little bit downward sloping towards the end of the year, we don't see what you're describing in terms of just the earnings power of the company right now. So, again, if it starts to happen or manifest itself, then it'd be something we'd have to evaluate, but not in our current projection is not what we're seeing.

Rick Shane
Got it. Totally fair. And look, at the end of the day, having too much liquidity is a situation that you can remedy quickly as you choose to. Having not enough liquidity is a lot harder to fix fast.

Matt Salem
100% agree with that.

Rick Shane
Thanks, guys.

Matt Salem
Thanks, Rick.

Operator
And the next question is a follow-up question from Jade Rahmani from KBW. Please go ahead.

Jade Rahmani
Thank you for taking the follow-up. As it relates to liquidity, how are you thinking about the dynamics there post the convert repayment? That will clearly reduce your cash on hand. Are there good news items in the portfolio in terms of deals that have really executed well on their business plan that you expect to be paid off or to be sold, things of that nature, refinanced that would create liquidity or perhaps those deals become more leverageable?

Matt Salem
Yes, Jade, it's Matt. I can take that. I would say we fully expect to get repayments on our portfolio this year, even though Q1 was a light quarter of repayments. When you look at what we have in the portfolio, obviously, our largest property type is multifamily and as those stabilize, I can guarantee you, we are not the most efficient financing for a stabilized multifamily property, especially given what the agencies are lending at in today's market and where we see insurance companies lending as we compete against them with our insurance capital, etc. So, there's a lot of liquidity for the favored asset classes right now. It really is a tale of two cities in terms of the have and the have nots, with office obviously being on the have not side. But I think we're going to get a fair amount of repayments over the course of the next couple of quarters, which will increase liquidity. And of course, there's also capital markets opportunities for us as well. But right now, with the convert, it's a small, obviously, it's only $144 million, it’s a small piece of the overall capital structure. So, like you said, we've got cash to pay that down.

Jade Rahmani
And what kind of capital markets opportunities do you think would be interesting? Is there a possibility to issue a CLO on very low leverage, very high-performing collateral? Or is there the possibility to be taking your best assets, selling A Notes to the insurance company, doing affiliate transactions, participations and things of that nature?

Matt Salem
I mean, the securitization market is open, so if we wanted to go that route, I think we certainly could. I don't think that would be a route that we would explore right now because we have our existing CLO facilities that are still in reinvestment period and priced quite attractively. So, I don't think we need like a new one of those.

I think it would be more along the lines of some type of corporate finance opportunity for us, more option for us. And we could definitely think about selling some of the existing loan portfolio. I don't think we need to cut A Notes on most of it. I think some of it we could just sell the whole loan. But again, I don't think we're in this scenario right now where we need that level of liquidity. So right now, we're kind of enjoying the higher earnings. We have a lot of liquidity, we have almost $1 billion of liquidity, so it's not something that we're actively pursuing. But if the market were open and we had an option that was attractive, clearly, we could go down that path.

Jade Rahmani
Just to follow up, that presumably would be a preferred or perhaps another convert?

Matt Salem
Yes, I mean you've seen what we've done in the past, right. So, we've done preferreds. We've done converts. We've done Term Loan Bs. So, one of those three options we would look at.

Jade Rahmani
Thank you.

Matt Salem
Thank you, Jade.

CONCLUSION

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

Jack Switala
Great. Thanks, operator, and thanks, everyone, for joining us this morning. Please reach out to me or the team here if you have any questions. Take care.

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

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