KKR Real Estate Finance Trust

Q1 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Patrick Mattson – *President and Chief Operating Officer*

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PRESENTATION

Operator
Good morning and welcome to the KKR Real Estate Finance Trust, Inc., First Quarter 2025 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. 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 2025. As the operator mentioned, this is Jack Switala. This morning, I'm joined on the call by our CEO, Matt Salem, our President and COO Patrick Mattson, and our CFO Kendra Decious. I'd 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 go through our results. For the first quarter of 2025, we reported a GAAP net loss of $10.6 million or $0.15 per share. Book value as of March 31st is $14.44 per share. Distributable earnings this quarter was $17 million or $0.25 cents per share, which is in line with our $0.25 per share dividend.

With that, I'd now like to turn the call over to Matt,

Matt Salem
Thank you, Jack. Good morning, and thanks for joining our call today. Since our last earnings call and tariff implementations, market volatility and recession expectations have increased significantly, creating uncertainty for both businesses and households. The early recovery of real estate has likely been put on hold until we have more clarity on the scale and impact of the tariff regime. That said, we do believe real estate is better positioned for this environment compared to past cycles and other asset classes, given the reset in values over the last three years. In times like this, the first thing we think about is defense. It's a get your house in order mentality. And to that end, we are in a very good position. We have no corporate maturities until 2030, having just upsized and extended our corporate revolver for a new five year term and refinanced our Term Loan B, with a new seven year facility. We have ample liquidity, with over $700 million today. Given this secure position, we will remain on offense, actively looking to reinvest repayments into new originations.

In terms of what we are seeing in the real estate credit market, it is still functioning, and all market participants remain active, including the banking sector. Warehouse financing and senior loan spreads are approximately 10 to 15 basis points wider, while the transitional loan sector spreads are approximately 15 to 20 basis points wider. The CMBS spreads have been more volatile and are currently 50 to 75 basis points wider. Many owners are now coming to us for a balance sheet solution to avoid the capital markets volatility.

From an opportunity perspective, it's significant. Our pipeline is the largest it's ever been, totaling over $30 billion and is very high quality. I expect this market will lead our sponsors to seek out more short term bridge loans instead of testing the investment sales market. Interestingly, our repayment expectations

have increased since our last call. As we articulated last quarter, repayments are expected to exceed $1 billion this year, and we are tracking well above that. We had an active quarter and closed four loans for a total of $376 million, 80% of which were secured by Class A, multifamily properties. It had a weighted average LTV of 69% and a coupon of SOFR plus 277 basis points.

Repayments in the quarter were $184 million, and along with future funding from existing loans, our net fundings total $222 million. We are actively looking at opportunities to diversify our portfolio and add duration. To that end, we are focused on the European lending market. We have built a strong team over the last few years. We are also looking at new issue, CMBS, conduit B pieces, where we can leverage our position as one of the largest market participants, as well as K-Star, which is our rated special servicer.

Turning next to risk ratings, we downgraded two loans this quarter, first, a Raleigh, North Carolina multifamily loan, from a four rated loan to a five rated loan. We are still evaluating numerous scenarios for this loan, and are engaged in workout discussions which could lead to an ownership position. Second, Boston Life Science, from a three rated to a four rated loan due to current occupancy trends. With the two downgrades in the quarter, and therefore increased CECL provisions, book value per share is $14.44, down approximately 2% compared to the prior quarter. We will continue to be transparent and proactive in managing the KREF portfolio, and we'll provide updates on those two loans in the coming quarters.

Before turning it over to Patrick, I will touch on our life science exposure. This is a sector that we believe has long term positive fundamentals, but faces cyclical headwinds, which could be exacerbated by an economic downturn or NIH funding cuts. As a reminder, 12% of our loan portfolio is life science, and we have one REO property. We thought it'd be helpful to provide additional details in our supplemental which is on page 10 of the presentation. At a high level, 100% of our loan exposure is located in the top two life science markets, Boston and South San Francisco, and we provided construction financing for over half of our exposure. So these are very high quality and purpose built for life science. We've seen some green shoots as well. In March, we executed a 32,000 square foot lease in our Seattle life science REO property to the Institute for Protein Design at the University of Washington. The tenant has created AI technologies and computationally designed protein medicines, and is led by a recent Nobel Prize winner for chemistry.

With that, I'll turn it over to Patrick.

Patrick Mattson
Thanks, Matt. Good morning, everyone. This quarter, we worked closely with our KKR Capital Markets team to maintain our best in class financing. In March, we closed on a new $550 million Term Loan B, upsizing from the prior loan of $340 million and resetting the term for seven years. Proceeds were used to repay indebtedness, including our existing Term Loan B, and for general corporate purposes. The new Term Loan B priced at 99.875% and bears interest at SOFR plus 325 basis points. This loan further bolsters our liquidity position and enables us to continue to focus on offense. In the quarter, we also upsized our corporate revolver to $660 million and extended the maturity for a new five year term to March 2030, eliminating corporate liability maturities over the next several years.

Additionally, we added a new non mark to market secured loan facility this quarter, with an initial funded size of $122 million, and the ability to grow as new loans are included, further diversifying our financing capacity. Our financing availability now sits at $8.3 billion, including $3.1 billion of undrawn capacity. At quarter end, we had $720 million of liquidity available, including $106 million of cash on hand and $570 million of undrawn corporate revolver capacity. 78% of our financing is non mark to market, and KREF has no final facility maturities until 2026, and no corporate debt due until 2030.

In addition to originations this quarter, we also invested capital in share repurchases. In the first quarter,

we repurchased $10 million of KREF stock, representing a weighted average price of $11.03. This raises our total shares repurchased in the past two quarters to $20 million, at a weighted average price of $11.33. Our CECL reserve increased to $144 million, with two rating downgrades Matt mentioned. Our loan portfolio remains relatively stable, with 90% of the portfolio risk rated three or better.

As an update on our West Hollywood multifamily loan risk rated five as of quarter end, we took title to the asset earlier this month and are proceeding on our condo execution strategy with unit closings anticipated for late summer. As a result of the assignment in lieu of foreclosure, we expect to realize the loss tied to this investment of approximately $21 million to distributable earnings in 2Q, which is consistent with our CECL reserve as of 1Q.

As a reminder, our REO assets could generate an additional $0.12 per share per quarter on our distributable earnings, as we effectuate our business plans, repatriate capital and reinvest into performing loans. As of the first quarter¸ KREF's debt to equity ratio is 1.9x, and our leverage ratio is 3.9x.

Following two repayments totaling $283 million early in the second quarter, on a spot basis, the current leverage ratio is 3.7x, which is the midpoint of our target range.

In closing, we're positioned well for this market environment, given steps that we've taken over the years to manage our liabilities, including our most recent activity in the first quarter, to increase and extend our corporate facilities. We're continuing to make progress on our REO assets, and are supported by a deep, and experienced credit team of over 110 associates, and who, together with K-Star, manage $37 billion of CRE loans and are named special servicer on over $46 billion of CMBS.

Origination activity is picking up speed, and we're expanding our investment opportunity into the European loan market and the U.S. CMBS market.

Finally, the portfolio grew 4% quarter over quarter, and we expect to recycle capital into new opportunities throughout the balance of this year. Thank you for joining us, and now we're happy to take your questions.

QUESTION AND ANSWER

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 are 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. The first question comes from Rick Shane with JPMorgan. Please go ahead.

Rick Shane
Good morning. Thanks for taking my question today. Look, I think there are two things that are going on here. You're working through some of the portfolio issues that you've identified previously. You've raised concerns related to the macro environment. Two things, one, when you think about the macro issues, are you looking at this from a big picture perspective and just saying, hey, risk and uncertainty is increasing, or are there specific properties within the portfolio that you identify is, for whatever reason, being at greater risk? And then the second part of the question is, given the return on capital that it appears that you're going to generate in '25, how do you think about the dividend policy as we move through the year?

Matt Salem
Well, good morning, Rick. It's Matt. Thank you for the question and for joining us. I could start off and take both those pieces. As it relates to the economic environment, I'd say we're probably thinking about

both sides of it, from a macro perspective. Just trying to think through what is the impact to really jobs, right? How much is it going to slow the economy, and then what's the flow through into the job market? And will it be significant? Will there be a significant impact there? And obviously, if so, that could be felt through the broader economy, and have a little bit bigger impact on the real estate sector.

That's probably not our base case. Certainly here at KKR, we're not calling for a recession. We think growth will slow down to somewhere between zero and 1% from a GDP perspective. So we are kind of watching the broader macro and unemployment pretty carefully. I don't expect that to have a very big impact on real estate, because values have obviously declined a lot already, and from a supply perspective, we're getting through the big supply wave. We all know construction starts are down across every property type, somewhere between 60% and 70%. I think that's why in our opening remarks we make the comment about real estate's a little bit different position than other asset classes. But if we are going to enter a recession and we see that unemployment rate go up, you're going to have impacts kind of broadly, but again, we're pretty well positioned for that, but more concerned about what you're talking about and how will it impact individual properties. The two things that come to mind are some of the port markets for industrial, especially on the West Coast, obviously, if you think about the slowdown in trade from China. So we're clearly watching that sector more. I don't think there's any one asset in our portfolio that we're like particularly concerned about, but we have heightened just awareness of the potential market impact there. The second is just around decision making. In this kind of uncertain market, I think you could see decision making slowdown, which could impact capex. It could impact leasing decisions, and so some of our assets are still in lease up mode, and are looking for larger, larger tenants, and just a little bit concerned that there's going to be a kind of a pause in that decision making around some of these leasing. So those are really the two things I would say we're focused on.

Rick Shane
Got it. And I really appreciate that answer there. It's very thoughtful, and I realize there's no easy answer to that. Do you mind circling back on the dividend policy? And I do want to acknowledge having asked the question about buying back stock for probably every quarter, for ages that you guys were in the market this quarter, and I think that's constructive for shareholders. But can you talk a little bit about dividend policy in light of the ROE characteristics right now?

Matt Salem
Yes, happy to. So I think on the dividend, when we initially cut it, we had a number of different scenarios in mind, and a big part of that, clearly, was thinking through the REO and giving us time to just effectuate those business plans. There's been a lot of change since we initially set that dividend. But I think when we kind of net-net it all together, we still feel pretty comfortable where we set it. Of course, it's a Board decision, and we'll evaluate it every quarter. But I don't think we feel a lot of pressure right now to do anything different. And from where we sit, we have all that upside in the REO as well, and we know at some point in time we're going to sell those assets, repatriate that capital. And Patrick mentioned in his section that if we did all that, we could reinvest that into new loans and can drive earnings by $0.12 a share per quarter. So even though our current earnings rate is right around that dividend level, we know there's like this embedded earnings power within the company that will unlock at some point in time. And, keep in mind, we calculate those numbers on our existing cost basis. And we think we're going to do better than that as we implement these business plans. So that's a little bit how we're thinking about the dividend now. You asked about the share buybacks, similar to last quarter, I think we need to be balanced. The stock where it trades right now, it's very attractive. So you saw us buying it back, and we've got a long track record of buying back stock when we thought it was trading at attractive prices. It's very accretive to our book value per share. So I think we'll have to continue to evaluate that as an option for capital, especially kind of given where it is today, but the same time, and similar to, like you saw us in the first quarter, we need to invest in our portfolio as well. We need to make loans. We need to continue to diversify the portfolio, from a vintage perspective. We talked about potentially adding Europe and

CMBS to the portfolio, and I think it's important for the market to see us front footed and active. And we think the market's pretty attractive from an investing perspective. So I think we need to continue to be kind of balanced as we think about allocation of capital across investing and share repurchases.

Rick Shane
Makes sense. Matt, thank you very much.

Operator
We have our next question from Tom Catherwood with BTIG. Please go ahead.

Tom Catherwood
Thank you. Good morning, everybody. Maybe Matt or Patrick, you both mentioned Europe in your prepared remarks, and I know this has been the target market for quite some time. What has to be done to start originating there? And do you expect to be active broadly across Europe, or would it be more targeted to start?

Matt Salem
Thanks, Tom. It's Matt. Yeah, I can take that. We've been actively originating there for a couple years now, and so I'd expect to close deals in the next quarter or two. We're quoting stuff. It's just a timing game at this point. Our focus there is really Western Europe and the UK. So I think that's really where we're kind of we've been targeting opportunity. So again, the near term, we would expect to add to the portfolio in Europe.

Tom Catherwood
Yeah, appreciate that, Matt. And then obviously it was an active quarter, and in 1Q for originations. And you mentioned the pipeline being strong as ever, but with debt now up to 3.9x, do you see originations primarily being tied to repayments? And you mentioned, obviously, repayment activity tracking ahead of expectations, or how much kind of more do you think you can push that leverage level with originations?

Patrick Mattson
Good morning, Tom. I'll take that question. It's Patrick. Yes, we were 3.9xinto the quarter. But as I said, we had pretty sizable repayments early in April. So on a spot basis, we're actually at 3.7x, so we're at the midpoint, and part of that is trying to get a little bit ahead of some of these repayments, as Matt mentioned. Feels like we're tracking ahead of schedule. Some of the repayments that we got in this quarter were deals that we were really forecasting to get repaid in 2026, and we saw an acceleration of those repayments, so we'll be within the range, and sometimes we're going to be toward the high end, as we anticipate some of those repayments. But our target is still, is still the same, but knowing that we've got a pretty good pipeline of repayments, we're going to be focused on the origination side, and making sure that we're staying deployed and that we're maximizing earnings.

Tom Catherwood
Got it. And just to follow up, Patrick, on those repayments, has your expectation, or the pace of those been impacted at all by the tariffs, or is it just too early to tell whether there's any link between kind of market dislocation and repayment activity?

Patrick Mattson
I think it's a little early to tell. That said, there are a number of deals that we're aware of that are in the market seeking refinancing. As you recall, a lot of these loans when we initially originated them, there was typically some lease up strategy involved. Many of those assets have now effectively stabilized. And so despite the fact that you've seen this volatility in the broader market, in the CRE market, we see a lot of liquidity, and so while spreads may have backed up 10, 20 basis points, if you think about what those

spreads were when we initially had those loans as a lease up, they're still down, and sponsors still have an opportunity to improve their cost of capital in this environment. So we very much see kind of a functioning market here. And early to tell whether a deal or two gets sort of pushed off because of this. But as of right now, at least in our near term projections, we're not seeing a lot of impact.

Tom Catherwood
Appreciate the answers. Thanks, everyone.

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

Jason Sabshon
Thank you. This is actually Jason on for Jade. Thanks for taking my questions today. So first, it would be helpful to discuss, what about the Raleigh multifamily that drove the downgrade? Is it a matter of basis, lease up, operating costs, location, or all these factors? It would just be helpful to get some more follow. Thanks.

Matt Salem
Jason, it's Matt. I can jump in. I think the downgrade, it's been on our watch list for a while, and now we're coming up on a maturity date. I think the reason for the downgrade from the four to the five, and the reason it's been on the watch list for a while is because we just haven't seen the ability to drive rents in this particular sub market. And this is a loan we made sort of at the peak, peak of the market, right? This is a, I think, a late first quarter, early second quarter, '22 loan. So there's been obviously big value declines, but in most of our portfolio, on the multifamily side, when we've given these numbers in the past, we just saw a tremendous amount of rental growth, and in this particular pocket, we just haven't seen the same, the same amount of that in terms of just being able to drive, excuse me, and be able to drive NOI higher. So it's really a function of that. I mean, it's a good property, it's performing well. It's just hasn't had that same push in the rental rate, as we've seen in most in most other markets. And then we've got a near term maturity here, so we'll have to figure out exactly the go forward from here. And as we mentioned on the call, could be a modification. We could go to title and kind of run the property ourselves. But we'll have to negotiate that with our borrower.

Jason Sabshon
Great. Thank you. And just on life science, over what time period do you think the capital is patient to wait, patient enough to wait for a pickup in leasing? And due to softness in the sector, would you be able to discuss the outlook for the risk series?

Matt Salem
Yes, and this is why we tried to give a little bit more information, both in our prepared remarks and as well as added some detail in our presentation. Most of our exposure is kind of in these newer built, purpose built assets that are really targeting larger tenants, or Big Pharma, which we don't think is as susceptible as some of the cyclical issues that the sector is facing, certainly a part of it, but maybe not as susceptible as some of the smaller, kind of earlier stage, stage companies. So we'd expect that to come back earlier. I think it's anybody's guess in terms of just what point you really start to see a pickup in overall life science leasing, and a lot of that, I think will depend on what happens with the tariff regime, and what happens therefore, to the overall economic environment that'll certainly weigh on the overall sectors as well.

And, yeah, that's, I think that's, generally speaking, how we're kind of thinking about it. In terms of the three rated loans that you asked, we've modified a couple of those already. And so kind of, I've dealt with our sponsors and getting them to a better spot. And then as I just mentioned, about half of the three rated

loans. We have three assets that were construction loans. And so we still feel pretty good about those. Those are built now, and are mostly built and then just in the lease up period, but just given that they were new, quality there is very high. And so we think it's just a matter of time before it attracts the right tenants.

Jason Sabshon
Great. Thank you.

Operator
The next question is from Steve DeLaney with Citizens Capital Markets. Please go ahead.

Steve DeLaney
Thank you. Good morning, everyone. So look, applaud the buyback activity, of course, and it would seem it's even better today, after the 15% or so decline, after tariffs. But what I'm really intrigued by is, we're going to be on a lot of these calls in the next two weeks, and I don't think we're going to hear a lot of commercial mortgage REITs, talking enthusiastically about new lending opportunities. It feels like we're still in more of a defensive mode, just in a broad sense. I'm just curious, Matt, as you guys look at sort of the menu of new opportunities, I guess first question is, what is different in either the quality or the pricing, the return profile, if you look at today's opportunity set, versus what you've maybe seen on average over the last couple of years? I'd love you to compare and contrast that, if you would, in terms of the new opportunities on the lending side. Thanks.

Matt Salem
Sure, Steve. Thank you for the question. I think you have to start with basis. I think the biggest change right now is just the opportunity to lend at these much lower valuations. And you still have real estate values somewhere around or below replacement cost. And when we're lending at some discount to that, it just feels like this vintage should be very safe from just an overall basis perspective. Of course, that translates into cash flow, and debt service coverage, and other things. But the first thing I think about this vintage is really basis, and that'll translate into this vintage and the safety of it could be quite strong. So that's probably the first thing. The second thing we're seeing is there's more opportunity in less transitional assets. And let me explain. I think I mentioned this on maybe our last earnings call. If you think about what we were doing in ‘21 and ’22, a lot of it was like lending on brand new assets that had just been delivered in their initial lease up period. And a lot of that was multifamily, and we'd be lending at a 10% occupancy or 20% occupancy, and providing that bridge to occupancy stabilization and burning off of concessions. Fast forward to today, and we're lending on what I call we went from kind of a transitional lender to like an almost stabilized lender. We're lending on assets that are 90% leased, and maybe there's a little bit of concession in there, but the vast majority of the cash flows are in place today, and all we're doing is providing our sponsors a bridge to a better capital markets environment and maybe a little bit lower interest rate environment. And as we all know, just with values down so much, I think many institutional owners just they don't want to sell right now. They hold out another year or two or three, they're gonna get into this supply dynamic where they're back in the market, raising rents pretty substantially, and they can kind of dig themselves out of a basis and ‘21 that is just not very favorable today. So that's probably part of the big change in terms of the business plan that we're lending on locally here. And I don't know how long this will last. There's a big opportunity in sizable transactions, as we mentioned in the prepared remarks. With the CMBS market having widened much more than the loan market. We're seeing a lot of sponsors coming to us and $500 million loan, a billion dollar loan, which should have been SASB, or should be SASB issuance, coming to us and saying, Can you guys help with this? Because we don't want to. We don't know what's going to happen tomorrow, and the market's volatile in the CMBS market, so that's kind of a local opportunity that we're focused on right now, but I don't, again, I think that that market will heal and be more effective as we kind of progress through the year.

And then lastly, I would just comment that one of the big changes in my mind from like pre-rate hike inflation pressures today will be how the banks participate in the market. They've always been kind of loan on loan providers, but it is much more pronounced now in terms of just their willingness and their focus on putting some of their capital into these loan on loan facilities, just given how much more capital efficient is for them, how much safer it is for them to lend to other lenders than it is to make a direct mortgage loan. And I don't want to make it sound like they're not going to continue to lend on properties, but we are seeing that allocation shift more towards loan on loan facilities. So I think that'll be another on the financing side. I think that'll be another—we are seeing that as a kind of a meaningful shift from what we saw before.

Steve DeLaney
That's really helpful color. And are you seeing, obviously you have development type borrowers who are out there, new projects, developing new projects, and you make them, there's either construction loans and maybe then you flip it into a bridge. But are you seeing new equity coming in from institutional buyers, where they're seeing projects, where they, the potential value's much greater than where the rents are today and where the basis is. So I'm just curious how much of your new financing is going in side by side with new equity into a project, rather than you just refinancing the original developer?

Matt Salem
Yes, our pipeline, and our activity is still heavily weighted towards refinance. Right now, it's around, if you look at our pipeline, it's around 70% refinance, like 30-ish percent acquisitions, and it'll slow down a little bit, just given the market volatility here since the tariff increases.

But historically, that may have been 60% acquisitions and 40% refinance. So it's a little bit turned upside down there. As it relates to, like the construction side, I know you didn't ask this question directly, but it's probably somewhat relevant here. There's debt capital available. You can go get a construction loan. We were making one right now, and in the fourth quarter, we did a big data center loan. Like you can get it. You can you can definitely access the financing markets for construction. And the challenge is the equity, I just don't think it pencils out very well right now. And now you've got a scenario where costs are increasing with tariffs, so it's going to get even more, you know, difficult. So when you talk about, like the 60%, 70% decline, and in some of this construction, maybe early on, it was driven by debt and lack of availability, but now it's just the equity mass doesn't work from a yield on cost perspective.

Steve DeLaney
Got it. Okay. And just the final thing for me, obviously the tariffs kind of discussions kind of through a wrinkle into the stock market broadly. And certainly that's hurt mortgage REITs in the last, in the month of April, for sure. Given that the stock, as last night's, closed $9.28, down about 15%, as a result, I think large yields of tariffs. I mean, should we assume that if the buyback was attractive in the first quarter, it's even more attractive to you and your Board as you stick looking at the stock with the 9-handle, or so?

Matt Salem
Yeah, I mean, similar to the question asked earlier, I don't think our view has really changed that much. The stocks come down a little bit, so it's certainly more attractive from a buyback perspective, but we need to be balanced. And as we approach the market, we need to invest capital. We need diversify the portfolio. But we certainly feel like we have ample liquidity right now, and so we'll take a balanced approach to allocating that capital across the buybacks and the new originations.

Steve DeLaney
Got it. Really appreciate your comments, Matt. Thank you.

Operator
Thank you. Again, if you have a question, please press star then one. Our next question comes from Don Fandetti with Wells Fargo. Please go ahead.

Don Fandetti
Yeah, with repayments coming in a little bit higher, how are you feeling about net portfolio growth? I know you're sort of more on offense now. Do you think that you're in a situation where every quarter through '25 you're seeing a little bit of portfolio growth?

Patrick Mattson
Don, it's Patrick. I can take that. I think that as we think about the rest of the year, there's probably some incremental growth that we can have, but we're getting pretty close to, I think, what's our target size, when you factor in our leverage targets, the capital that we have here. I think just what you'll see, though, is us looking to, as we've said, kind of match those repayments. So if those repayments start to kick up even more, we'll accelerate on the origination front. But I don't think there's a lot more incremental size as we're kind of approaching our upper limit of our target leverage.

Don Fandetti
Got it. And then on some of the originations the multifamily this quarter, look like the spreads were in the 230 basis range. Are those sort of, what are the leverage returns on those loans? And are those examples of that more stabilized type lending you're seeing?

Matt Salem
Yeah, it's Matt. I can jump in. I think our weighted average spread is a little bit more than that, like 277.

The market got as tight as that, probably that number you're mentioning, like 230, 240 area, again, on those mostly stabilized, leased multifamily assets, and at that level, our back leverage had declined. Spreads have declined there as well, pre-tariffs, but we were on the tightest end, probably like 11% to 12% type of IRRs there on a gross basis. Most of the stuff we're doing is kind of north of there, but you're always, is always a range as you kind of portfolio construct and deal with different risk profiles in the market. But I'd say most of what we're getting right now is centered around that 12% to kind of 13% IRR, when you start to think about embedding the fees and things like that.

Don Fandetti
Got it. And then I just wanted to go back on life science a bit. Appreciate the disclosure. I guess, is this a situation where you could see, like, a significant amount of these loans migrate from three to four? And how do you think about values on these assets? They're probably a little more unique than a multifamily or industrial. I mean, do you expect, is it harder to kind of triangulate value on these types of assets?

Matt Salem
Yeah. I mean, just given the lease profile isn't as granular, right, on the multifamily side. Certainly there's more of a timing element to thinking about value. And it's not our expectation right now that these would migrate from three to a four, because either one, it's already been kind of modified and kind of adjusted. Or, like I said, like just the quality of the assets are there. For the most part our sponsorship is very strong.

And if you look at these locations, we're kind of like main in terms of where you want to be in some of these markets. And we're in Cambridge, we're in Seaport and South San Francisco. So, it's not, certainly not our expectation right now, that we go from a three to a four or put this on the watch list, but they still need to get leased up. So there's risk there, and there's some a level of uncertainty, especially when you kind of sprinkle in this type of economic environment that we're in.

CONCLUSION

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

Jack Switala
Great. Thanks, operator, and thanks, everyone, for joining today. 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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