KKR Real Estate Finance Trust, Inc.

Q3 2022 Earnings

October 25, 2022 at 9:00 a.m. Eastern

CORPORATE PARTICIPANTS

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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. Third Quarter 2022 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
Thanks, operator, and welcome to the KKR Real Estate Finance Trust earnings call for the third quarter of 2022. 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 third quarter of 2022, we reported GAAP net income of negative $48.4 million or negative $0.70 per diluted share. Distributable earnings this quarter were $34.4 million or $0.50 per share. The rising interest rate environment served as the primary driver behind our strong distributable earnings, supporting a dividend coverage ratio of over 1.1 times relative to our $0.43 per share Q3 dividend. Book value per share, as of September 30, 2022 was $18.28, a decline of 5.6% quarter-over-quarter. This was driven by an increase in our CECL allowance by $1.16 per share to $1.66 per share. This increase was primarily driven by higher reserves on watch list loans.

Finally, in September we paid a cash dividend of $0.43 per common share with respect to the third quarter. And based on yesterday's closing price, the dividend reflects an annualized yield of 10.2%.

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

Matt Salem
Thank you, Jack. Good morning, everyone, and thank you for joining us today. KREF generated another quarter of strong distributable earnings of $0.50 per share, equating to greater than 1.1 times dividend coverage ratio. Our earnings continue to benefit from rising interest rates, and we expect further increases in base rates to serve as a tailwind for KREF's earnings heading into the fourth quarter and 2023. To put this in context, we have stated in our supplement that a 100 basis point increase in base rates, from 3.04% at quarter-end, would result in an increase of $0.21 in annualized distributable earnings per share based on our 9/30 portfolio, with all else being equal. The forward rate curve is projecting more than 100 basis points of increases, with 55 basis points already realized to date.

The macro environment has continued to deteriorate, which has caused a corresponding negative impact to commercial real estate values. This was further accelerated by the September Federal Reserve meeting. Real estate values are declining in real-time as the market digests the higher cost of

capital, combined with potential slowing demand and a recession. KKR's integrated real estate business, which manages over $60 billion of AUM, affords us a robust view of the current operating environment. While valuations are changing, fundamentals across most of our portfolio remain strong, and are characterized by high occupancy and rent growth.

Nearly half of our portfolio is secured by multifamily, and another 19% is in the high-growth segments of industrial and life science. Over 70% of our 2022 originations are secured by either multifamily or industrial properties. However, 27% of our portfolio is secured by office properties, and this sector has the added risk of uncertainty around long-term tenant demand given work-from-home preferences. Over the past quarter, we have witnessed a significant decrease in liquidity in the office sector, as well as capitulation by owners. In response to this, we have materially increased our CECL reserve and added three loans to our watch list, for a total of five loans. In addition, we now have two loans which are risk rated at 5, and have increased our dialogue with those sponsors. We will use our extensive experience across our KKR platform to optimize these resolutions.

I'll conclude my comments by discussing our market positioning. KREF was built for times like this. Our conservative lending strategy is concentrated in growth property types and geographies, and owned by institutional investors. Our portfolio is financed with best-in-class non-mark-to-market facilities. Since the beginning of the year, we have been transitioning to a more defensive posture. To highlight a number of these steps we have taken: we raised approximately $345 million of net primary proceeds through common and preferred equity offerings as well as our ATM program; we increased our revolver to $610 million, and extended its term to five years, and added nearly $2.5 billion of non-mark-to-market financing year-to-date; and we currently stand at 76% of total outstanding secured financings. That leaves us today with over $900 million of liquidity, which does not include $370 million of unlevered senior loans on the balance sheet.

While this market has a favorable lending environment, as we stated on the last call, we will continue to operate KREF with lower leverage and higher liquidity, and anticipate only originating loans to match repayments.

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 capital and liquidity front, and provide an update around our CECL reserve and watch list loans.

As discussed in the past, creating a diversified liability structure built on non-mark-to-market financing has been a top priority for KREF, and I'm pleased to note that since the beginning of Q3 last year we have added over $4 billion of non-mark-to-market financing capacity, including two CRE-CLOs, five bespoke facilities, an upsize of our secured Term Loan B, and an extension and upsize to our corporate revolver. Specifically in the third quarter, with the help of our partners in KKR Capital Markets, we entered into a new $266 million bespoke note-on-note financing facility in connection with one of our loan originations, and we completed a second upsize on one of our existing match term financing facilities, from $750 million to $1 billion. Subsequent to quarter-end, we closed a new $125 million match term non-recourse facility. And importantly, as of quarter-end, 76% of financing remained fully non-mark-to-market.

The resilient financing we developed, much of which has been done on a bespoke basis, buffers us during times of capital markets volatility. In addition to the fully non-mark-to-market features associated with these structures, we've also achieved an attractive cost of capital relative to other means of financing that can be sourced today. As the CLO market has cooled over the past nine months and the

spreads in the CLO market have widened, our mix of alternative sources of financing away from some of the more public capital market sources remains a major differentiator for KREF.

In terms of capital management strategy, KREF is preserving flexibility in operating at the lower end of our target leverage range given the broader market backdrop. Our debt-to-equity ratio was 1.9 times and total leverage ratio was 3.6 times as of quarter end. And we expect to maintain total leverage in the mid-3s over the coming quarters. Our approach to managing the balance sheet allowed us to start to the fourth quarter with a record level of liquidity in excess of $900 million. Additionally, at quarter end KREF had $370 million in unencumbered senior loans on the balance sheet.

Turning to our CECL reserves and watch list. This quarter we recorded an increase in our CECL reserve of $81 million to $115 million, or 156 basis points, based on the funded loan portfolio. As a reminder, the change in reserves is unrealized, is non-cash, it does not reduce distributable earnings in Q3. However, if such amounts are deemed non-recoverable in the future, we would recognize a loss to our cash metric of distributable earnings. We have five loans on the watch list as of quarter end; all of which are secured by office properties. And consistent with past quarters, we highlight those loans in our earnings supplement. New loans were downgraded to a risk rating of 5 and account for nearly half of the $115 million in total CECL reserves. We have not disclosed the individual CECL reserves around the 5-rated loans in order to not disadvantage us as we continue discussions with our sponsors and other market participants.

Some additional details of the 5-rated loans. First, the Philadelphia loan is secured by a 4 building portfolio comprised of approximately 600,000 square feet of office and includes a 500-space parking garage. Recovery from the COVID-19 pandemic and return to office in the Philadelphia market has been relatively slow compared to some other major US cities. Current occupancy at the property is approximately 50%, down from the low 60s at closing. The loan's initial maturity date is May 2023. But in recent conversations, the sponsor has indicated it does not want to continue the business plan. The loan remains current however and KREF is evaluating alternatives to maximize value, including a potential sale of the loan or properties.

Second, the Minneapolis loan is secured by a 1.1 million square foot, two building Class A property. Our loan supported the refinance, remaining CapEx and subsequent lease up of the property from an occupancy of 62% at closing to an occupancy rate of 88% today. NOI from the property generates a current debt yield of over 8%, fully covering the debt service on our loan. However, the loan has an upcoming final maturity date in December 2022 and the sponsor has indicated an inability to refinance the loan given current market conditions. We're continuing to dialogue with the sponsor and are considering a number of options.

With regard to the broader portfolio, 89% of our loan portfolio remains risk-rated 3 or better and we collected 100% of scheduled interest payments across the entire portfolio in Q3 and through the first payment period in Q4.

In summary, KREF finished the quarter with a $7.7 billion total funded portfolio which has grown by approximately 33% on a year-over-year basis. We originated two senior loans in Q3 for a total of $458 million and have over $400 million in loans under exclusivity. This quarter and subsequent to quarter end, we sourced and closed two new non-mark-to-market and matched term financing facilities and completed a second upsize on one of our existing non mark-to-market facilities to $1 billion.

Finally, we repurchased approximately 600,000 shares of common stock at a weighted average price per share of $17.42 in Q3, for a total of over $10 million. Over the last two reported quarters and subsequent to quarter-end, we have been opportunistic in utilizing our share repurchase program, with

year-to-date purchases of 2.1 million shares for a total of $36 million. Our record liquidity puts us in a strong position to efficiently manage in this current environment, and to further capitalize on the market opportunities ahead of us.

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

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin our 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 Jade Rahmani with KBW. Please go ahead. Jade, your line is open. Perhaps your line is muted.

Jade Rahmani
Yes.

Operator
Thank you. We can hear you now.

Jade Rahmani
Great, thank you very much. There's definitely indications that credit is turning. Do you agree with that? How do you expect the cycle to play out? And specifically what I'm interested in understanding is, with rates this high and credit spreads extremely wide many borrowers are going to have difficulty refinancing at today's levels. So, in my view modifications become very important, which means capital wherewithal, you noted the $900 million of liquidity, working with lenders, I know KREF has a high percentage of non-mark-to-market financing, and assessing borrower commitment to the property. So, as you approach credit overall in asset management, is that going to be your primary focus? And can you also touch on upcoming loan maturities, which I believe you spell out in the slides. Is that all-encompassing about what you expect for the remaining part of this year, and next year?

Matt Salem
Great, Jade, thanks for the question. It's Matt; I can take it, and, Patrick, if you want to jump in on the second point around the repayment profile.

First of all, just with the credit dynamics, I think it's a little bit market and property-type specific. If you look at most of our portfolio, it's in growth markets and, obviously, multifamily being the largest component of that. But we have positions within industrial and life science as well. And we're still seeing strong growth there, strong rental, strong tenant demand. And so I'm not sure that will be a big part of a default cycle, if you will. I agree with your point that there could be modification discussions there over time, but we're really not seeing, just from a property fundamental or a cash flow perspective, anything that would lead us to suggest that there was issues in those markets.

I think office is different, and as we've highlighted certainly within our prepared remarks, the lack of liquidity there and the uncertainty in that particular sector is very high. And as it relates to workout strategies, it's going to be very fact-dependent. If there's a sponsor that's operating a property well and is willing to invest more capital, then certainly we'd be very open-minded to modifications and extensions because we think that could maximize value. If the opposite is true on either one of those,

then obviously we're going to have to create our own liquidity for that potential position. And so I think we've got a range of options available to us as we kind of go through this credit cycle. But again, it will be very fact-dependent on individual property circumstances.

Patrick Mattson
Jade, I'll take the second part of that question with regard to the maturities that are coming up. And we have a page in our supplement, page 21, which details the loan maturities. And as you asked, what we're reflecting here are the final maturities. So, in 2022 you can see that $194 million is the Minneapolis loan, which we talked about in the opening remarks. But you can see a lot of the maturities are backdated, a lot of the portfolio has been originated over the last couple of years. And so that's reflective on this chart. So, as we look out into 2023 and 2024, it's relatively light in terms of upcoming final maturities.

Jade Rahmani
Thank you. I'll get back in the queue.

Patrick Mattson
Thank you.

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

Stephen Laws
Hi, good morning. Maybe to follow up on the office stuff, can you talk about how those are financed? Are any in CLOs? Are they all in credit facilities? And assuming the latter, how are your discussions with those counterparties going with regards to credit market, advance rates, things of that nature?

Patrick Mattson
Sure. Good morning, Stephen. It's Patrick, I'll take that question. So, these loans are financed across a variety of our facilities. I think, as we've talked about repeatedly, we're very focused on a diversified financing structure. So, as you might assume, our office loans and our portfolio in general, is really diversified in where these loans reside. On the office sector in particular, we're financing some of those assets in the CLO, some of our non-mark-to-market facilities. We also have some assets that are unencumbered right now, so obviously a lot of flexibility there.

In terms of discussions, not a lot to date. I think if you look at the performance, and as we've noted, 100% of the interest payments have been collecting, so the loans are performing. As we get closer to these maturity dates, both on the extension and final, I expect us to have increased conversations. But given the liquidity that we discussed; we feel well-positioned to kind of manage through those discussions regardless of what the outcome is.

Stephen Laws
Thanks, Patrick. And, Matt, I want to shift over to a comment because there's a couple of things going on, right, with benefits of higher rates and obviously any repayments on CLOs can be replaced at wider accretive spreads, on the flipside a lot of concern over portfolio performance going forward. When you think about kind of in reference to your statement of 100 basis point increase or that $0.21 annualized NII, what type of portfolio deterioration does it take to offset that? In an oversimplified way, if those office assets are 11% and you just take out 11% of interest income, that's still not $0.21 per share. So, curious how you think about those two opposing forces as you look out over portfolio performance going forward.

Matt Salem
Yes, Stephen, happy to cover that. We think that the portfolio performance should be pretty resilient here as it relates to convexity, to increasing interest rates. And we have modeled a number of scenarios, especially as it relates to what you're bringing up in terms of some of these 5-rated loans. And we still think that the coverage, certainly versus the dividend, will be quite strong even when factoring in the existing watch list assets for those 5-rated loans.

So, listen, it's a very good market right now to be investing. Agree with your comment on just the existing portfolio, we're going to have to watch that closely. But I think it's mostly going to be concentrated in this office sector, and again that's one of the smaller pieces of our overall portfolio. And a lot of that is located in growth markets, and we still feel pretty good about it despite the overall office market. And one thing I'll highlight is we got a repayment on an office loan that we had just recently, so there's still some liquidity out there for the right assets in the right markets.

Stephen Laws
Thanks, Matt. And that leads to my final question, you mentioned attractive new investments, and I believe Patrick mentioned mid-3s leverage going forward, so that's kind of part of the equation. But how do you balance those attractive returns on new investments versus the stock buyback, which you've been pretty active with, obviously, year-to-date?

Matt Salem
Yes, and I think it's a fair question, and I think you've seen us do both recently, right, where it's not just one or the other, where we think they're both attractive, we think it's the right thing to do from a fiduciary and shareholder perspective to try to buy back shares when they look very attractive. And obviously, the other component that we're weighing here is just liquidity, right, overall liquidity in a market like this, so that takes precedent, and always will take precedent. But to the extent we've got excess liquidity, then that's when we're really evaluating the relative value between making a new loan and buying back stock.

The other component really is through some of the existing financing facilities that we have. As you mentioned, to the extent we have open spots, if you will, in the CRE CLOs, those are very attractive opportunities to create accretive return. So, it may just be like where do we have liquidity and where can we finance it, that's kind of weighing into the decision whether we buy back stock or make a loan.

So, hopefully that answers a little bit of the question. But there's no hard and fast rule in terms of IRR. We're looking at the return on either and comparing.

Stephen Laws
Appreciate the comments, Matt. Thank you.

Operator
The next question is from Donald Fandetti from Wells Fargo. Please go ahead.

Steven Debartolo
Good morning. This is Steve on for Don. Can you talk about your expectations for multifamily performance going forward with rates going up and the macro softening? And then secondly, where and what property types are you still seeing attractive lending opportunities, if any? Thank you.

Matt Salem
Sure. Just to start out on the multifamily side, as I mentioned earlier, we're still seeing very strong performance really across the board there in terms of high occupancies, good leasing environments,

and strong rental growth. The growth has come off a little bit from the peak. So, we were seeing, call it, double-digit type of growth and year-over-year re-leasing spreads, now that's raising rents, that's really come down to call it high single digits in some of these growth markets. So, whether that's a function of the Fed activity or whether that's a seasonally adjusted issue, it's unclear at this point. But it looks like there's a little bit of growth coming out of that market, but still very strong. And values are changing there of course, just like all real estate values are adjusting to the new cost of capital or the new interest rate environment. So, the values are, call it down 10% to 15% in some of these growth markets.

And in terms of just where we're focused lending, honestly, it hasn't shifted that much over the course of the last few years. I would say certainly we're much more focused on these growth areas in terms of property types. So, you'll continue to see us land in multifamily, industrial, and life science, which we think are the strongest from a tenant demand perspective. But just given the market environment and the competitive landscape, what we're doing is very much, it's very much a lenders market today. So, the loans that we're creating today are lower leveraged, they're higher returns, they have more structure and you're at some points lending on less transition as well. You've got higher starting occupancy or cash flow per unit of debt. So, certainly a good market but I think you'll continue to see us focus on these growth segments.

Operator
Thank you. And the next question will come from Steve Delaney from JMP Securities. Please go ahead.

Steve Delaney
Good morning, everyone. Thanks for the question. Your $81 million CECL reserve addition in the quarter, can you comment on any part of that that was specific on any of your 5-rated loans or should we view it all as just general unallocated reserves? Thanks.

Kendra Decious
Hi, Steve, it's Kendra. Thanks so much for the question. Maybe taking a step back for a second to talk about how we create the CECL reserve, so we take a very conservative approach, I think as you've seen in the past. The CECL reserve is evaluated and adjusted each quarter and considered on a loan by loan basis, and individual facts and circumstances are taken into account when considering the future possible estimated losses. And most loans are calculated using historical loss rates, third-party model and macro scenarios. Others do take into account other factors to estimate possible losses which are based on what we know currently. And those factors could evolve over time.

We personally look at the reserve individually, but probably more so holistically in terms of where it sits vis-à-vis the entire portfolio. So, we really think of it more, as I said, on a holistic basis. And Patrick mentioned in his comments earlier with respect to a couple of the 5-rated loans in particular, we'd prefer not to disclose more on the build currently to protect some of our commercial interests.

Steve Delaney
Totally understand, not to show your hand, obviously when you're negotiating with a sponsor or borrower. That makes sense. Thank you for that, Kendra.

On page 3 of the deck, you say that 100% of interest was collected in the third quarter, but does that include 5-rated loans where there still may be an interest reserve on the loan that has not yet been exhausted?

Patrick Mattson

Steve, it's Patrick. I'll take that question.

Steve Delaney
Hi, Patrick.

Patrick Mattson
Good morning. Yes, so 100% was collected in the third quarter. We've obviously had the October payments, we've collected 100% there. Regardless of whether the loan is risk rated 3, 4 or 5, in some cases, right, there's interest reserves on all of these loans, we have a 5-rated asset that doesn't require an interest rate reserve, it's covering its debt service. Obviously, that was collected. We have other 3 risk rated loans that might have debt service given where they may have a carry reserve, just given where they are in the business plan, and those were sort of collected. All of the loans have some form of structure to allow us to, either there's cash flow in place or structure to hold cash to cover any interest shortfalls, and those get replenished now and then as we project what future shortfalls are. So, hopefully that addressed your question.

Steve Delaney
That does, thank you. And lastly on the new life science focus and the two new ones that you made, with that product obviously we noted they were construction loans, so pretty early in the process. Do you normally find significant pre-leasing commitments in place for the specialized property such as that? Or should we view these as more spec buildings?

Matt Salem
I can jump in on that one. It's Matt. On the construction lending we've done, there's a range. Some are for lease-up, some there's an actual tenant in place. On these particular two, these are both lease-up strategies and obviously located in very strong markets, and really catering to the most institutional and largest companies within the life science segment.

Steve Delaney
Thanks. Appreciate the comments. Thank you.

Operator
The next question is from Eric Hagen with BTIG. Please go ahead.

Eric Hagen
Hey, thanks. Good morning, guys. Hope you're well. First one is, can you just discuss how you stress loans during the underwriting process for both NOI growth and a takeout through refinance or an asset sale? What are the variables that you're using and thinking about, especially with respect to interest rate risk management for the sponsor?

Matt Salem
Eric, it's Matt. I can take that. Well just first of all, our loans obviously have interest rate caps in place. So, that's probably the number one mitigant in terms of the existing portfolio to stresses on cash flow or coverage. But just in terms of how we're underwriting today, we're really just looking at the current rent environment and the current occupancy environment and trying to stabilize at a debt yield that's well north of today's cap rates, because our view is those are gravitating higher over time as the equity market kind of adjusts to, again the new interest rate environment. So, our base case really doesn't give credit for future rent growth. Of course, we're looking at the sponsor's underwriting and certainly in the growth areas of multifamily and industrial those will typically include some type of future rent growth, but we're really just looking at it today.

And really it's market dependent and property type dependent, but we're putting on a range of declines in both rent and occupancy and of course stressing cap rates as well, but try to consider downside scenarios. And you've seen over the course of this year, certainly an entire market and we're included in this, really start to decrease leverage pretty materially just given where we think values could go. So, it's been, to some extent, a debt-led decline in market leverage availability. So, hopefully that gives you just a little bit of context of how we're underwriting things. But certainly we look at primarily debt yield, but we'll also look at coverage in a market like this and make sure we're stabilizing it north of 1.0 coverage on these adjusted all-in coupons.

Eric Hagen
Got it. That's helpful detail. And then at a very high level, if investors have the option, if you will, to concentrate towards assets, which are nearly stabilized versus construction assets, where do you think you're getting the better relative value, especially when you factor in the liquidity and the funding for one versus the other in this environment? Where do you think shareholders or investors are picking up the better value? How do you guys think about that? Thank you.

Matt Salem
Sure. Well we certainly put a higher premium on construction lending, just given the nature of the future funding. Like you're saying, not all our dollars are getting into the ground, they want and obviously there's incremental risk associated with building an asset as opposed to in place. And construction overall is a small piece of our portfolio. So, I'd say on the whole, most of what we do, just given the nature of KREF, is going to be predominantly built assets that create a mostly funded loan. But when we see opportunities for development, certainly in markets that we like with really, really strong sponsors and have that financing built in with that, which we have in the case of the two loans we had this quarter, those can be very attractive opportunities. But again they come at a premium, and they'll always be a small piece of the overall portfolio.

Eric Hagen
Got you. That's helpful. Thank you guys very much.

Operator
Thank you. And the next question is from Kaili Wang from Citi. Please go ahead.

Kaili Wang
Thank you, most of my questions have been asked and answered. But just in terms of share repurchase, how should we think about the pace of that going forward? Thank you.

Matt Salem
It's Matt, I can jump in. Thank you for the question. I think what you've seen over our history really is we've been really a market leader in terms of buying back shares. You saw it at the outset of COVID, obviously, we highlighted what we've done over the course of this year. And as I mentioned, and Steven asked a question earlier, we're continuing to evaluate what's the relative value of share buybacks versus making a loan. And sometimes again, making the loan equation is going to factor in where we have financing available and what kind of returns we're able to generate through that.

And then finally again, the biggest piece of this puzzle right now is really liquidity and just making sure that we've got liquidity and running at a lower leverage point to, one, just be defensive in a very volatile market environment, but two, be positioned for opportunities that are going to come out of this volatility. So, we'll continue to weigh these, but hopefully our track record gives you some indication of how we think about share buybacks.

Kaili Wang
Thank you.

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

Jade Rahmani
Thank you very much. On the Minneapolis office last quarter it was risk rated two and now it's risk rated five. What really changed? Was it the interest rate shock and the timing of the upcoming maturity and what does your dialogue with the borrower currently suggest?

Patrick Mattson
Thanks, Jade. It's Patrick. I'll take that question. Yes, timing is a real big factor here. Each of these loans is going to have a different sort of approach to them. Just for a little bit more context, this was an asset that was under contract in the spring for a good premium relative to our debt. That contract fell out over the summer and now we're at a maturity date in December. And so I think what you're seeing here in terms of the risk rating is a reflection of the fact that there is likely going to be a near-term event here, just given that maturity. All of the options are on the table, including extending the loan, but there aren't free options. And so as we get to this maturity date, if we feel like there is a better approach to maximize shareholder value, we're going to explore that path. And so we're in dialogue with the sponsor and expect us to continue to dialogue throughout this process as we think about financing and as we think about how do we maximize the return back to KREF.

Jade Rahmani
Thank you very much. You mentioned, Matt, that multi-family values in growth markets, you believe are down 10% to 15%. What would you say is the case for office, clearly a big bifurcation in the office space, but may be if you could generalize, and also for commercial real estate prices overall?

Matt Salem
Well, I think the challenge in office today is nobody knows, right, in that there is just not a lot of liquidity outside of maybe the highest end, very Class A or trophy type of asset. And that's the challenge, right? And that's why we're talking about this Minneapolis asset, where it's just where is the liquidity, at what level. So, it's hard for me to say exactly where the office market is generally. But listen, if growth markets are down 15%, you can obviously guess that office is going to be down significantly more than that, just given the uncertainty there. But I think, like you say, the whole real estate markets are adjusting to this new interest rate environment, but I wouldn't want to speculate on what's the overall US real estate value decline, that will be a tough one to figure out.

Jade Rahmani
Okay. Some other questions we've all, I believe, gotten on the space in general, but where does margin call risk back rank in terms of issues you're managing too?

Matt Salem
Patrick I can jump in there, if you want. It's not a big factor for us. The vast majority of our portfolio is financed on a non-mark-to-market basis. We have a lot of liquidity, and we certainly haven't seen any margin calls. I haven't heard of any, nor have we experienced any through this cycle. One can imagine that you could see that if the market continues to be volatile. But just given our positioning and how we choose to finance our portfolio, it's not a big concern of ours.

Jade Rahmani
And in terms of the access to capital, clearly some positive initiatives or additions in the quarter, the

new asset-specific financing facilities. Where do things stand in terms of talking to non-US banks? Are they interested in gaining exposure to dollar-denominated US-based assets? And is that an area that could help create accretive financing opportunities?

Matt Salem
Go ahead, Patrick.

Patrick Mattson
I was going to say, there's several different paths I think that we've got in this market. I think one of the areas of growth potentially is in that non-US institution. And so if we look at this past year and where we've seen some of the growth in our financing capacity, it's come from that. That's not the only area, but we think it is one of the areas that could help support this market.

Jade Rahmani
Thanks. Matt, did you have anything to add?

Matt Salem
No, I think that's well said.

Jade Rahmani
Great. Thank you for taking the questions.

Matt Salem
Thanks, Jade.

CONCLUSION

Operator
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 today. Please reach out to me or the team here if you have any questions. Take care, everyone.

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

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