KKR Real Estate Finance Trust Inc.

Q3 2023 Earnings

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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. Third Quarter 2023 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 "0". After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then "1" on your telephone keypad. To withdraw your question, please press star then "2". Please note, this event is being recorded.

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

Jack Switala
Great. Thanks, Operator. And welcome to the KKR Real Estate Finance Trust earnings call for the third 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'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 provide a brief recap of our results. For the third quarter of 2023, we reported GAAP net income of $21.4 million or $0.31 per diluted share. Distributable earnings this quarter were $17.4 million or $0.25 per share, including a write-off of $15 million or $0.22 per share. Distributable earnings prior to realized losses were $0.47 per share relative to our Q3 $0.43 per share dividend.

Book value per share as of September 30, 2023 was $16.29, a decline of less than 1% quarter-over-quarter. Our CECL allowance decreased to $3.21 per share from $3.30 per share last quarter. Finally, in mid-October we paid a cash dividend of $0.43 per common share with respect to the third quarter.

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

Matt Salem
Thanks, Jack. Good morning and thank you for joining us today. The portfolio continues to benefit from the higher interest rate environment. KREF averaged run rate distributable earnings of $0.48 per quarter throughout 2023, excluding realized losses. KREF benefits from KKR's large real estate team with access to real-time market data across our $64 billion equity and credit portfolio. In addition, KKR has a dedicated rated special servicer and asset management platform called K-Star. Started in 2022, K-Star has over 45 people and $40 billion of special servicing rights, which enhances our market connectivity, gives us real-time performance information and enhances our ability to offer differentiated high-quality service to our borrowers and to drive asset management outcomes.

The rate complex continues to evolve, with "higher for longer" now the predominant theory and the 10-year Treasury closing in on 5% for the first time since 2007. This recent increase will likely lead to further declines in real estate values and create a more cautious market sentiment. Borrowers continue to feel pressure from higher carrying costs, including the need to purchase interest rate caps and near-term loan maturities. However, this is not a surprise for us. We have positioned KREF to manage this market environment with proactive asset management, market-leading levels of liquidity and diverse,

largely non-mark-to-market financing.

With the assistance of KKR Capital Markets, we have built high levels of liquidity and ended the quarter with $716 million of availability, including $108 million of cash on hand and $500 million of corporate revolver capacity; 76% of our secured financing as of September 30th was fully non-mark-to-market, with the remaining balance mark-to-credit only. We have succeeded in terming out our debt and we have no corporate debt or final facility maturities due until Q4 of 2025. The composition of KREF's financing structure remains a true differentiator.

We continue to proactively manage our current portfolio of $7.9 billion, which remained effectively flat quarter-over-quarter. We received repayments of $152 million in the quarter across four loans, the majority of which were related to office pay-downs. Consistent with what we have previously stated, we expect limited repayments for the remainder of 2023, although we do expect repayments to exceed future fundings through 2024. As we determine the run rate earnings potential of the business into 2024, the main drivers will be interest rates, portfolio performance and the ability to unlock equity health in our risk rated 5 assets.

At quarter end, multifamily remains our largest segment by property type. Our multifamily portfolio has performed well, with weighted average rent increases of 4.1% year-over-year, weighted average occupancy of 91% and median year built on the multifamily portfolio of 2015.

Office assets represent 25% of KREF's outstanding portfolio, and as mentioned last quarter, we feel that we have identified the potential office issues within our watch list and do not anticipate further negative ratings migrations to the watch list from the office sector. Furthermore, in the third quarter we did not downgrade any loans across the portfolio, while we amended the risk ratings of two of our office loans higher. We raised our Chicago loan that had been on the watch list to a risk rating of 3 following a modification, another example of our proactive approach to asset management. We also upgraded our Oakland, CA office loan to a risk rating of 2, as we received a large partial paydown of approximately 68%. We expect full repayment of the Oakland office loan in mid-2024.

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

Patrick Mattson
Thank you, Matt. Good morning, everyone. I'll begin with updates to our CECL allowance and watch list, followed by our efforts on the capital and liquidity front.

This quarter there was a $6 million decrease in our CECL allowance for a total of $222 million or 293 basis points on our loan principal balance. The decrease in our allowance was partially a result of a subordinated note write-off in connection with an office loan that we restructured. We continue to proactively manage the portfolio, and, to that end, in September KREF closed on a modification of a $118 million senior loan backed by an office property located in Chicago, previously risk rated 4.

As a part of this modification, the sponsor contributed $18.5 million of new capital, including a $15 million principal pay-down of the senior loan. In connection with the principal reduction, we increased the loan term for an additional five years and agreed to subordinate $15 million of the prior loan balance to the new contributed capital, and subsequently wrote off the subordinated loan. Following the modification, we upgraded the reduced senior loan of $88 million to a risk rating of 3 as of quarter end.

Similar to last quarter, approximately two-thirds of our total CECL allowance is held against three 5-rated loans. We continue to focus on solutions to efficiently resolve watch list loans, while seeking to maximize shareholder value. Whether the best path leads to a loan modification or taking title and

managing the property, we have the tools at our disposal to maximize outcomes across a host of scenarios. With this in mind, I'll provide a brief update to some of our watch list office loans. Regarding our Mountain View Office loan, we continue to consider next steps for the asset, which may include taking ownership as we work with the sponsor on a transition plan, including exploring a path with a JV partner. As a reminder, this property is a recently renovated, very high-quality Class A office campus located in a more challenged leasing market. While precise timing is uncertain, we would anticipate transition to a new structure to be complete within the next couple of quarters.

Regarding our $156 million Philadelphia office loan, the previously discussed short sale process for the entire portfolio did not result in a sale of the asset this quarter, and so we provided the existing sponsor another short-term loan extension as we evaluate next steps. The loan is secured by a portfolio of four separate buildings totaling 711,000 square feet, including a 500 space parking garage, and we are exploring parallel paths of taking ownership of one or more of the properties while continuing to explore individual asset sales. We'll provide further updates of this process next quarter.

Additionally, subsequent to quarter end, KREF finalized modification on a risk rated 4, $176 million Washington, D.C. loan, which included a $20 million partial pay-down, an additional year of term and spread reduction. Following some positive leasing momentum, the property is currently 92% leased, with a weighted average lease term of 12.8 years. As a result of pay-down and recent leasing activity, we would anticipate a potential risk rating upgrade during the fourth quarter. On the other risk rated 4 Washington, D.C. office loan with a current balance of $169 million, the property is now currently 88% leased following strong leasing activity this year. The sponsor is currently pursuing a recapitalization.

Away from the watch list, our risk rated 3 or better office portfolio, which equates to just under half of the outstanding principal balance of the office segment, continues to perform well and has attractive credit metrics. In aggregate, the eight properties representing these underlying risk rated 3 or better office properties are 90% leased, with a weighted average debt yield of 9.5% and a median 8.2 years of weighted average lease term remaining.

Consistent with the prior quarter, the average risk rating of the portfolio was 3.2 and 85% of our portfolio is risk rated 3 or better. Our portfolio is 99% floating rate, and all of our floating rate assets and liabilities are benchmarked to SOFR. KREF has built a fortified liability structure, with $8.9 billion of financing capacity and $2.7 billion of undrawn capacity. A portion of our non-mark-to-market capacity remains substantial at 76% and is diversified across two CRE CLOs and a number of match term lending agreements and asset-specific financing structures as well as our corporate revolver. We continue to optimize our two CRE CLOs, reinvesting over $400 million of proceeds year-to-date on attractive financing terms. Excluding match term secured financing, there are no corporate debt or final facility maturities until late 2025.

KREF is well capitalized with a debt-to-equity ratio of 2.3 times and a total look-through leverage of 4.1 times as of quarter end. As of September 30th, KREF had $108 million of cash and $500 million of corporate revolver capacity available. Our best-in-class non-mark-to-market financing and high levels of liquidity coupled with our deep relationships with both our financing partners and borrowers positioned KREF strongly for this dynamic CRE credit and interest rate environment.

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

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star

then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question at any time, please press star then "2". At this time, we will pause momentarily to assemble our roster.

Today's first question comes from Sarah Barcomb with BTIG. Please go ahead.

Sarah Barcomb
Hi, everyone. Thanks for taking the question. So, you commented in the prepared remarks that approximately two-thirds of that total CECL reserve is allocated to those three 5-rated office loans, pretty similar to last quarter. It looks like the reserve on those assets is still being triangulated with a cap rate of about 6.6% to 8.7% in the 10-Q, whereas, the implied cap rates in the equity markets for high quality, stabilized office REITs are north of 9% in some cases. So, I'm just curious as to what's driving the reserves there, especially given that we haven't yet seen a resolution or a buyer come in for those assets that we might have expected as part of these results. Thanks for any comment there.

Matt Salem
Thanks, Sarah. It's Matt. I appreciate the question and you joining us today. Yes. I mean, obviously there's a number of assumptions that are going into that, one of which is cap. There's lease up assumptions as well. And then we're also looking at—when you think about some of these assets that are a little bit further down the road or have gone through some form of sales processes—we're actually looking at where things are pricing in the market around us or specifically for these assets. So, when we look at those reserves, I think we still feel pretty good about the quantity of those reserves against those 5-rated loans when we factor in all those different inputs at this point in time.

Sarah Barcomb
Okay. Thank you. And then just another one for me. So, excluding that $15 million loss on the Chicago asset that you talked about, earnings and cash flows comfortably covered the dividend this quarter. So, with that in mind, are you thinking about a potential pivot to offense here, just given liquidity is looking pretty good? And at what point do you go out into the market and maybe start to take a look at sourcing high coupon loans with any comment on sector interest there?

And just given the equity markets are a bit tough right now, how are you thinking about sourcing capital? Are you comfortable with liquidity in place for offense versus defense? Is there any opportunity for KKR to come in for the REIT? Just curious on any comments there. Thank you.

Matt Salem
Sure. Thanks, Sarah. It's Matt again. I think there's a couple of questions embedded there. Let me try to answer those in totality. One, from just a liquidity perspective, which I think was towards the end of the questions, I think we feel really good about where we stand from a liquidity perspective. We addressed that in some of the prepared remarks on the call here. And we're still at pretty close to our highest levels of liquidity. So, we'll continue to maintain that.

From an offense/defense perspective, I still think we're in the maintain liquidity mode here. We want to understand what the market environment looks like. We want to see more velocity and repayments in our loan book. We want to see a return to normal across the broader real estate equity complex and the broader capital markets as well. We're obviously still in a very dynamic rate environment, the geopolitical landscape is quite volatile right now, so I'd say we're still in, let's continue to maintain this high level of liquidity.

As we start to get into 2024, could you see that pivot? I think there's potential for sure. We are anticipating more repayments in 2024 in our portfolio. And so certainly if that starts to come to fruition

and we start to see more velocity there, we would want to go out and redeploy that capital into the market. Away from KREF, as you well know, we're actively lending, we're actively lending across insurance capital, bank capital, as well as debt fund capital, so we are actively pursuing the market. And it is a market where you just want to kind of keep it simple. So, we're sticking to those on theme property types that we all know, so multifamily and industrial, and just try to take advantage of not only the volatility I just described, but there's clearly some capital sources out of the market, namely U.S. domiciled banks. So, I think that to the extent we turned on KREF, we'd be pursuing some of those same type of themes into next year.

Sarah Barcomb
Great. Thanks for the comment.

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

Stephen Laws
Hi, good morning. Patrick, appreciate the comments on the loans. I may have missed it, but could you give us an update on the Minneapolis office and what the outlook is and options there?

Patrick Mattson
Sure, Stephen. Good morning. So, we didn't have any comments specifically on that asset, not too much to report from last quarter. As you know, we've done the modification. That asset on the new senior rate covers, we've got lease term in place for some considerable duration. And that loan's got term through 2025. So, no real update. We continue to actively work on that asset, particularly around some of the leasing activity, but no further updates on the market.

Stephen Laws
Great. And can you talk a little bit about the restructuring for the modification process? I think, if I'm looking at my notes correctly, maybe one received a short-term extension, I think it was three years, so maybe on the restructuring on the new senior. Can you talk about the considerations that go into how much additional duration you're willing to give? Is it certain property types, certain borrowers, certain business plans? Can you maybe talk a little bit about how the modification and restructure discussions are going as you look at six or seven loans left to address?

Matt Salem
Sure. Stephen, it's Matt. I can jump in there. I would say, first of all, as you're highlighting, every modification or negotiation is very facts and circumstances dependent and a lot of it is related to what your borrower is willing to do, obviously what the occupancy and cash flow is at a particular asset, et cetera. Where we've given longer term, that typically is around a more holistic solution, where you've got a committed sponsor, there's typically dollars coming in the door to delever us, at times in conjunction with us writing down or subordinating some of our mortgage to induce that payment and get to a capital structure that makes more sense, and our sponsors can then have a lower basis and lease from that new basis. So, that's really what it comes down to.

When you see short term extensions, that's just a way for us to try to effectuate a broader, either modification or loan sale or foreclosure, or typically we're in the middle of just effectuating something else and we need a little bit more time. So, I think about it as the longer terms are you've basically reached a resolution to that loan, at least in the intermediate term, and then any of these short term ones as you're trying to get to that moment in time.

Stephen Laws

Great. Helpful color. Thanks, Matt. Appreciate the comments this morning.

Matt Salem
Thank you.

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

Don Fandetti
Hey Matt. Can you talk a little bit about your thoughts on multifamily credit? If the Fed has to raise, let's say, another 50 basis points, is that a manageable situation?

Matt Salem
Sure, Don. Appreciate the question. So, I think that, taking a step back even beyond multifamily, obviously this rate environment, as we mentioned in our prepared remarks, is creating a lot of pressure on values, pressure on sponsors and you're going to need a lot of liquidity to carry these assets through. As it relates to multifamily specifically, in our own portfolio we haven't seen any real challenges yet from the rate environment on that component of the multifamily portfolio. We're watching it closely, and certainly understand that the longer this period goes obviously the more stress or pressures is in the system. But I'd say right now, we're not really seeing it within our own portfolio. I do expect over time, taking a step out of KREF, but just broadly in the sector for floating rate loans secured by multifamily to have some issues, especially if you have a sponsor that doesn't have a lot of liquidity to carry the asset through to a lower interest rate environment.

That being said, if you think about the fundamentals of multifamily away from value and away from cap rates, we're still seeing a lot of positive trends there. Occupancies remain high. We mentioned some of the rental increases year-over-year in our own portfolio within KREF, and obviously if you go back further over a longer period of time to like 2021, you're talking about high-teens type of rental increases over that period. So, we're still seeing positive fundamentals there. It's still a very liquid asset class. The agencies are still heavily involved from a financing perspective. So, it's got a lot of positives. But clearly, the rate environment is a headwind there and we'll continue to watch our portfolio closely to see if it creates any potential noise there. But long-term value, I think we feel relatively good about that sector from a loan basis perspective.

Don Fandetti
Thanks.

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

Jade Rahmani
Thank you very much. The first one would be a broad question around cash flow from operations, the dividend as well as attentiveness to covenants. So, in the quarter cash flow did cover the dividend, which is a strong result. However, considering that the portfolio continues to shrink and with rates there is clearly the risk of further credit migration, the average earning portfolio should be smaller for 2024, and therefore, it would follow that cash flow from operations would be pressured. So, can you give any color as to your thinking around those two metrics?

Secondly, as it relates to covenants, there's two main ones that come out. One is the interest coverage covenant, which is a function of interest income versus interest expense; and then the second would be liquidity as a percentage of loans. How are you feeling about adequacy on both of those?

Matt Salem
Thanks, Jade. It's Matt. I can jump in for the first one and then maybe Patrick can cover the second questions around the covenant. I think from a dividend perspective, you're highlighting some of the things that we highlighted in our own commentary, just about what some of the big drivers are going to be as we think about the go-forward and over the next handful of quarters. Nothing's really changed in terms of how we evaluate that dividend, and the Board makes a decision every quarter, and we're really coming at it from a run rate operating earnings perspective, as you're identifying, and not really from like a liquidity perspective. So, as we start to go down the road here and understand what the market environment looks like, then we'll make a decision at that point in time. But this is a very difficult market to be projecting that far out in the future in terms of what things may or may not look like. So, we'll take it quarter-to-quarter, and the Board will make that decision.

Patrick Mattson
Jade, this is Patrick, and I'll follow up on the covenant question. So, you asked the question specifically with regard to interest coverage, that's something that we've been monitoring, frankly, the whole market's been monitoring, because it's so affected by the increase in SOFR. It's just math - at some point that coverage becomes tighter. But we did proactively this quarter reduce that covenant from 1.5x to 1.4x. We would have still cleared the covenant this quarter without that adjustment, but I think it's just an example of us being proactive around the covenants, and that went smoothly with all of our financing partners.

With regard to the other covenants, whether it be net worth or liquidity, as we've indicated in our prepared remarks, this quarter and in past quarters, we feel really good on the liquidity side. And so I don't feel challenged on either of those covenants. So, really interest coverage was the one that was most in focus and we made an adjustment this past quarter, just to give us further breathing room.

Jade Rahmani
Thank you very much for both answers. The follow-up to Don's question about multifamily, do you know what the in-place debt yield is? Because the occupancy stats you cited and rent growth stats are very strong, so I'd assume that it's close to a stabilized debt yield. What's the current debt yield?

Matt Salem
I don't have that, Jade, at my fingertips. We can follow-up with you offline on that. But keep in mind, there's still a range there in terms of where we are in the different stages of the business plan. We obviously made loans on some newer assets that are still in lease-up and then there's a handful of assets that have renovation programs and upgrades going on, as well. So, these are still in transition in terms of what we think about as like fully stabilized cash flows, debt yield and assets. But we can follow-up.

Jade Rahmani
Thank you very much.

Matt Salem
Sure.

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

Rick Shane
Thanks, guys, for taking my questions this morning. I'd love to talk a little bit about Mountain View and

Philadelphia. Incrementally, it sounds like what's changed at Mountain View is still considering the possibility of taking ownership, but perhaps doing it in JV structure, and Philadelphia, it sounds like the sale fell through and now you're adding the possibility of taking ownership for at least portions of those properties as well. I'm curious, a couple of things. With those changes, incrementally in the context of what you expect your losses will be there, and again, category 5 loans, so you're expecting losses, do those developments increase or decrease your potential loss expectations?

Matt Salem
Yes, it's Matt. Appreciate the question. I would say our reserves are updated every quarter. And so as these processes continue to evolve, we're updating the reserves to reflect that. And so that's the basic answer to your question. And so you shouldn't anticipate any potential changes as it relates to our comment as where we are currently in the process because that's already been factored in.

Rick Shane
Understood. And look, I understand that that's the GAAP accounting, but at the same time from a probability perspective I'm assuming that you guys say, okay, wait a second, these developments were incrementally positive or incrementally negative. And since the reserve itself remains at that two-thirds of the overall reserve and we can't see what's specific to those three level 5s, other than that sort of broader comment, what should we take from this? Obviously, the short sale not going through, the implication seems to be negative, in that you were willing to sell the property below cost and take a loss and you weren't able to achieve that. I'm assuming it's not because you came back and said, we actually think we can get a better deal.

Matt Salem
Right. I think you should take away a few things. First of all, the market's very illiquid, and a lot of our reserves are accounting for that level of liquidity. And even on the Philly sale that you're identifying, while we had a real process, we had a real engaged buyer, I think all of us here, we're always mindful that nothing is done until it's done in this market. And so, we're always somewhat discounting that happening. We're moving on from that obviously one buyer and have a potential buyer on a subset of the properties, and then the other ones being more stabilized cash flow and we could potentially own.

So, a little bit just more color on Philadelphia specifically. But, again, I wouldn't necessarily think about this as like, all right—we're trying to be transparent, we're trying to give you information as it evolves, understanding that it will evolve, because this market is opaque and illiquid, but we're trying to give as much information as we can. I would say our reserves always get updated to the extent the process changes and it impacts value. So, that's where we are on those two assets in particular.

Rick Shane
Got it. Look, I appreciate having a very imperfect crystal ball. I certainly struggle with that as well in terms of what we do.

From a mechanical perspective, look, I appreciate that the intellectual integrity of when you restructure the loan, creating a subordinated loan and writing it off immediately, as opposed to carrying that on balance sheet and extending and pretending. If and when you are to take possession of properties, would you, generally speaking, expect to realize losses then or does it get deferred further as part of that resolution?

Matt Salem
If we go to title, we would take a realized loss at that moment in time, based on an appraised value.

Rick Shane

Terrific. Thank you, guys, very much.

Operator
As a reminder, to ask a question, you may press star then “1”.

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

Matt Salem
Steve, are you there?

Steve Delaney
I apologize, I was on mute. I would just say good morning and congratulations on this Chicago office loan workout. It’s not one that we had on the watch list loans of 4 or 5, but it’s nice to avoid a potential problem down the road, which is why I assume you took that action. It leads us to the discussion of Patrick’s comments about the Washington, D.C. loan that is being reworked, that that may be a fourth quarter item. In that rework, and I know you’re limited probably in what you can say, do you anticipate that re-working that would involve any write-off to KREF as you put a new facility in for the borrower?

Matt Salem
Yes. So, two comments there. Thank you for joining today. Just to clarify, the Chicago office loan where we received a $15 million pay-down and then $15 million subsequent write-off on our loan, subordination and write-off, that was a 4-rated loan. So, that is one of the watch list loans that—

Steve Delaney
Correct. That was watch list, yes.

Matt Salem
I just want to make sure that was clarified. And then on the Washington, D.C. loan that you’re highlighting, it’s not our anticipation that there would be any kind of write-off or consideration in conjunction with that modification.

Steve Delaney
Okay, great. Just as a side comment, it would be great, I know there’s legal issues with all this, but the Chicago item of $0.22, I mean, we could argue whether that’s material, it’s certainly not with respect to book value, but I’d just ask you to consider like an 8-K when you have one of these workouts. One, it shows progress; and two, it gives the analysts a chance to quickly go in and update an estimate before we get to the earnings call. So, just a request, and we can follow up offline on that.

So, no write-down expected on D.C. Matt, you had comments about rates and the strategic thing. The Fed has kind of signaled late last week that maybe they’re done, there’s never done forever, but it feels like they’re saying the bond market at 5% has kind of done their job for them. I’m just curious if on the private equity side of KKR, if in fact there’s a consensus that this is the peak of rates and that they have nowhere to go but down over the next one to two years, wouldn’t that encourage some flows of private equity and strategic money coming into the US commercial real estate market, once we get the Fed get its foot off the throat of the market? Just curious what the connection you might see between where we are with rates and the rate cycle and the hope that some capital will flow into US real estate. Thank you.

Matt Salem
Sure. No, thank you. I would say, yes, we anticipate that once we get through this rate hike environment and the market understands where that’s going to settle out, that transaction volume is

going to pick up. I would say that's not just in real estate. I think we're seeing that across the broader KKR complex, including private equity, corporate credit, infrastructure. So, it does feel like we certainly could be moving into somewhat different market environment as it relates to, again, transaction activity and acquisitions. At the same time, I think we're seeing good progress overall in the market just in terms of capital coming into the system from different fundraises. I think the market, everybody understands that there's going to be a pretty good opportunity in commercial real estate over the course of the next year. So, that just broadly is a consensus and you're seeing capital formation around that.

Steve Delaney
Thanks for the comments.

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

Jade Rahmani
Thank you for taking the follow-up. Just on CECL, in the third quarter the economy performed really well, including on the employment side. That's a tailwind for the CECL macro component. In 4Q, things should slow and we also have the Treasury rate spike. So, do you think that alone drives an increase in just the macro component of CECL in the fourth quarter?

Matt Salem
It's Matt again. That's a tough one, Jade. I would say it's hard to predict what the macro output's going to be at this point and how those different paths look. And part of the model is not just macro in terms of GDP, employment, interest rates, it's also CRE prices, which have adjusted a fair amount, as you know. So, it's difficult to say. It certainly could happen, but it's not something we spend a lot of time thinking about or forecasting in terms of what the next macro modeling CECL reserve is. I think we're much more focused on loan by loan outcomes from an asset management perspective and what we can control.

Jade Rahmani
Thanks. I just have an office question. In the third quarter, there were definitely some green shoots in leasing within certain markets and also within a subset of best-in-breed type properties. Some landlords also have said they're going to moderate TIs, and it looks like there's a little bit of relief in our tracking on free rent. How would you characterize the major office trends you're seeing?

Matt Salem
Well, I think that the numbers you're referencing are likely a better indicator of what's going on in the broader market, because we don't have that big a portfolio. And there's only really a handful of sold assets that we're focused on there. I would say that our general impression across our assets in the office space is that the leasing environment has been better than the capital markets anticipates: that there is demand for office and, while it's costly, it's not uneconomic at a lender's basis. So, our general impression has always been that things are a little bit better than people think.

Jade Rahmani
Thanks for that. And then a technical question, when I look at the slide deck it shows $152 million of repayments, but the cash flow statement, subtracting the nine months from the six month, implies $43 million. Is the difference timing related or something else?

Patrick Mattson
Jade, it's Patrick. That has to do really with the Oakland partial paydown that Matt had referenced. On

that deal we originated a whole loan, sold a first mortgage and we retained a mezz. So, that difference is due to the fact that we own a mezzanine loan. And so while we're showing that pay down reflective of that full loan balance, the reality is we just own the mezz portion.

Jade Rahmani
Got it. That makes sense. Thanks a lot.

Matt Salem
Thanks, Jade.

Patrick Mattson
Thank you.

CONCLUSION

Operator
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 today. Please reach out to me or the team here if you have any follow-up questions. Take care.

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

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