KKR Real Estate Finance Trust Inc.

Q3 2024 Earnings Conference Call

October 22, 2024 at 10:00 a.m. Eastern

CORPORATE PARTICIPANTS

Jack Switala – *Head of Investor Relations*

Matt Salem – *Chief Executive Officer*

Patrick Mattson – *President and Chief Operating Officer*

Kendra Decious – *Chief Financial Officer and Treasurer*

PRESENTATION

Operator
Good morning and welcome to the KKR Real Estate Finance Trust Inc. Third Quarter 2024 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 Third Quarter of 2024. 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 provide a brief recap of our results. For the third quarter of 2024, we reported GAAP net loss of -$13.0 million or -$0.19 per share, driven by a CECL allowance increase of $0.52 per share following the additional downgrade of two loans. As a result, Book Value Per Share decreased 2.6% quarter-over-quarter to $14.84, as of September 30, 2024. Distributable earnings this quarter were $25.9 million or $0.37 per share relative to our Q3 $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, everyone, and thank you for joining our call today.

Before going into our third quarter results, I'd like to spend some time on a market update. As we enter an interest rate cut cycle, there is increased confidence and growing consensus that lower interest rates will provide tailwinds for commercial real estate property values. We are seeing improved transaction volumes within our own real estate credit pipeline, which currently averages approximately $20 billion a week, up 40% from the beginning of the year, and we have strong conviction that there is a significant lending opportunity ahead of us.

From a KKR Real Estate equity perspective, 2024 has been our most active year investing since inception, with $4.5 billion year-to-date of equity invested in the United States.

Within commercial real estate lending, we've seen U.S. banks continue to shift their preference from direct mortgage origination to financing alternative lenders through loan-on-loan facilities. Given the more efficient capital treatment of loan-on-loan facilities, we believe this will continue. Banks will continue to lend, but our expectation is that their market share will decrease from their historical average of 40%. This should create incremental lending opportunities across non-bank lenders and CMBS measured in the hundreds of billions.

Turning to KREF, we have reached a point where we believe we have dealt with the majority of our watchlist and have ample liquidity. Therefore, as we receive future repayments, we will look to actively reinvest that capital and ramp up originations. As part of our investment allocation, we will also evaluate share repurchases. As a reminder, KREF has bought back nearly $100 million of stock since inception.

Turning now to KREF's third quarter results, this quarter represents another significant step forward in addressing our watchlist in a proactive and transparent way. As we mentioned on our last call, we have been focused on resolving our last 4-rated life science loan, and we are in advanced discussions with our borrower and have accordingly increased our reserves. In addition, we transitioned one of our 4-rated multifamily loans to a 5 rating. As a whole, we still feel very confident about our multifamily exposure, but as we have messaged previously, we will have some noise in that sector over time.

With those adjustments, Book Value Per Share this quarter declined to $14.84 per share, down 2.6% compared to the prior quarter. Importantly, our 4-rated loans now represent only 3% of our total portfolio, the lowest since Q4 of 2019.

KREF reported distributable earnings prior to realized losses of $0.40, covering our $0.25 dividend. While lower SOFR and our REO portfolio will impact earnings, we expect that DE ex-losses will continue to be higher than our dividend as we head into 2025.

In the third quarter, we received $290 million in loan repayments compared to $55 million in fundings, with full repayments across four loans, including multifamily, single-family rental, and an office loan secured by a property located in Oakland, California. In addition to this, post-quarter end, we sold a $138 million office loan at par. Repayments have now exceeded fundings in five out of the last six quarters. Additionally, future funding obligations are now reduced to 8% of the funded portfolio. Year-to-date, we have received over $1 billion in repayments compared to our original expectation of $1 billion for the full year.

KREF, as an externally managed vehicle, benefits from access to resources and relationships from KKR's global platform. We are fully integrated into KKR's broader real estate business which has assets under management of approximately $75 billion. This integration has been instrumental, as we are able to leverage the resources and capabilities of our team of approximately 140 professionals with a reputation as a best-in-class investor and solutions provider.

Within Real Estate Credit, we invest a broad range of capital across the risk/reward spectrum, including bank, insurance and transitional capital, and we have been actively investing this capital throughout this cycle. Additionally, our dedicated K-Star Asset Management platform, with over 55 people across loan asset management, special servicing and REO, has a portfolio of over $33 billion in loans and is named special servicer on an additional $46 billion of CMBS.

Overall, we believe we have been proactive and transparent in managing our portfolio and feel confident in how the company is positioned. We are primarily focused on two things as we round out the year and turn the calendar: first, maintain our current portfolio size by reinvesting repayments into this attractive vintage of real estate credit, and second, optimize our REO portfolio. As a reminder, as we repatriate our equity in the REO portfolio, we believe we can generate an additional $0.12 per share in distributable earnings per quarter. With ample liquidity, stronger than expected repayments, as well as our reduced leverage ratio, we are excited about the opportunity ahead.

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

Patrick Mattson

Thanks, Matt. Good morning, everyone.

On the liability side, with the assistance of the KKR Capital Markets team, we have built best-in-class diversified financing, with financing capacity totaling $8.3 billion, including $3 billion of undrawn capacity. We continue to maintain high levels of liquidity with $638 million of availability at quarter end, including $109 million of cash on hand, and $475 million of undrawn revolver capacity. 79% of our financing continues to be fully non-mark-to-market, and the remaining balance is mark-to-credit only. KREF has no final facility maturities until 2026 and no corporate debt due until 2027. The composition of KREF's financing structure remains a true differentiator and has helped us navigate a challenged real estate market.

Turning to our office loan exposure, we've had some positive developments. During the quarter, we received a final repayment on a loan secured by an office property located in Oakland, California. In addition, subsequent to quarter end, we sold a $138 million office loan at par secured by a property located in Dallas, Texas that we originated in December of 2021. On a proforma basis, office now represents approximately 18% of our loan portfolio. Our remaining risk-rated 3 office assets benefit from a weighted average occupancy of 85% and a weighted average lease term remaining of 10.4 years.

Moving to our CECL allowance and our Watch List portfolio, similar to last quarter, there were no new additions to the Watch List. However, we downgraded two of the previously risk-rated 4 loans, including a Life Science asset located in the Bay Area and a multifamily asset located in West Hollywood. Related to these downgrades, the CECL reserve increased by $36 million, or $0.52 per share. Across our risk-rated 5 loans, the weighted average CECL reserve represents approximately 25% of the outstanding principal balance. The remainder of the loan portfolio remains stable with over 90% of our portfolio risk-rated 3 or better.

Looking more closely at our life science loan, this loan is collateralized by a property located in San Carlos, California, that was renovated in 2023 to Class A life science standards. We're in the final stages of a modification with the sponsor, which we expect to conclude in Q4'24, at which point we expect our reserve to translate to a realized loss.

While we generally expect the lower rate environment to improve the outlook for cyclically challenged multifamily assets, our second downgrade this quarter is a multifamily loan, secured by a 37-unit Class A luxury rental located in West Hollywood, California. This particular loan has been on the Watch List since Q4'22 and we are exploring several paths to maximize value, including a potential foreclosure and condo sellout.

Repayments have been progressing slightly better than forecasted, driving further deleveraging. As of Q3, the debt-to-equity ratio is 1.8x and the look-through leverage ratio is 3.8x, an improvement from Q2. While it's always difficult to forecast the precise timing of repayments, and there can be quarter-to-quarter fluctuations, we expect repayment activity to continue to increase with 2025 exceeding 2024 repayment levels. With leverage in our target zone, meaningful progress on the Watch List, and strong levels of liquidity, additional repayments in excess of future funding needs will be redeployed into new loan originations. We are engaging the market to quote new KREF loans and anticipate 2025 will be an active origination year.

As Matt noted on last quarter's call, we continue to believe that while we are not out of the woods yet, we are on the edge of the woods, and as a management team, we remain excited about our business and momentum. We have never felt better about our team and the market position of the Real Estate Credit platform, and believe we have a lot of opportunity ahead of us given the market dynamics.

Thank you again for joining us this morning. And now we are happy to take your questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you 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.

Our first question today comes from Rick Shane with JP Morgan. Please go ahead.

Rick Shane
Thanks, everybody, for taking my question this morning. Given what you're describing in terms of the operating environment and a little bit more clarity, both in terms of loan values and property values, can you give us a sense of what's happening in terms of price discovery? Are we starting to see expectations between bid and offer narrow? And where is that narrowing occurring within your range of expectations?

Matt Salem
Hi, Rick. Thank you for the questions and for joining the call. It's Matt. I could take that question.

Yes, I think you are seeing transaction volumes pick up across the industry. And if you look at our own pipeline, we track not only the weekly activity coming through it, but the percent of that activity that's acquisition-oriented versus refinance-oriented. Last year, we bottomed out around 10% of our pipeline on a weekly basis was in acquisitions. That's up into 20%+ today. Historically, that's averaged closer to 50%, so we're still below certainly a normal operating environment, but clearly picking up off the bottom, which is what you'd expect.

I think there's a lot of transparency in the market today around values, especially in favored asset classes. As we mentioned on the call, for instance, from a KKR Real Estate equity perspective, this has been our most active year-to-date acquiring assets. And certainly, there's been competition in those processes. So, whether we're thinking about it from our equity hat or within our own pipeline and our clients, we're seeing a lot of transactions predominantly focused in multifamily, industrial, student housing, some of the assets that have the more identifiable, long-term, positive trends obviously versus office.

Values are settling in around where we would expect, so I don't think we have a very contrarian view to where the market is valuing real estate today. The big question in my mind over the last year has not been, where are the buyers? I think it's been, where are the sellers? And can the sellers hold out on an existing financing? And do they have time to wait for values to settle down and cap rates to potentially come in a little bit? And I think you're starting to see that gap narrow as the cost of capital has come down a little bit. We've experienced cap rates coming down across property types over the course of the last couple quarters, as the rate complex has cleared up. So, this just feels like it's part of the normal reset within real estate, and our expectation is that 2025 will look like a much more normal year in terms of acquisitions and overall transaction volumes.

Rick Shane
Got it. Okay, helpful. Then the other question, and you may have said this and I might have missed it, but can you tell us what the quarterly impact on distributable earnings is from loans on cost recovery?

Kendra Decious
Hi, Rick, it's Kendra. Thanks for the question. So, for the two new loans that were downgraded to 5, there was a movement of about $0.02 per share of interest income out of Q3. Besides that, there were no other changes in run rate interest income.

Rick Shane
Got it. Okay. Thank you very much.

Kendra Decious
Sure.

Matt Salem
Thank you, Rick.

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

Stephen Laws
Hi. Good morning. Matt, I'm kind of curious, as you turn the origination pipeline back on, where are you going to be focused? I mean, clearly banks have pulled back and so there's a void of construction financing granted that didn't get a lot of capital out the door and there's unfunded commitments associated with that. Seems like the markets are really competitive for cash flowing multi, especially from CLO players. So, can you talk about how you expect the pipeline to build and where your focus is going to be as you redeploy capital?

Matt Salem
Thank you for the question, Stephen. Sure, I can take that one.

First of all, I don't think it's going to be too different from what we've done in the past. We've always been thematic investors and trying to leverage a lot of the information we have on the equity side of the business, where we own real estate, so I think that continues to lead us down the path of multifamily, industrial, student housing, etc.

Certainly, on the newer front, there's probably two areas that we're actively looking at. One would be data centers, especially hyperscale construction that are net leased. There's a lot of that opportunity in the market today. As you mentioned, it's not a perfect product for KREF, just given the future funding associated with it, but dollars get into the ground relatively quickly on those type of construction projects, so an area we're certainly looking at.

Then the second one I would identify, and I think we mentioned this on the last call, is Europe. We've built out the team there over the last couple years and are actively lending in that market. So, I think the opportunity for us to really go to where we see relative value from Western Europe all the way to the United States will be interesting, and certainly that's a market where we've had some of the success over the course of the last year or two investing transitional type of capital. So, I'm hoping that that market continues to offer those type of opportunities, and we could potentially have some investing in a new market for us as well.

Stephen Laws
Great. And to follow up on your comments and the prepared remarks on note-on-note financing, can you talk a little bit more about that? Do you already have financing providers lined up and you know the parameters of what they're willing to do? Or do you originate the loan first, and then go find those note-

on-note providers later? Then, what type of spread are you getting on your return versus the note-on-note provider, and maybe where are they attaching?

Matt Salem
Yes, Stephen. It's Matt again. Let me start, and then Patrick, just whatever I missed, you should jump in and answer as well.

First of all, I think we know who the providers are. We've always had a good, dedicated team within our capital markets business that is continuously developing those relationships. We obviously have existing lenders within KREF. We have existing lenders within private funds that we manage, so we've got a pretty good pulse on the market, and we've got a global platform. So, it is very much a global effort in terms of developing those types of facilities. That's first.

The second comment, we are seeing new entrants pop into that market, and we're seeing existing participants expand their programs. So, the direction of travel here is pretty identifiable in terms of what the banks are trying to accomplish, and so we should be able to really draft off of that and benefit from that.

From a leverage perspective, it's not too dissimilar from where we were previously, call it a 75% to 80% advance rate with the banks solving for somewhere in a look-through LTV and the low 50% range, typically speaking. Obviously, it's a little bit deal-dependent or property type-dependent. And I'd say that financing is currently priced in the SOFR + 150 to 175 area for the most part for the types of opportunities that we're focused on, which, as you recall, tend to be more institutional, more light transitional. Certainly, that price could widen as you get into longer-dated or heavier business plans.

I think the most notable outside of just the shift in terms of how the banks are thinking about their capital treatment, and the magnitude or the quantum of capital in that market today, I'd say the biggest shift is just there is much more of a willingness to do non-mark-to-market facilities than there has been in the past. We used to spend a ton of time scouring the globe looking for relationships where we could develop those non-mark-to-market facilities. I would say that's almost more regular way, maybe not quite there yet, but almost regular way at this point in time, for these facilities. And so, we'll continue to push that dialogue, because obviously that's been an important risk mitigant feature for KREF in particular, but for the industry as a whole.

Patrick, anything you'd add to that?

Patrick Mattson
No, I think that's well-covered, Matt.

Stephen Laws
Yes, that's helpful, and definitely seems like banks have a good reason to do it, given the capital treatment, as you mentioned, so appreciate the comments this morning. Thank you.

Patrick Mattson
Thank you, Stephen.

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

Jade Rahmani
Thank you very much. Just on the Watch List and REO, could you give some parameters as to timing?

Do you expect the bulk of REO and Watch List to be resolved, say, over the next year? Or how would you frame that?

Matt Salem
Hi, Jade. It's Matt. Thanks for the question.

Hard one to say. Obviously, a lot of that timing is out of our control. Let's break it apart a little bit.

On the Watch List loans, I would say those, hopefully over the next year or next few quarters, we should be able to deal with those. It's unclear which direction those could go. Those are both multifamily loans at this point in time. And as you start to think about where we are, and we highlighted this on the call, we're really very focused on the fact that we haven't put more into that 4-rated bucket over the last couple quarters. I think that's important that we're not seeing that 3 to 4 transition. And of course, unfortunately, we don't love the fact that some went from 4 to 5 and we increased reserves, but in some ways, that's a positive thing in the sense that we're getting through it and identifying it and moving on. So, I'd say the 4s are probably little bit more identifiable hopefully in the next few quarters.

And then on the REO side, let's just talk about each one. It's probably most helpful. So, our Lloyd Center in Portland, that one we continue to make really good progress in terms of entitlement and hope to submit and receive back city approval the first half of next year, at which point we could begin to have some liquidity events in that particular asset. That's a little bit more identifiable just how far we are down the road and that's a pretty exciting project, and so I think we're continuing to push that particular one forward.

When you think about Mountain View, that one's probably the biggest unknown. It's a campus-like facility. It sets up really well for a single tenant, and this is one where we're just going to have to be patient and wait for the market to come back a little bit. We are on a very short list of assets that gets attention when a large tenant comes into the market and is looking for that unique campus setting, and so we'll continue to try to position ourselves well for that tenant demand. But just given the nature of catching a single tenant, it's really hard to predict when we could resolve that, but certainly could take all of next year.

When we think about the Seattle life science deal, a little different story, because that's multi-tenant. And so, we're pushing that business plan forward, thinking about putting in incubator space. We're actively engaged in the market right now with a potential tenant for a floor or two of that. And so that one, I'm hoping that over the next few quarters, while we may not fully resolve it, we can at least provide updates as we begin the leasing on that on more of a granular basis.

And then that leaves the last one, which is the Philadelphia asset. If you recall, it's two assets. We have an office and a garage left. We'll likely try to sell the garage probably by the end of the year here, and then the office we'll likely keep on a longer-term hold. But this one's moved around a little bit from an execution perspective over the last couple quarters, so we'll keep you posted. But that's an update as I work through the list of what we have in REO. It's obviously a meaningful component of the portfolio now, not only from just an equity investment perspective, but as we repatriate that capital, it gives us the ability to obviously generate more earnings. So, we'll try to keep everybody updated as we get into 2025.

Jade Rahmani
Any assets where you can see upside? It sounds like your commentary was a little more positive around Portland and also maybe the Philadelphia garage, upside to your basis.

Matt Salem
No, understood. Understood. Well, I guess the best way to think about it is when we talk about the potential to drive earnings with that repatriated capital, that analysis or that math is based on our current cost, our current hold. It's not based on any potential increase from there. And I think on some of these, we will do better than that. Obviously, as you go from an unleased asset to a leased asset, it depends on the parameters and where you leased it and other factors. But I'm hoping that we can do better than where we hold it today on a number of these, but that remains to be seen as we try to execute those business plans.

Jade Rahmani
With the Raleigh and San Diego multifamily, it sounds like you expect resolution and would be somewhat in line with KREF's basis?

Matt Salem
We don't know yet. They're 4-rated loans. They're on the Watch List. They're both performing. Our experience has been as loans hit the 4, I think roughly half have gone back to performing, and half have ended up in a workout scenario as a 5-rated loan. So, I don't think we want to make any predictions right there. If we knew, then we would likely either have them as a 3 or 5, so there's still some uncertainty in those.

I think they're multifamily deals, so losses in that segment seem to be relatively contained. I think we'll stick with our comments that we've made over the last few quarters that multi is a big part of our portfolio. We've seen a lot of liquidity in that sector, probably more than we would have initially expected if you told me rates were going to go up 500 basis points, but we're obviously not totally immune from potential losses there, but we think it's going to be relatively contained and certainly more noise than real impact on book value over time.

Jade Rahmani
And West Hollywood catches the attention because it's such a high dollar amount per unit. Is the plan to convert it to condos?

Matt Salem
Right now, it's operating as a multifamily. You're right to point out that it's a pretty high basis per unit or per foot. It was originally built as condo and then operated as multi. My guess is the best path forward will likely be a condo sell out on that one.

Jade Rahmani
Okay. And can it be quite easily entitled for that?

Matt Salem
Yes.

Jade Rahmani
Okay. And then, just lastly, the San Carlos life science. In your commentary, you flagged Mountain View California as the biggest risk. I would assume San Carlos might be second. And in the modification that you're discussing, is the goal to have a longer-term modification considering the size of this project?

Matt Salem
This one, I think we need to be a little bit careful on, just because we're right in the middle of negotiations. But our first preference is always to work with our existing sponsors. And so, if we can get

to a deal with them, then hopefully we can create the basis that makes sense for everybody and give the asset more time to implement its business plan, and so that's really path one for us but let's see what happens. I think we've increased our reserves to try to reflect some of the current dialogue that's going on there, and hopefully we can get to a deal.

Jade Rahmani
Okay. Thanks so much for taking the questions.

Matt Salem
Thank you, Jade.

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

Don Fandetti
Hi. Can you talk about your updated thoughts on the office market? Are you seeing increased debt and equity interest? And then also, what is the buyer profile of the loan that you sold in Q4, your office loan?

Matt Salem
Thank you, Don, for the questions. It's Matt again.

I think the office market is beginning to show a little bit more liquidity on the capital markets side. If you looked last year, for instance, most of the buyers there were high net worth, large family offices, really no institutional investors in the market for acquisitions and now I think you're beginning to see signs of institutional investors coming back into the market. And as you'd expect in these type of large downturns, liquidity is coming back for the best assets first. So, for the highest quality assets, the newest assets, the assets that have some long walls associated with them, for instance, and so we'll see if that continues.

On the financing side, I think the same is true. There's not a lot of velocity in people's office loan portfolios right now, so there's still a really high bar to make a new office loan since you're not getting repaid on any, but you're starting to see lending return, especially in sub-markets that have shown real strength over the course of the last couple years, or assets with very long lease terms as you'd expect. So, it's beginning.

The capital markets are starting to come back for office. CMBS and SASB have done a number of deals, notably Rock Center, which was obviously a multi-billion-dollar transaction or offering in the market. So, you think you're beginning to see signs of life on the capital markets front, overall.

In terms of the loan that we sold, it went to effectively an office equity investor.

Don Fandetti
Got it. Thank you.

Matt Salem
Thank you.

Operator
Our next question comes from Tom Catherwood with BTIG. Please go ahead.

Tom Catherwood
Thank you and good morning, everybody. Matt, maybe following up on Rick's question from the start. With the increase in transaction activity that you mentioned, are you seeing that for opportunistic and value-add type deals that would traditionally be looking for transitional type loans, or are the transaction's more Core and Core+ type assets at the moment?

Matt Salem
Yes, thank you. I can take that. I would say the market is always more weighted towards Core, Core+ type of lending opportunities. That's always a larger component of the overall market. I do think that over the course of the last 18 months that transitional type of capital, let's just call it a little bit higher cost of capital, has been more difficult to lend. So, when I think about a KREF shareholder over the last, call it, 12 to 18 months from just a new opportunity perspective, it hasn't been like the best lending environment. Certainly, values have been down, competition has been down, but the demand for transitional loans hasn't been particularly high, to your point.

What we're seeing now is that demand increase, for sure. I think it largely is due to two things. Number one, there's just been like a reboot in acquisition activity, and I think this type of capital is more relevant to that segment of the market. And then secondly, we've seen a lot of activity and just capital structures are maturing, and owners don't want to sell, so they need more time. Their existing lenders kind of run out of time. And so, a number of the opportunities we're seeing are just a bridge. Not necessarily the business plan is transitional, it's just the owner wants more time for the market to continue to heal and cost of capital to continue to come down, and then they can sell into a better market. So, I'd say that part is picking up, and we've seen a lot of that in our own pipeline, and our expectation is, as we go to next year, there'll be a pretty robust opportunity set as the overall market reboots.

Tom Catherwood
I appreciate those thoughts, Matt. And along the same lines, last question for me, but if transaction activity is beginning to ramp especially for assets that need transitional loans, plus you're sitting on material liquidity, do you need to wait to get to 2025 repayment activity to start ramping new originations? Or is this something where you could in the fourth quarter or the first quarter start putting capital to work and levering up a bit, and then bring that back down as you get more repayments? Or does this really have to be match-funded as you get those repayments in '25?

Matt Salem
That's a good question. We have enough liquidity. I don't think we need to completely match these things up. I think we can probably get ahead of it a little bit. We're actively in the market today looking at transactions a little bit. We do have a big election coming up here in the next few weeks. Honestly, I'm not personally that motivated to put it out in the next two weeks. Let's see what happens with the election, any volatility around that. But certainly, from just a KREF perspective, we have the liquidity today that we could try to get ahead of it a little bit.

Tom Catherwood
Got it. Appreciate the thoughts. Thanks, everyone.

Matt Salem
Thank you.

Operator
Again, if you have a question, please press star then one. And our next question today will come from Steve DeLaney with Citizens JMP Securities. Please go ahead.

Steve DeLaney
Thanks. Hi. Good morning, everyone. I appreciate you taking the question. Look, in your comments it's clear that you're in a process of shifting from defense to offense. As we look at the loan portfolio, I'm looking at page 20 of your deck, excluding the REO, you're about $6.8 billion in commitments currently. As you look out to 2025, could that number reach as much as say, $8 billion? Do you have a figure in mind that's your fully invested loan portfolio? What would that look like from a size standpoint? Thank you.

Patrick Mattson
Good morning, Steve. It's Patrick. I'll take that question.

I think the way you should think about it is, if you think about our current portfolio today and our future funding obligations, that's probably the steady state for the equity we have today. So, I think what you should be hearing from us is that as we're getting repayments, we're going to replace those assets with new originations, so I'm not expecting a lot of change off of that number. We're kind of in our target leverage zone, so I would think about that as being absent new capital coming in, a portfolio size toward the end of 2025.

Steve DeLaney
Okay, got it. Thanks. And as far as your CLOs go, as part of this renewing the activity with lending, do you have some efficiency that you could achieve in CLO financing? I believe you're out of your reinvestment period in all of those so that they would be there in runoff mode I assume. Is that accurate that they are, and are you thinking about a new CLO as part of your refreshed lending strategy? Thanks.

Patrick Mattson
Yes, that's a great question, Steve. So, both of our CLOs just exited their replenishment periods this year, and so they were fully invested at the end of those replenishment periods. At this point, obviously any repayments de-lever us and slightly increase our cost of capital as we pay back the cheapest liabilities. But given where we sit today, it takes quite a bit of repayments to actually get us to a level that's probably unattractive from a financing standpoint.

That said, if you look at the CLO market over the last couple of months, we've seen a lot of improvement there. We've seen improvement in terms of appetite from investors, and that's driving the cost of capital down on these new CLOs. So, I expect that market to continue to provide some tailwinds overall. Sometimes the assets lead, sometimes the liabilities lead, but we're seeing tightening on the liabilities, both in terms of what Matt had referenced from the bank financing, but now also in the capital markets on the CLO side. So, as we think about over time, those CLOs becoming less efficient for us, the market is setting up well for us to be able to refinance what's left of those CLOs at some point, and then to add new collateral that we're starting to originate going into 2025.

Steve DeLaney
Great. Thank you for the comments, and it's good progress on working through and I appreciate all the color on your individual Watch List assets and the REO. That's very helpful to tell the story about those assets. I look forward to wrapping this year up, and bigger and better things in 2025.

Matt Salem
Thank you, Steve.

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

Jade Rahmani
Thank you. Just wanted to ask if you're seeing any uptick in loan portfolio sales from banks or credit risk transfers, situations like that, where perhaps KREF might participate?

Matt Salem
Thank you, Jade. It's Matt again.

On the loan portfolio sales side, it's been pretty muted still. We have not seen a lot come through that channel, and what's come through feels more sub-performing, non-performing loan. And honestly, it's less big pools than it is one-off, one or two loans at a time. So, it's not an area, honestly, we've been really engaged with. I haven't seen anything particularly interesting there.

On the credit risk transfer side, we've seen a little bit of pickup in that market. I think banks are trying to figure out how do you adapt where they've had success in more granular loan portfolios on the consumer on the resi side to commercial. Where, as we know, credits are more idiosyncratic, control is more important, and it's not as much statistical analysis around performance and losses. So, it's been interesting to watch, I would say very beginning stages, but begins to develop and it's something we'll certainly stick close to. And it's, I think, another way for the banks to come at almost like a loan-on-loan facility from an existing portfolio perspective. So, nothing large in that market yet, but certainly, conversations have begun.

Jade Rahani
Thanks a lot.

Matt Salem
Thank you, Jade.

CONCLUSION

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

Jack Switala
Well 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 is now concluded. Thank you for attending today's presentation. You may now disconnect.

COMPANY DISCLAIMER - THE COMPANY HAS NOT VERIFIED THE ACCURACY OR COMPLETENESS OF THIS TRANSCRIPT.