KKR Real Estate Trust, Inc.

Q3 2025 Earnings Conference Call

October 22, 2025, 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*

PRESENTATION

Operator
Good day, and welcome to the KKR Real Estate Finance Trust Inc. Third Quarter 2025 Financial Results Conference Call. [Operator Instructions].

I would now like to hand the conference over to Mr. 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 2025. As the operator mentioned, this is Jack Switala. This morning, I'm joined on the call by our CEO, Matt Salem; our President and COO, Patrick Mattson; and our CFO, Kendra Decious.

I'd like to remind everyone that we will refer to certain non-GAAP financial measures on the call which are reconciled to GAAP figures in our earnings release and in the supplementary presentation, both of which are available on the Investor Relations portion of our website. This call will also contain certain forward-looking statements which do not guarantee future events or performance. Please refer to our most recently filed 10-Q for cautionary factors related to these statements.

Before I turn the call over to Matt, I will go through our results. For the third quarter of 2025, we reported GAAP net income of $8 million or $0.12 per share. Book value as of September 30, 2025 is $13.78 per share. We reported a distributable loss of $2 million due primarily to taking ownership of our Raleigh multifamily property. And prior to net realized losses, DE was $12 million or $0.18 per share. We paid a $0.25 cash dividend with respect to the third quarter.

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

Matt Salem
Thank you, Jack, and thank you, everyone, for joining us today. I'll begin with a brief update on the commercial real estate lending market. The number of real estate opportunities remains robust as we enter the $1.5 trillion wall of maturities over the next 18 months. The debt markets are liquid, with banks returning to the market while increasing their back leverage lending. Despite a tightening of whole loan spreads since the beginning of the year, with lower liability costs, we are still able to generate strong returns, and we believe that real estate credit offers attractive relative value.

As lenders, we think about safety first and the ability to lend on reset values well below replacement cost, combined with decreasing new supply, creates a unique credit environment with strong downside protection. Overall, sentiment for real estate is turning positive as investors recognize the lagging values and strengthening fundamentals. We've been actively lending into this opportunity. In the fourth quarter, we expect over $400 million in originations and have already closed $110 million across the United States and Europe.

In October, we closed our first real estate credit loan in Europe for KREF, secured by a 92.5% occupied portfolio of 12 light industrial assets across Paris and Lyon, France. This transaction highlights the breadth of our platform and our ability to draw on KKR's global resources. Although this is KREF's first European loan, over the last couple of years, we have been strategically building our European real estate credit platform, establishing a dedicated team and originating over $2.5 billion to date. Through our European real estate equity business, we have strong connectivity across markets, giving us unique insight and access to opportunities that align with our disciplined approach.

Within our broader real estate credit platform, we have been actively investing across the risk/reward spectrum. Our platform lends on behalf of bank, insurance and transitional capital, targeting institutional sponsors and high-quality real estate. Our CMBS team is one of the larger investors in investment grade and B-Pieces. Across our global team, we will invest approximately $10 billion in 2025.

To support our investing activity, we built a dedicated asset management platform called K-Star, which now has over 70 professionals across loan asset management, underwriting, special servicing and REO. K-Star manages a portfolio of over $37 billion in loans and is named special servicer on $45 billion of CMBS.

Moving next to our third quarter results. We reported distributable earnings of -$0.03 per share, or distributable earnings excluding losses of $0.18 per share, compared to our $0.25 per share dividend. We set our dividend at a level in which we believe we can cover distributable earnings prior to realized losses over the long term.

We continue to see upside in our REO portfolio, where we are making progress. And as we stabilize and sell those assets, we can repatriate that capital and reinvest into higher earning assets. Therefore, there's embedded earnings power of $0.13 per share per quarter that we will be able to unlock over time.

Looking at risk ratings. We downgraded Cambridge Life Science loan from risk-rated 3 to 4, with increased CECL provisions due to the downgrade. Book value per share remained mostly unchanged at $13.78, a decrease of 0.4% quarter-over-quarter.

We are proactively managing our current portfolio of $5.9 billion. We received repayments of $480 million this quarter. Year-to-date, we have received $1.1 billion in repayments and have originated $719 million, with $400 million of originations circled in the fourth quarter. Underlying activity level remains strong, and we continue to see robust market activity. In 2026, we expect greater than $1.5 billion of repayments and expect to continue to match repayments with originations.

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

Patrick Mattson
Thanks, Matt. Good morning, everyone. Thanks to strong investor demand and close coordination with the KKR Capital Markets team, we successfully upsized our Term Loan B by $100 million to $650 million, which now has approximately 6.5 years remaining until its 2032 maturity. The loan repriced 75 basis points tighter, reducing the coupon to SOFR plus 250 basis points and locked in more efficient funding.

During the quarter, we also upsized our corporate revolver to $700 million, up from $610 million at the beginning of the year. With continued momentum for repayments and the Term Loan B upsize, we ended the quarter with near record liquidity levels of $933 million, including over $200 million of cash, plus our $700 million undrawn corporate revolver. Our overall financing availability sits at $7.7 billion, including $3.1 billion of undrawn capacity. Importantly, 77% of our financing is non-mark-to-market, and KREF has no final facility maturities until 2027 and no corporate debt due until 2030.

In the quarter, we continued our share repurchases totaling $4 million, representing a weighted average price of $9.41. Year-to-date, we have repurchased $34 million for a weighted average price of $9.70. And since inception, we have repurchased over $140 million of common stock. We remain committed to deploying capital through buybacks as well as new investments. Overall, our liquidity position gives us meaningful flexibility to manage the portfolio, stay on offense and take advantage of new opportunities. We're encouraged by the market backdrop and momentum we're seeing.

Turning to our watch list. Our current portfolio has a weighted average risk rating of 3.1 on a 5-point scale. Our total CECL reserve at quarter end is $160 million, representing around 3% of the loan portfolio. Over 85% of the loan portfolio is risk-rated 3 or better. And as of the third quarter, our debt-to-equity ratio is 1.8x and total leverage ratio is 3.6x, consistent with our target range.

Now turning to our REO portfolio. We took title to the Raleigh multifamily loan, which is already appropriately reserved for, and therefore, no additional impact on book value. Our business plan is to invest additional capital into the property to enhance the amenity base, improve operations and reposition the asset for sale.

On our Mountain View, California office, the market continues to heal, with leasing demand picking up. And as mentioned last call, we're actively responding to tenant requests for proposals. Given our asset offers the tenants the ability to have a full campus setting and control their amenities and security perimeter, we believe positioning for a single user is the optimal strategy.

On our West Hollywood asset, we launched a condo sale process last week and are focused on executing our sales strategy. Finally, on our Portland, Oregon redevelopment, our entitlement process is progressing, with final entitlements expected in the first half of 2026, giving us the ability to unlock value and return capital through parcel sales.

In summary, we see significant opportunity ahead. Our origination pipeline continues to build. We remain focused on optimizing our REO portfolio, working through the watch list and redeploying capital efficiently as we position the business for its next phase of growth.

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

QUESTION AND ANSWER

Operator
[Operator Instructions] And your first question today will come from Tom Catherwood with BTIG. Please go ahead.

Tom Catherwood
Thank you and good morning everybody. Maybe Matt or Patrick, help us triangulate something here. So there's kind of two ways to view the lower leverage and higher liquidity that you had going into the end of the third quarter. One is like a defensive positioning to kind of bolster the company against headwinds. Or the second one is really a timing issue where if a couple of originations had closed a week or so earlier, it might look very different from the level of the distance between repayments and originations, and it might be a very different story. Which is the case here? Is this just timing? Or could we see further deleveraging and further liquidity building as we get through the rest of this year?

Matt Salem
Okay. Sorry about that, everyone. We are down in our Dallas office and had a new system here and just had some technical difficulties, but I think we're working now, so we'll jump back in. And appreciate everyone joining. Tom, thank you for the question.

It's really the latter. I'd say it's just a timing issue, and it's really related to two things. I'd say the first one, just when you think about repayments, one of our repayments this quarter just happened to be a larger repayment. It was actually the largest loan in our portfolio repaid. It was a multifamily property just outside of Washington, D.C. that got taken out by the agencies on a refinance. And so that is a relatively large single repayment.

And then secondly, when you think about our originations this quarter -- I think we mentioned this in the prepared remarks -- a bunch of our originations just happened to be in Europe. And those take a little bit longer to close. Just the closing timelines are somewhat elongated in Europe versus the U.S. And so that's why you see the bigger pipeline, I think, in the fourth quarter and a little bit of a slower originations and closings, I'd say, in the third quarter.

So just timing. We haven't really changed our strategy at all and certainly expect to continue to invest and originate in line with our repayments. And right now, we're at the lower end of our leverage ratio so we've got the ability to kind of take that up and grow the portfolio back to where we were before.

Tom Catherwood
That's perfect. And maybe just following up on that and thinking of the cadence of earnings, and you talk about the lag between receiving repayments and putting that capital back to work. And also, you mentioned, I think it was greater than $1.5 billion of repayments that you're expecting in 2026. Could that lag take us lower from an earnings front for a longer period of time just while you put that capital back to work? Or are there some other levers you can pull to boost distributable earnings as you're repatriating and redeploying capital?

Matt Salem
No, I wouldn't look at it like we're always behind. I think some quarter like this quarter, obviously, we got a little behind. And again, just kind of due to the timing of those closings, but I think other quarters, we'll be ahead, you can see us getting ahead of it a little bit. So, you can't time the repayments, right, and you can't necessarily time the closing dates of your originations. So there's just a little bit of ebb and flow that happens naturally in the business. But I wouldn't necessarily like model anything like we're always waiting for a repayment to come in before we originate so we're 45 days behind. I think there's just a little bit of give and take in the overall investing profile.

Tom Catherwood
Understood. And then last one for me. We've had a number of lab space owners this past quarter that have noted an early-stage rebound in demand from smaller Life Science tenants looking for space kind of following an upturn in VC funding over the past 12 months. In terms of the four assets in your Life Science loan portfolio that remain 3 rated, how are they proceeding on their business plans? And are you starting to see that at least early-stage recovery in tenant demand?

Matt Salem
I think we're starting to see green shoots from the sponsors, right, in some of the commentary about leasing. And I'd say we've got, honestly, a little bit of a mix. Most of our assets that we've lent on are more -- the tenants are going to be larger pharma companies and not necessarily

some of the smaller VC-funded ventures. But we are starting to see a little bit of pickup in that sector.

And again, we're long term, like we're pretty positive on that sector. I certainly understand it could be cyclical, both from a capital perspective and certainly some of the things you see going on at the NIH and things like that. But I'd say over the medium to long term, I'd say we're still pretty positive on the overall sector.

Tom Catherwood
Got it. Appreciate all the answers. Thanks, everyone.

Matt Salem
Thank you.

Operator
And your next question today will come from Jade Rahmani with KBW. Please go ahead.

Jade Rahmani
Thank you very much. I wanted to follow up on Tom's question. Can you give an update as to the state of dialogue with the sponsors across the Life Science deals? And then on Cambridge, if you could touch on what drove the downgrade?

Matt Salem
Yes, Starting with the last question. What drove the downgrade was we've entered negotiations and modification negotiations with that sponsor. And so it was really as it related to those discussions.

And then I think on the other -- the three rated loans, Jade, there's no other really discussions happening. It's just a normal course. We're getting leasing updates and any property level financial updates. But really, no other kind of detailed conversations happening at this point in time.

Jade Rahmani
Thank you. And then broadly speaking, have you done an NPV analysis comparing the cost and benefit of waiting on these deals as well as any other sub-performing deals versus selling down the exposure, taking that capital and reinvesting in the current uptick in deal flow that we're seeing, which that would drive stronger distributable earnings and eventually, dividend growth more near term than perhaps the market expects?

How do you view the trade-offs versus waiting? Since I think that the Life Science recovery is quite nascent at this point, so for at least that sector, it's probably going to be a while before these buildings get to stabilized occupancy.

Matt Salem
Yes. It's a great question. And it's something that I'd say we look at every quarter. It's something that we certainly discuss with the Board in terms of portfolio positioning and specifically, Jade, as it relates obviously to the REO, which is directly impacting our earnings. And as we liquidate that, obviously, we can redeploy that capital and increase our earnings, which we talked about on the last few calls. And so it's something we're consistently looking at.

When you look at where we've decided to hold things and I'm talking more about the REO because that's really the biggest impact right now. It's really around quality. And we feel like we've got quality real estate and our job as fiduciaries is to maximize the outcome there. And if we've got a great asset, we think it's going to lease over time and we'll be able to optimize the value.

But we definitely look at NPVs and we look at what's that IRR and is it better to sell today and redeploy capital now versus holding out. But so far, I think we've been right to kind of be patient. And certainly, when you think about things like our office in Silicon Valley, that market has come back significantly and we're seeing real leasing demand in that market.

So to be patient, wait, quality asset, let's get a tenant and then we can evaluate liquidity options. And I think that strategy has -- will work out over time. But we have to continuously evaluate this because I know that we don't have forever, that we need to execute and we need to repatriate some of this capital.

Jade Rahmani
Thanks very much.

Matt Salem
Thank you, Jade.

Operator
And your next question today will come from Rick Shane with JPMorgan. Please go ahead.

Rick Shane
Hi, guys. Thanks for taking my question. Looking back last quarter, there was commentary about $1 billion of repayments in the second half, it seems like you're on track with that. And I think the implication, at least the way we interpreted it was that, that capital would be redeployed and suggested sort of, again, not -- we didn't fully assume this, but targeting towards that $1 billion in reinvestment.

Should the way we think about this be there's a one quarter lag, you get the repayment in quarter 1, you're able to redeploy it in quarter 2, you get repayments in quarter 2 that are redeployed in quarter 3? Should we see this as sort of the $1 billion of repayments in the second half of this year manifesting into Q4 and Q1 originations close to $1 billion?

Patrick Mattson
Hi, Rick, it's Patrick. Good morning. Yes, thanks for that question. I think as Matt was sort of referencing a little bit earlier, I think the goal is to sort of match up the repayments, minimize some of the timing that happens between repayment and origination. That always -- when we snap the line at quarter end, that always won't sort of match up. But we think over time, there's going to be some quarters where we get a little bit ahead of that. And if you think about our liquidity position today, we certainly have ample capital to be able to do that.

And so there are going to be some quarters where we're ahead of it. Maybe there are some quarters that we're behind it. But on balance, we should think about as we're getting those repayments, they're going to be matched. And our goal effectively is to minimize some of that drag because ultimately, we want to optimize what we can return to shareholders in terms of earnings.

Rick Shane

Got it. Yes. I mean, I think the thing that confuses me about it is I understand the difference between a deal closing on September 30 and October 1. From your perspective, it's a day. From an accounting perspective, it's very different. You've talked about $400 million of originations this quarter. I think what surprises me is given the lag in 3Q originations, again, not a big deal. But that Q4 pipeline doesn't look bigger given that sort of timing issue. I think that's what's confusing people a little bit here today.

Patrick Mattson
Understood. Thanks. Yes, I think -- look, as we think about the fourth quarter, obviously, a lot of that will be front ended in the quarter in terms of the originations. The year is not out. The pipelines are still very active. I think we've been focused on being disciplined around deployment, focused on diversity. So when you look at these asset sizes, they'll reflect that.

Obviously, Matt mentioned some of the activity that we have in Europe. But as I said, our goal is to continue to deploy capital. I suspect that if things continue to proceed as they are, going into year-end and into first quarter, we continue to see build for that origination pipeline. And we have a good idea of what we expect to come forth in the next two quarters. And I think we're preparing to match that up and to close some of that gap.

Rick Shane
Got it. Okay. Thank you. And then the other question is this. And Jade's touched on this and -- but if we look at the current ROE, it's about half of what you need to support the dividend as it exists today. Obviously, resolving challenged properties and challenged loans is the key to that. Realistically, how long do you think it takes for you to be able to double that ROE to put yourself in a position where -- and again, there are all these different earnings metrics, but at the end of the day, this really is an NII issue? How long do you think it really takes to get there?

Matt Salem
Yes, I can jump in there, Rick. It's a good question and certainly something we think about a lot. In my mind, we kind of bucket the REO into three timelines. One is like near term, 12 to 18 months. Medium term, maybe that's 24 or so months, 24 to 36 months, and then longer term. And I'd say about half of that, we think we can get back in the near term, and that's concentrated on things like our Portland, Oregon asset, which we should be fully entitled and in the market with next year on an individual parcel basis.

The West Hollywood condo, which Patrick mentioned, we're in the market now live selling or offering units there. The Raleigh, North Carolina multifamily deal, which is largely stabilized, and we're doing a little bit of value add there, but can kind of execute on that in a short amount of time. And then the Philadelphia office, there's kind of one or two leases outstanding that we're working on and then effectively sell that as well.

So if you put those together, that's really the short term. And again, it's about half of that number so we can get that back more quickly. I'd say in that medium-term bucket is the Mountain View asset. As I mentioned to Jade, we're making good progress. The market is really coming back there, and we're kind of actively engaged there with tenants. So I'd put that more in the medium term, although we could have something happen there shorter than that, but then there would be a business plan to execute if we were able to sign a lease there in terms of just tenant improvements and CapEx, etcetera.

And then lastly, I kind of put the Seattle, Washington Life Science and just given where Life Science is, we'll see that market come back quickly. But just given where we're seeing there, we did execute a pretty important lease on that asset, so we're pretty happy about that. But it could take longer to fully stabilize that asset.

Rick Shane
Matt, Patrick, I really always appreciate your willingness to try to dimensionalize the answers to these tough questions, and I appreciate it a great deal. Thank you, guys.

Matt Salem
Sure, thank you.

Operator
And your next question today will come from Chris Muller with Citizens. Please go ahead.

Chris Muller
Hi guys, thanks for taking the questions. So it's nice to see you guys branching out into Europe. Can you contrast some of the EU loans versus U.S. loans? I guess what I'm looking for is are terms similar, returns similar? Any color here would be very helpful.

Matt Salem
Sure. Yes. Thank you for the question. Let's start with how they're similar, and then we can think about how they're different. I'd say from a quality of real estate perspective, from a sponsorship perspective, it's the same program we're running in the United States. This is institutional quality real estate and sponsorship. And in fact, a lot of the clients we lend to in Europe are the exact same clients we're lending to in the U.S. and so it's nice to have that global connectivity there.

I'd say the opportunity set there is a little bit different than what we're seeing in the U.S. The loan sizes tend to be a little bit bigger. There tend to be more portfolios where we're -- and then also, I would say, multi-jurisdictional is an opportunity as well. It's a heavily banked market. So contrast, think about Europe as like 80% of that market is banks, whereas in the U.S., it's around 40%. And the back leverage there, structurally, I think, is a little bit more advanced in our favor than what we're seeing in the U.S.

From a whole loan perspective, spread-wise, now you're talking about different base rates, obviously, between the U.K. and EU. But I'd say overall, spreads on whole loan and then the ability to back leverage and generate ROE are largely in line with the U.S.

From a relative value perspective, I think it's pretty balanced right now. Although we've been lending there for a few years now, it has not always been like that. I'd say two years ago, we probably saw a lot more opportunities and relative value in Europe versus the U.S. But now as the U.S. activity has picked up materially, it's probably a little bit more balanced. But ultimately, I think, the ROEs are really about the same between the U.S. and Europe right now and that's on a hedged U.S. dollar basis.

Chris Muller
Got it. That's all very helpful. And I guess on the Long Island multifamily loan you guys originated this quarter, is this ground-up construction? And then are you guys looking at heavier transitional projects now or was this more of a one-off type loan?

Matt Salem
It is ground up. Yes, it's a ground-up construction to a repeat sponsor who we've lent to a couple of times now on construction projects. We know them well and we think they do a great job and

build a really high-end product. So it's great to be able to sign that one up with a repeat sponsor there. I don't think we've really changed the DNA of what we want to do. We've always had a small percentage of construction in the portfolio and we'll continue to do that. We think there's some relative value in that sector.

The bulk of the opportunity of what we're seeing right now is what I still refer to as like almost stabilized versus transitional lending. I still think that there's like stretch -- the opportunity around the market is really around stretch seniors, where it's like a 70% LTV, mostly leased assets. And so that's where we've been participating. We think that's where there's the most relative value. We'll look at projects that have a larger business plan. But just from a relative value perspective, again, like it seems like the kind of almost stabilized lending just offers a better investment right now.

Chris Muller
Got it. It's all very helpful. Thanks for taking my questions.

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

Jade Rahmani
I wanted to ask about the platform overall. I know you mentioned you're in Dallas with K-Star. And you all have a servicing operation, quite substantial. You buy B-Pieces. So, a nice complement to that could be the CMBS conduit business, which is capital light. And I think the securitization outlook seems quite healthy, given that the regional banks still continue to pull back. Any interest in that?

And then another follow-up would just be on the special situation side, if you see any opportunities to combine with another either public or privately held mortgage REIT. You know, I think scale is a huge differentiator across the real estate landscape. We see huge premiums between market cap ranges in all real estate sectors.

And I think it's clear that having gone through this cycle, there's also a big differentiator in the commercial mortgage REIT space. So you could combine stock-for-stock or NAV for NAV transaction gain scale, and that probably would help with consistency of dividend. So, could you just respond to those two items? Thanks very much.

Matt Salem
Sure, Jade. Thank you again for the question. First on the CMBS side, it's something we've looked at. We have the expertise, I think, in-house to do that, whether it's from the credit or the origination side or, you know, some of us have backgrounds in that business and capital markets.

I think right now, no real plans to begin a CMBS originations business. I think the one thing that is a real consideration for us is it doesn't really overlap with our client base for the most part. And I think about -- we're lending in major markets to institutional sponsors, and that tends to be a more diverse set of borrowers and end markets. So we'd have to probably change a little bit of the way we're oriented. And I'm not sure that's in our kind of credit DNA to do that. But we'll continue to evaluate it as I think as the market evolves.

On the M&A question, I would say we continue to look at opportunities as they arise. I think there'll be consolidation in the industry over time. We'd like to grow not for the sake of scale for scale sake, but to have a more liquid stock, as you mentioned, I think would be able to attract more shareholders and create a better cost of capital.

And as we've discussed, we want to try to do things that also give us the ability to diversify our portfolio. And moving into Europe is one of those things, but also potentially adding duration to the portfolio. So we're going to continue to evaluate opportunities that are on the table, but there's nothing we're looking at currently.

Jade Rahmani
Thanks very much.

Matt Salem
Thank you, Jade.

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
Well, great. Thanks, operator. Thanks, everyone, for joining today. Please reach out to me or the team here if you have any questions. Take care.

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