KKR Real Estate Finance Trust, Inc.

Q4 2022 Earnings

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CORPORATE PARTICIPANTS

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Matt Salem - *Chief Executive Officer*

Patrick Mattson - *President and Chief Operating Officer*

Kendra Decious - *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to the KKR Real Estate Finance Trust Inc. Fourth Quarter 2022 Financial Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

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

Jack Switala
Great. Thanks, operator, and welcome to the KKR Real Estate Finance Trust earnings call for the fourth quarter of 2022. As the operator mentioned, this is Jack Switala. Today, I'm joined on the call by our CEO, Matt Salem; our President and COO, Patrick Mattson; and our CFO, Kendra Decious.

I would like to remind everyone that we will refer to certain non-GAAP financial measures on the call which are reconciled to GAAP figures in our earnings release and in the supplementary presentation, both of which are available on the Investor Relations portion of our website.

This call will also contain certain forward-looking statements which do not guarantee future events or performance. Please refer to our most recently filed 10-K 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 fourth quarter of 2022, we reported GAAP net income of $14.6 million, or $0.21 per diluted share, including a CECL provision of $21.2 million, or $0.31 per diluted share.

Distributable earnings this quarter were $12.4 million, or $0.18 per share, including a write-off of $25 million, or $0.36 per share. Distributable earnings prior to realized losses were $0.54 per share relative to our Q4 $0.43 per share dividend, driven largely by the higher rate environment.

Book value per share as of December 31, 2022 was $18.00, a decline of 1.5% quarter-over-quarter. Our CECL allowance decreased to $1.61 per share from $1.66 per share last quarter. Finally, in early December, we paid a cash dividend of $0.43 per common share with respect to the fourth quarter. Based on yesterday's closing price, the dividend reflects an annualized yield of 10.9%.

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

Matt Salem
Good morning, and thank you for joining us today. Before turning to the current market and company results, I'd like to reflect on KREF's achievements during 2022. Despite a very challenging environment, we made significant progress enhancing our liquidity and diversifying our already best-in-class non-mark-to-market liabilities.

In 2022, we optimized and diversified our financing sources, and as a result sit on record levels of liquidity. Last year, we added $2.5 billion of non-mark-to-market liabilities. Notably, we increased the borrowing capacity on KREF's corporate revolver by $275 million to $610 million and extended the maturity date through March 2027. This revolver is a key contributor to our nearly $1 billion in liquidity as of year-end.

77% of our secured financing as of year-end was completely non-mark-to-market, and the remaining 23% is only mark-to-credit. In addition, we have $1.9 billion of CRE CLO liabilities that are priced at attractive spreads and still in their reinvestment periods.

In 2022, we grew our permanent equity base by 15% to $1.6 billion. We raised approximately $150 million of preferred equity at a 6.5% fixed-for-life coupon. We completed two public offerings of common stock, resulting in net primary proceeds of $188 million.

KKR reached its target long-term hold position of 10 million shares, representing 14% of our shares outstanding, resulting in market-leading alignment between KKR and KREF. Equally as important was our disciplined approach to buying back shares when KREF traded below book value.

In 2022, we repurchased 2.1 million shares for nearly $36 million. Since our May 2017 IPO, KREF has repurchased nearly $100 million of stock. I cannot overstate the impact of our partnership with our manager, KKR, and the strength of our real estate platform. KKR's integrated real estate business provides us with a robust view of the current operating environment, which has become more dynamic over the past few quarters as the Federal Reserve has embarked on a virtually unprecedented pace of interest rate increases.

This broader real estate platform collectively manages over $64 billion of AUM and has grown by approximately 60% since the end of 2021. For example, KKR's real estate private equity team owns or manages over 90 million square feet of industrial assets and over 30,000 multifamily units globally.

We are able to draw on real-time data and market intelligence from this property portfolio, which informs our investment decisions as a lender. The KKR Real Estate Credit business is substantial in its own right, with $30 billion of assets under management and a dedicated team of 66 at year-end 2022, with 9 senior investors responsible for over $10 billion in originations.

As a reminder, KREF is KKR's flagship senior transitional CRE lending strategy and holds a first priority position within the allocation waterfall. This team originated $2.7 billion on behalf of KREF in 2022 across 25 loans, concentrating our efforts in the growth property types, with nearly 70% secured by multifamily and industrial properties and another 22% secured by life science properties.

Our focus on lending to institutional sponsors on high quality real estate and growth sectors and markets has positioned us well to navigate the current environment. Our largest property type is multifamily, which represents approximately 45% of the overall portfolio. We continue to see strong performance across that segment, with median same-store rental rates up 12% in the portfolio from the fourth quarter of 2021 to the fourth quarter of 2022.

That said, and as we discussed last quarter, the office sector remains challenged, with little liquidity across both debt and equity. Our underweight in office will benefit KREF on a relative basis. We are diligently working through our watch list office loans. Our first preference is to work with our existing sponsors. However, many properties will require additional capital and sponsors will need to demonstrate commitment to the asset with additional equity. We are not in the free option business. And our mindset is to deal with any issues now, and not to kick the can down the road with a sponsor who is not economically incentivized to lease at current market rates.

Fortunately, we have many tools at our disposal to optimize these outcomes, including taking title and operating assets until liquidity returns. We're also in a position to be proactive with our borrowers and work towards faster resolutions because we have high levels of liquidity at the corporate level.

Turning to earnings. The high interest rate environment continues to be a tailwind for our distributable earnings. In 2023, we expect the portfolio to turn over modestly, and we will continue to match originations with repayments. We expect repayments for 2023 to be approximately $1 billion, weighted to the back half of the year. As we navigate this new year, we're very well-positioned with a strong portfolio, best-in-class liabilities and record levels of liquidity.

Lastly, I want to take a moment to thank Todd Fisher, who resigned from the KREF Board of Directors earlier this month to accept a position with the United States Department of Commerce. Mr. Fisher has been an integral part of our team since KREF's inception and we thank him for his thoughtful guidance in steering the company. We wish him well in his future endeavors.

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

Patrick Mattson
Thank you, Matt. Good morning, everyone. I'll focus today on our efforts on the capital and liquidity front and provide an update around our CECL reserve and watch list loans. In 2022, with the continued help of our partners in KKR Capital Markets, we added $2.5 billion in non-mark-to-market financing. In the public capital markets, we closed a $1 billion managed multifamily CLO earlier in the year, providing KREF with $848 million of non-mark-to-market and non-recourse financing in a two-year reinvestment period.

In the private markets, we closed on a term lending agreement totaling $350 million with an option to increase the facility to $500 million and entered into three new asset-specific financing facilities, totaling nearly $500 million. We also increased the borrowing capacity of an existing $500 million term lending agreement to $1 billion.

Finally, we increased our corporate revolver by $275 million to $610 million and extended the maturity date through March 2027. Of the $2.5 billion in total capacity added this year, two-thirds is truly bespoke liabilities. The resiliency of our financing structure, coupled with our independence from the public capital markets, is a true differentiator. It buffers KREF on the liability side during times of capital markets volatility.

KREF is well-capitalized today, and continuing to preserve flexibility in today's market environment. Our debt-to-equity ratio was 2.0x, and our total leverage ratio was 3.8x as of quarter end. Our approach to managing the balance sheet allows us to start 2023 with a record level of liquidity in excess of $950 million, including our $610 million undrawn corporate revolver, and $240 million of cash. Additionally, at quarter end, KREF had $180 million in unencumbered senior loans on the balance sheet. We're maintaining our defensive posture with a focus on managing liquidity.

This quarter, we recorded a $4 million net decrease in our CECL reserve of $115 million to $111 million or 147 basis points based on the funded loan portfolio. Similar to our commentary in Q3, nearly half of our total CECL reserve remains held within our 5-rated loans. Additionally, as we noted last quarter, the CECL reserve is unrealized and non-cash. We would recognize a loss through our cash metric of distributable earnings, if such amounts are deemed non-recoverable, as we did this quarter.

Turning to the watch list, in December we finalized a plan to modify a $161 million senior office loan, previously risk-rated a 4, located in Philadelphia. As part of the modification, KREF agreed to subordinate $25 million of our senior loan in the form of a junior mezzanine loan, in return for a $25 million principal repayment from the sponsor. The principal repayment is structured as a new senior mezzanine loan and reduces KREF's mortgage exposure to $111 million. At year-end, the loan was risk-rated a 5. However, following the execution of the modification in January, the new senior loan was upgraded to a risk-rating

of 3.

In addition to the $25 million pay down, the sponsor committed to fund an additional $16.5 million for future capital expenditures and leasing costs, which would bring the total senior mezzanine loan balance to $41.5 million fully funded.

The subordinated hope note is structured as a junior mezzanine loan and does have priority of cash flow once the senior mortgage and senior mezzanine loans are fully repaid with interest. KREF wrote off $25 million of the loan balance in Q4.

Regarding our other two risk-rated 5 loans, there are sponsor-led sale processes in progress, and we are maintaining an active dialogue with these sponsors. With the Minneapolis loan, we executed a short-term extension to facilitate the sale process. And for the other Philadelphia loan, we have an initial maturity date in May of this year.

With regard to the broader portfolio, 88% of our loan portfolio remains risk-rated 3, and we collected 100% of scheduled interest payments across the portfolio in Q4 and through the first payment date in 2023.

A few final comments. KREF finished 2022 strong, with a $7.9 billion total funded portfolio representing a 17% year-over-year increase. We originated three senior loans in Q4 for a total of $370 million and sourced and closed a $125 million asset-specific financing.

Finally, we repurchased approximately 500,000 shares of common stock in Q4 at a weighted average price per share of $16.41 for a total of over $7.4 million. Over the last three quarters, we've been opportunistic in utilizing our share repurchase program, with 2.1 million shares repurchased in 2022 for a total of $36 million. Additionally, this month the Board reauthorized a $100 million buyback program.

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

QUESTIONS AND ANSWERS

Operator
And our first question will come from Don Fandetti of Wells Fargo. Please go ahead.

Don Fandetti
Hi, good morning. Obviously office continues to be a pressure point. Can you talk a little bit on how your borrowers are handling the higher rate environment? Are you making modifications? And just talk a little bit about your expectations. I would assume that there'll be more reserve building on your office portfolio as we go forward through 2023?

Matt Salem
Sure, Don, it's Matt. Thank you for the question today. I appreciate you joining the call. I'd say specifically, let's start at the interest rate environment right now, certainly putting a lot of pressure on the overall system. However, borrowers do have interest rate caps in place. And so, they're not fully exposed to current SOFR, or current LIBOR, if we haven't converted it over yet. And then clearly, as those interest rate caps expire, typically at the initial maturity date of the loan, they are required to re-up those interest rate caps and buy a new one. And that's really when the conversations take place around potential modifications on the loan. It's another opportunity for us to take a look at the credit and understand where we are and add any other structural features that we want.

And we've been working with our sponsors in terms of giving them some flexibility on their interest rate caps. So for instance, if an interest rate cap requires a two-year term or requires a very low strike, accommodating them to either a shorter duration or a little bit higher strike in return for typically cash reserves that we would hold for future interest rate cap purchases, et cetera. Yes, so we want to work with them and help alleviate definitely pressure points as it relates to that, but it's typically in return for some type of other consideration within the loan document.

As it relates to further build up on office in terms of our reserves, we go through the portfolio every quarter, and where we stand now, we feel comfortable with the reserves. It is a very robust process. I think we're eyes wide open. You've seen us be very transparent and pretty front-footed as it relates to not only increasing reserves, but as you saw this quarter, modifying loans and trying to get to the other side and create the right basis for us and for sponsors so that they can lease in what's a difficult operating market for office. So feel comfortable right now with where we stand on the reserves, and we'll just have to see what the future brings in terms of how we're positioned elsewhere.

Don Fandetti
Thanks.

Operator
Our next question comes from Rick Shane of J.P. Morgan. Please go ahead.

Rick Shane
Thanks, everybody, and appreciate you taking my question this morning. Look, one of the few places where GAAP and tax diverge is related to realized losses. So, to the extent you did realize a GAAP loss of $25 million, I'm curious if you believe that it's met the threshold from an IRS or tax perspective as well. And then, if you could talk specifically about, because it occurred in the fourth quarter, but perhaps the tax loss might be realized in 2023, how we should think about the timing and how that falls?

Kendra Decious
Sure. Thank you, Rick, appreciate you joining and appreciate the question. You asked about the write-off that we incurred in Q4 and that $25 million write-off will be a taxable event in the year the modification closed, which was 2023. Maybe pulling the thread on this a little bit, the sum of our quarterly dividends paid in 2022 plus borrowing part of the dividend that was paid in January 2023 and the throwback dividend concept is a practice that's allowed under the REIT rules and that we've used in the past, means that we are fully distributed for 2022. And so, there is no special dividend that would be required.

Rick Shane
Got it. No excise tax, or anything that we need to think about in that regard?

Kendra Decious
That's right. We met all of those thresholds. That's correct.

Rick Shane
Terrific. Thank you very much.

Kendra Decious
Thank you.

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

Stephen Laws
Hi, good morning. Patrick, I guess I'll point this to you, since you mentioned it in your comments. About, I think, half the reserves are related to the 5-rated loans. As we think about that, and kind of pair it with Matt's comments that you're going to focus on resolutions quickly and not kick the can down the road, how do we think about those moving from specific losses into realized losses and running through distributable earnings over the course of this year?

Patrick Mattson
Stephen, thanks for the question. So, if you look at our reserves, as we said, about half of the 5-rated loans, or about half the reserves are attributed to the 5-rated loans. If you look at the asset where we had the write-down in the fourth quarter, we realized the write-down of about 16% against a balance. And coincidentally, the reserve that's held against those 5-rated loans is pretty close to that number. We're obviously working through each of these loans individually, all of the 4s and 5s that are on there are going to have potentially different levels of loss content. Not every 4-rated loan is a loan where we think there's a high degree of loss. Some of the 4-rated loans are on there as a reflection of the fact that we think there's a near-term catalyst or a near-term event that may lead to a modification. So hopefully that addresses what you were asking.

Stephen Laws
Yes. I guess to take half of the $111, so, if you're looking at $55 million, will we see all of that run through a loss, assuming you're reserved at the appropriate level for the assets, resolved or monetized? Just trying to think about the timing of when that's going to hit. Is that a this year event? Is it early next year? How do we think about the timing of those monetizations or realizations?

Patrick Mattson
Yes, sure. I think the timing is difficult to forecast here. And clearly, with those 5-rated loans that we talked about, there's processes in place to get to some form of liquidation event. So, not unreasonable to think that we could see some realization over the course of this year. I think the bigger question probably is just related to the quantum there. We feel good about where we're reserved, but clearly in this market, the realized amounts could come in greater or less than what we've set aside.

Stephen Laws
Yes. Thanks, Patrick. And moving to the financing side on these loans, can you talk about how the watch list loans are financed? And if that is financing exposed to credit markets, how those discussions are going with counterparties as you work through these watch list loans?

Patrick Mattson
Sure. There's a little bit of a disconnect between necessarily what's on a watch list and whether the loan is performing. As we've indicated, we collected 100% of our interest payments through last year, and the first payment date of this year. So, the real driver, especially on these non-mark-to-market facilities, is: is the loan current? And in fact, all of these loans are current. So there isn't really much concern in the immediate term as it relates to those loans. Obviously, as we get to maturity dates, or we need further modifications or restructuring, that's when we're going to have a more in-depth conversation with our lenders. I would say those conversations have been constructive to date, as we've worked through some of the loans. The asset that we had a write-off in the fourth quarter, that was not on a financing facility. That was unlevered. But post now the modification of that loan, that loan is a loan that we can finance on any number of facilities. But I would say that the conversations have been constructive. And we have an opportunity to kind of work through and get runway where needed.

Stephen Laws
Great. Appreciate the comments this morning, Patrick.

Patrick Mattson
Thank you, Stephen.

Operator
Our next question comes from Jade Rahmani of KBW. Please go ahead.

Jade Rahmani
Thank you very much. I wanted to ask, in terms of your quarterly interest income, do you know what percentage of that is funded out of interest reserves that are structured upfront as part of the loans?

Matt Salem
Hey, Jade, this is Matt. I can jump in there. I don't have that number right in front of me right now. It's not abnormal, obviously, for us to have reserves or recourse obligations to guarantees to fund interest payments, just given the nature of the business plan and lease up, et cetera, but don't have the exact number in front of me.

Jade Rahmani
Okay. But is that an issue in terms of any shortfall in performance and pressure from elevated interest rates, the exhausting of those reserves in coming quarters?

Matt Salem
It comes back down to value at the end of the day. So, you look at most of our portfolio is in these growth sectors, and the value there has held up well and the fundamentals are really strong. So, I kind of put this in the same bucket as interest rate cap discussions. As those expire, there's a lot of value behind these loans and the sponsors re-up and come out of pocket and buy the next interest rate cap. So, lots of times our reserves are set to accommodate for interest at the cap, et cetera. But to the extent they're not, I wouldn't expect a lot of pressure there. I would just expect the sponsors to re-up on the reserve.

Jade Rahmani
Thank you very much. On the multifamily credit outlook, it was somewhat surprising to see the downgrade on the West Hollywood asset. I was wondering if you could talk to your overall expectations for that sector? It's definitely been a resilient sector in past cycles. However, the early 90s did see credit issues, and CMBS throughout time has always had credit issues in multifamily. This time around we do have a record level of units under construction, disproportionately concentrated in the growth markets and then a lot of deals done at very low cap rates, which would have pressure from valuation as well as interest rate caps. So what would be your outlook in terms of multifamily credit performance?

Matt Salem
Yes. I think we're still, I think very favorable outlook on multifamily credit performance. Clearly values have come down a little bit, too, and cap rates have increased just to accommodate the higher cost of capital and the current interest rate environment. On the occupancy side, the market is still operating it at basically all-time highs. And we're still seeing pretty favorable rent growth, although it's come down a fair amount. As we reported, just on this call, just in our KREF portfolio, rents were up on a same-store sales basis 12% year-over-year, from fourth quarter of 2021 to 2022. And I expect that to continue to come down, and my guess is across a broader set of assets, that's probably in the high single-digits today, by the way, which I still think is very, very healthy and the Fed’s activity is obviously having some impact on that, which is probably a net positive for the whole market.

In terms of supply, agree, there is a wave coming out right now. And I think that'll impact some of these

local growth markets. But at the end of the day, all these markets are under-housed. And so, it really is just a short term phenomenon in terms of the market digesting those new units. And keep in mind, there's very little behind that. There hasn't been a lot of new construction financing available in the market over the course of the last six months or so, and certainly not readily available today, either. So you're going to have a little bit of a blip, probably as the market goes through that. And then, it should be a pretty favorable setup after that, with the new supply really tapering off.

So I would say overall, still very constructive on that market, and haven't really seen any material signs of deterioration there.

Jade Rahmani
Thank you very much.

Operator
Our next question comes from Eric Hagen of BTIG. Please go ahead.

Eric Hagen
Hey, thanks. Good morning. I'm curious how you think your appetite for risk maybe changes as a result of raising your reserve. Should one expect the parameters for your target assets to necessarily change? And is there a threshold for further reserve? Where it does begin to change your risk parameters more meaningfully?

Matt Salem
And Eric, you're speaking about these new loans that we're making in terms of how we're evaluating like the current market, et cetera.

Eric Hagen
Exactly. Yes.

Matt Salem
Well, yes, let’s start there. Number one, it's a very lender friendly market right now. You've got large participants completely on the sidelines and commercial banks are still not actively lending in the market. Loan-to-values have come down a fair amount. Obviously, the V in that equation is down with the current interest rate market. So, we like the market right now. We think it's very attractive. And you could see what we did last year, the vast majority of our lending activity was in multifamily industrial sectors, which we still believe in the fundamental backdrop there, as I just described with Jade.

I don't think that really like what we're looking at like, or reserves or things like that are really impacting how we're thinking about making a new loan or what we would focus on. Some of it does come back to liquidity. And we are, as you saw in our report, at pretty high levels of liquidity right now. And I think that's more of a function of just the market uncertainty and the volatility that we're seeing in the market, and just making sure that we've got plenty of excess liquidity to deal with any issues that may come up. And I think it's a little bit less about reserves. But one of the reasons why we've been so front-footed and trying to work out some of these loans, and you saw the modification we did this past quarter, is once we get through this, there should be a pretty good opportunity to lend on the other side of that. So, probably less about reserves and more about just watching the liquidity and working through a couple of these loans that we got, the 5-rated loans, and once we get through that, I think that will really kind of change some of our posture in the market as relates to taking advantage of the current market opportunity.

Eric Hagen
Yes, that's really helpful. Maybe you can share some of the things that you're seeing from your seat at

KKR more broadly about the flows of capital into commercial real estate. How much capital do you see getting allocated to the sector this year, maybe even who you see being the incremental buyer in the market with there being this layer of uncertainty that we're all talking about? Thanks.

Matt Salem
Sure. So stepping away from KREF for a second and just talking about what we're seeing broadly in capital flows, I would say that, to start in the real estate credit side, there is a pretty consensus view, and a strong view really globally, that credit is very attractive today. And within that segment, real estate credit is very attractive. And so, while a lot of allocators in the market are experiencing a denominator effect, just given where the equity market is, so the overall pie might be shrinking, you want to think about the component of that pie being real estate credit is growing. So we're taking market share, if you will, and we're certainly seeing that on the fundraising side, with more allocators favoring real estate credit for that. That feels like a good opportunity.

And on the real estate equity side, I think the market is very much looking at values and trying to understand, okay, where values stay, thinking about their own portfolio, but at the same time the opportunistic funds I think will have success raising capital. First of all, there's ample dry powder available today across the market, almost record levels of dry powder to invest in real estate. And the fundamental setup in many of these property types and markets is still pretty good. So I think you'll continue to see capital being raised on the optimistic side of the market, as well as on the equity side. And so overall, everyone's dealing, again, with a little bit of headwinds from the denominator effect, but still seeing very good flows across the real estate spectrum.

Eric Hagen
That's really helpful. Thank you.

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

Jade Rahmani
Thank you very much. You mentioned the $1 billion of repayments this year, do you know the dollar amount of loans scheduled for initial maturity that will have to meet some kind of extension test? And I know you talked about you're not giving away anything for free, so it sounds like you're going to be pretty strict in those discussions?

Matt Salem
Yes, Jade, I can talk about it, and then I'll turn it over to Patrick to give you the exact number. But a lot of the portfolio was originated post-COVID and so it is a smaller dollar amount. But we can give you the initial maturity here. And agree, we want to work with our sponsors, we want to be reasonable. However, all those initial maturities, or most of those initial maturities have some form of test to get into extension periods. And those tests can be met in many cases. And in some cases where they're not met, that's another opportunity to have a discussion and try to better our credit overall. So that's how we approach it.

And with that, I'll turn it over Patrick, and he could add any other comments he wants and talk about the numbers.

Patrick Mattson
Jade, sure. Happy to elaborate here. So in the supplement we show our fully extended terms. And you can see that this year about 6% of the portfolio is scheduled to have a final maturity date. In terms of the initial maturity date, inclusive of those numbers that grows to about 21% of the total portfolio, so about

$1.7 billion in total.

Jade Rahmani
Thanks very much. The West Hollywood multifamily deal, sorry, I didn't hear before, but did you provide any color on that deal? And if not, could you talk to just some overall statistics or give some sense of what characterizes it? I see that the average unit value is something like $2 million per unit and you make some cap rate assumptions, you're talking rents north of $15,000 a month. So, any color you can give there and why that deal was downgraded to risk-rating 4?

Matt Salem
Yes, sure. I can give a little bit of color there. You're right, in the sense that it's a very high-end luxury, multifamily property. It was built for a condo, so it is basically top of the market and a great location in West LA, as you highlighted there. And the reason we downgraded that was really around modification discussions that we were having around interest rate caps and just try to make sure we got to a good place as those discussions were ongoing. And this again, comes a little bit back down to, it comes back to value. And so I think we feel pretty good about our basis and the overall value of that asset. But they just downgraded it as we went through modification discussions on interest rate caps.

Jade Rahmani
Thanks. I have one more. Are there any other questions in the queue? Because I just wanted to ask it, I've gotten some investor questions on this.

Matt Salem
Sure. Go ahead, Jade.

Jade Rahmani
Just on the CMBS exposure, which is a joint venture, what's the risk of any write-down there? And I believe those positions are B-pieces, so there would be special servicing rights. Is that really just a mark-to-model kind of calculation? What would drive any value designation there that we can see?

Matt Salem
Got it. Yes. So that's an investment in a fund that owns 2017 and 2018 vintage conduit B-pieces. The marking process on that is same as pretty much everything we do at KKR, that's a third-party service provider that marks that. We don't work that internally on a model or anything like that. That's a purely outsourced marking service. And obviously, the two main things that could impact that market are, number one, just risk premium increasing in the market. And number two, fundamentals and defaults.

What we've seen in our overall CMBS portfolio, I would say, again, keep in mind it's a tiny, tiny part of what's within KREF, so I'm speaking more broadly about funds we manage outside of KREF, is continued strong performance there, especially on the conduit side, where these borrowers have locked in 3.5% fixed interest rates for ten years, the going in coverage was very high, typically over 2.5x to 3.0x coverage on those lower interest rates. And they'll enjoy that interest rate for quite some time. So another, call it seven years or so in some cases. So I think that we continue to see strong performance across that portfolio, with really de minimis delinquencies.

Jade Rahmani
Thanks very much.

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. Thanks everyone for joining today, and please follow up with 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. And you may now disconnect.

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