KKR Real Estate Finance Trust Inc.

Q4 2023 Earnings Conference

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CORPORATE PARTICIPANTS

Jack Switala – *Investor Relations*

Matt Salem – *Chief Executive Officer*

Patrick Mattson – *President and Chief Operating Officer*

Kendra Decious – *Chief Financial Officer and Treasurer*

PRESENTATION

Operator
Good morning and welcome to the KKR Real Estate Finance Trust Fourth Quarter 2023 Financial Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by 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's Earnings Call for the Fourth Quarter of 2023. As the Operator mentioned, this is Jack Switala. Today, I'm joined on the call by our CEO, Matt Salem, our President and COO, Patrick Mattson, and our CFO, Kendra Decious.

I'd like to remind everyone that we will refer to certain non-GAAP financial measures on the call, which are reconciled to GAAP figures in our earnings release and in the supplementary presentation, both of which are available on the Investor Relations portion of our website. This call will also contain certain forward-looking statements which do not guarantee future events or performance. Please refer to our most recently filed 10-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 2023, we reported a GAAP net loss of $18.7 million or negative $0.27 per share. Distributable earnings this quarter were negative $26 million or negative $0.37 per share, including a write-off of $59 million or $0.85 per share. Distributable earnings prior to realized losses were $0.47 per share relative to our Q4 $0.43 per share dividend.

Book value per share as of December 31, 2023, was $15.52, a decline of approximately 5% quarter-over-quarter. Our CECL allowance decreased to $3.06 per share from $3.21 per share last quarter. In mid-January, we paid a cash dividend of $0.43 per common share with respect to the fourth quarter.

Additionally, the company's Board of Directors declared a dividend of $0.25 per share of common stock with respect to the first quarter of 2024. The dividend is payable on April 15, 2024, to KREF's common stockholders of record as of March 28, 2024.

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

Matt Salem
Thank you, Jack. Good morning, everyone, and thank you for joining us today. Before turning to the current market environment, company results and dividend commentary, I'd like to highlight KREF's achievements during 2023. We have focused our efforts on maintaining high levels of liquidity, fortifying our liability structure and proactively managing our portfolio, all of which have been critical to KREF's ability to navigate this challenging market. To be specific, we have built and maintained a market-leading liquidity position with the help of KKR Capital Markets, with current cash on hand and undrawn corporate revolver capacity of nearly $600 million.

Our financing continues to be best in class, which we further optimized by upsizing a repurchase agreement by $160 million and extending the term. KREF has no corporate debt or final facility maturities for two years. Seventy-six percent of our secured financing as of year-end was completely non-mark-to-market and the remaining 24% is only mark-to-credit.

We received $767 million of repayments, with office loans representing approximately 25% of total repayments. Our unfunded commitments as a percentage of the portfolio are 10% at year-end 2023, down from 16% at year-end 2022. More than half of our portfolio is supported by multifamily and industrial properties.

Multifamily remains our largest property type representing approximately 41% of the portfolio. We continue to see stable underlying performance across that segment with weighted average rent increases of 3.9% year-over-year in our portfolio.

Office represents our second largest property type and since the beginning of last year has decreased as a percent of the portfolio, from 26% to 22% today, including a full payoff last month of a $173 million previously risk-rated 4 loan secured by a Washington, D.C. property.

Access to KKR's broader Real Estate platform with approximately 150 dedicated professionals and over $68 billion of assets under management has been instrumental in the management of KREF's portfolio. Our capabilities have been further bolstered by our affiliated rated special servicer K-Star, with a team of more than 45 professionals and over $45 billion of special servicing rights, providing us with extensive expertise and access to sizable, real-time market information. We have been actively using the many tools at our disposal to execute on a variety of workout options, including modifications, restructurings, as well as taking title and managing real estate.

Since our last call, the Federal Reserve has indicated an end to their interest rate hikes, with potential rate cuts beginning in the first-half of the year. Market sentiment has improved dramatically as some of the tail-risks driven by inflation and higher interest rates have subsided. The broader rally in equities and fixed income is impacting the commercial real estate equity and debt markets, as well, with significant tightening in CMBS and loan spreads over the past few months. The fear/greed factor has clearly shifted, and capital is flowing into the markets.

We expect acquisition and refinance activity to increase this year. We are seeing that in our own lending pipeline across our different capital sources. However, despite the strong momentum, challenges remain given the value declines from the post-COVID interest rate environment. Today's higher interest rates and carrying costs, combined with interest rate cap costs and near-term maturity dates, continue to stress real estate capital structures.

Now, I'll discuss KREF's earnings power and dividend philosophy as we get into 2024. Last year, KREF's earnings potential benefited from the higher interest rate environment, with average run rate distributable earnings before losses of $0.48 per quarter throughout 2023. We stated last quarter that as we determine the run rate earnings potential of the business into 2024, the main drivers will be interest rates, portfolio performance and the ability to unlock equity held in our risk-rated 5 assets.

We have been proactive and transparent as we work through this market and we have implemented a variety of strategies to optimize the outcome of our watch list loans. Today, we have a few assets where the best path forward to maximize value will be to take title, operate the real estate and stabilize cash flows before selling. Each has different circumstances, but this is high quality real estate that we have full confidence will lease and stabilize over time. To put it simply, we have great real estate, we have ample liquidity, and we have the resources and expertise to create value.

Once stabilized, we believe we can sell the real estate at a higher value than our current mark. We cycle that capital into cash flowing assets and return to a more normal level of operating earnings. However, getting to stabilization will require time and impact earnings in the interim.

To that end, the Board of Directors declared a dividend of $0.25 per share for the first quarter. The dividend is set at a level where we can cover it with distributable earnings ex-losses with our performing loan portfolio under a number of different scenarios, including lower interest rates and the potential migration of loans to cost recovery and REO. To be clear, in the near-term, we expect DE ex-losses to be significantly higher than our dividend. Similar to how we've operated in the past, we are taking a proactive approach and making this adjustment now as opposed to waiting for a typical March declaration date in order to provide transparency. Importantly, as we sell our REO portfolio, we can reinvest the capital into new loan assets to unlock additional earnings potential.

To put some context around this, we believe we can generate an additional $0.12 per share in distributable earnings per quarter, and this is just on our existing basis. Of course, the goal is to gain more than that over time.

The assets driving this impact include our Portland Retail and Redevelopment Property, our Philadelphia REO, the Mountain View projected REO, and potentially the Seattle life science loan, which combined represent approximately $150 million of equity. Continuing with our transparent reporting, we've added a new page in our earnings presentation highlighting these assets.

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

Patrick Mattson
Thank you, Matt. Good morning, everyone. I'll begin with updates to our CECL allowance and watch list. We finished the quarter with $213 million in CECL reserves, over two-thirds of which is held against the three 5-rated loans. Reserves decreased by $9 million quarter-over-quarter primarily as a result of a few changes in Q4.

First, upon taking title to the 5-rated Philadelphia office asset, we realized a $59 million loss, which is lower than the $69 million asset-specific CECL reserve in the prior quarter. The CECL amount was reversed and realized loss flowed through our distributable earnings in Q4. Looking ahead, we are in discussions to sell two of the four properties in the near-term and do not expect any impact to DE as a result of the sale.

Second, we increased reserves on our loans secured by the Class A office campus in Mountain View, California, reflecting a lower valuation given the continued slow leasing environment in Silicon Valley and the lower levels of liquidity. We expect to take title to the asset in the second quarter.

Third, we downgraded the risk rating and increased reserves on a loan backed by a Class A Seattle life sciences property. This property was built in 2021 and our sponsors purchased and converted the asset to life science lab use for spec lease up.

As Matt mentioned, our multifamily portfolio has generally been stable, with low single-digit rental increases supporting NOI growth. Most sponsors have renewed interest rate caps and maturities. However, we downgraded two multifamily loans to risk-ratings of 4 in the quarter given ongoing discussions regarding interest rate caps. Both properties are over 90% occupied and the loans are current on interest payments.

As we continue to work through our watch list portfolio we saw positive outcomes on two of our Washington, D.C. office loans that had been on the watch list last quarter. First, in January, the $173 million Washington, D.C. office loan paid off in full as the sponsor completed a refinance with a new lender. This recently renovated and well-located Class A office asset had leased up to nearly 90% following the completion of the sponsor's capex plan. Our other watch list Washington, D.C. office loan

is now risk-rated 3 following a modification finalized in the fourth quarter, which included a $20 million principal pay down. The Class A property is 92% leased after positive momentum throughout last year.

With these positive outcomes, we have only one remaining risk-rated 4 office loan with current asset exposure in the form of a $37.5 million mezzanine loan secured by a Class A property located in Boston. Post quarter-end, we entered into discussions with a sponsor and have begun modification negotiations, which may result in increased CECL reserves. We expect to provide a further update on the status of the modification next quarter.

In the past 13 months, KREF has received over $1 billion of repayments, including two full repayments totaling approximately $325 million we received in January. Both loans were previously risk-rated 4, including the D.C. office loan previously mentioned and the New York City condo loan.

The weighted average risk-rating on the portfolio remains 3.2 and 87% of our portfolio is risk-rated 3 or better. KREF has built a diversified liability structure with $8.9 billion of financing capacity and $2.8 billion of undrawn capacity. Our non-mark-to-market capacity remains substantial at 76% and is diversified across two CRE CLOs and a number of matched term lending agreements and asset-specific financing structures, as well as our corporate revolver. Excluding matched term secured financing, there are no corporate debt or final facility maturities until 2026.

KREF is well-capitalized, with $136 million of cash and $450 million of corporate revolver capacity available as of year-end. Our best-in-class non-mark-to-market and high levels of liquidity, coupled with our deep relationships with both our financing partners and borrowers, positions KREF strongly for this dynamic credit and interest rate environment.

Thank you for joining us today. Now, we're 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 the star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press the star then two. At this time, we will pause momentarily to assemble our roster.

The first question will be from Sarah Barcomb from BTIG. Please go ahead.

Sarah Barcomb
Hey, good morning, everyone. So, I think a good place to start would be with this dividend cut, obviously a big reset here. You mentioned in your prepared remarks that it was mostly the earnings drag from REO assets and non-performing loans that really drove this decision to cut. I'm also wondering how much of the dividend cut can be attributed to the near-term risk of multifamily loan maturities that are coming up this year.

We saw a couple multifamily assets come on the watch list this print. You spoke about those dynamics in your prepared remarks, but we've talked a lot about this risk in recent quarters. These 2021 vintage loans still have SOFR capped well below today's levels and a significant portion of those caps should come off this year. So, when you were thinking about this dividend reset, how much did that dynamic come into play, just thinking about multifamily debt service coverage and maybe the risk of seeing more sponsors push back on re-upping that rate cap? I was hoping you could speak to that a little bit.

Matt Salem
Hi Sarah, it's Matt. Happy to take it and thank you for the question. I guess when we think about the multifamily portfolio, I don't think our view has changed that much from what we saw or what we spoke about last quarter. As you highlight, obviously leverage has come up in those loans just given the change in cap rates and the interest rate environment. Keep in mind, our portfolio is almost all Class A multis, so this is pretty high-quality real estate.

We've got— I think we've always been pretty transparent in terms of just how we're identifying our risk ratings and those particular loans that you mentioned that moved into the 4-rated bucket this quarter were obviously in modification discussions, but loans are current. So, we're going to see where we ultimately end up there, but it comes back, I think, to our high-level view, which is there's going to be probably noise in the multifamily sector just given that change in value, but it really comes back to value at the end of the day. And whereas we think about projecting what's going to happen in our multifamily portfolio, we're not expecting a lot of losses at all.

I think there's a— in most cases, we'll be able to work with our borrowers. Where you're seeing the most stress is in borrowers that have a little bit less liquidity. So that interest rate cap becomes more problematic.

The one thing I would highlight as well in the multifamily sector is the amount of liquidity there is tremendous. When you think about the macro environment, where we are today, with a better understanding of interest rates, inflation, etc., we've seen a pretty strong demand for multifamily assets as we look across both our equity and our credit business.

So, a longwinded answer to your question, but we're not really anticipating that much trouble within the multifamily portfolio, but there will be a little bit of noise here and there.

Sarah Barcomb
Okay, thanks for the color there. Then my follow-up is more office/life science related. We were happy to see the good news updates on those two D.C. offices. From a headline basis, there was no strict office watch list migrations. We did however see that Seattle life science go straight from a risk 3 to a risk 5. So, I was hoping you could speak a bit more as to how we should be thinking about the rest of your life science exposure, especially for properties that were potentially originally purposed for more traditional office use and then pivoted to the life science format, like we saw with the Seattle asset? Just hoping you can speak to the rest of the life science portfolio and how we should be thinking about those properties as offices or as leasable life science? And that's it from me.

Matt Salem
Sure, happy to do it. A couple things I just want to highlight and maybe this is the best place to address it. We have a lot going on in the portfolio this quarter, but if you take a step back and you think about our management team, our posture in the market and from where we're sitting, it feels like we're getting through most of the major issues, right? We've dealt— we've modified loans. We've restructured loans. We're going to go to title on a couple of these assets. These bigger office— bigger part of the office portfolio, where we felt like we would have issues, like we're largely through that.

We've got one more 4-rated office loan that Patrick highlighted in his comments that we're in negotiations on with a modification. That will likely lead to some increase in reserves, but as we've talked about in the past, the rest of the office portfolio, we still feel good that we don't see any near-term intermediate-term migration of that portfolio into higher risk ratings.

So, we've come a long way and the market's come a long way. This time last year, we didn't know where

inflation was going to be. We didn't know when the Fed was going to stop hiking. In fact, we had like four more hikes ahead of us and now, clearly, we're in a much different environment and we're debating how many and when interest rate cuts are going to start. So, the market has changed a lot. We've worked through our portfolio a lot and I think overall, we feel like we're in a much better position today than a year ago with all that uncertainty.

As it relates to life science, we break it down into a couple of different buckets within our own portfolio, but a little less than half of our portfolio is basically construction. So, it's purpose-built, very well-located, trophy-like real estate within the life science sector. We feel very good about that component of the portfolio for those reasons.

We do have some that was more of a conversion from office, traditional office, to life science. Those have been converted at this point in time, so don't think about those as traditional office. Those are ready for lab leasing, including our Seattle transaction or property. A big subset of those have leasing in place. I think one of the reasons we saw the jump in the risk rating in the Seattle life science—it's a big business plan, right? There's a big lease up ahead of us there. When you add that together with the time that takes and the cost of carry in the market, it just gets really expensive for the existing sponsor.

So, we'll continue negotiating that with our existing sponsor there. We don't know exactly which way that's going to go yet. Obviously, we reference it as a potential REO, but we could get to a modification there as well. We'll see how that discussion plays out.

That's a little bit how we're thinking about the overall life science portfolio. It’s still, by the way, still a sector we like a lot. We think— obviously it’s had a little bit of cyclicality as it relates to the equity markets but with where we are today and liquidity returning to the sector, I think we still feel very good about the intermediate and long-term prospects of the life science business.

Sarah Barcomb
Great. Thank you.

Operator
And the next question is from Don Fandetti from Wells Fargo. Please go ahead.

Don Fandetti
Can you talk a little bit more about the sort of difference between your expectations for DE and the $0.25 quarterly dividend? It sounds like you ran some scenarios. What would it take to put you at that tougher end of that scenario where DE gets closer to $0.25?

Matt Salem
Yes, Don. It's Matt again. I can take that question. I think the two big factors that could drive that lower, which is probably obvious, but portfolio performance. So, if we saw continued negative migration in the portfolio, non-performing loans, REO, etc., beyond anything that we're seeing today, obviously we're incorporating our current views—for instance, the Boston office 4-rated loan. Of course, that's incorporated in what we're projecting currently, but if it goes beyond kind of our current expectations, that could impact DE and bring that number closer down to that dividend level.

And then, just interest rate cuts, right? We can all look at the forward curve. We're running a number of scenarios beyond that, but if we got into some type of like major cutting by the Fed, that will put pressure on the portfolio as well.

But we're trying to look out a fair amount of quarters here to make sure that we've got some headroom

and gives us time, right? We want to have patience. We want to protect book value to work out these REO assets. I think it's what our shareholders really want us to do: use our expertise as part of a bigger KKR ecosystem. So, we are trying to buy a fair amount of time to be able to effectuate those business plans.

Don Fandetti
Got it. And then, the comments on office are interesting. It sounds like you're not expecting any intermediate-term migration on the risk-ratings other than the one 4-rated. What kind of gives you that confidence, just given it seems like there's still a lot of stress in the office, plus you have rate caps and other dynamics?

Matt Salem
Yes. I think what gives us the confidence, and we've highlighted this on other calls, is when you look at the 3-rated loans in the portfolio, they have very long lease terms in place, so over eight years of lease term in place. They've got a very high debt yield, and we think at a relatively reasonable leverage— equating to a relatively reasonable leverage point. So, that's obviously the entire portfolio that's in that three. A number of those we've clearly already modified, written off, restructured with our sponsors. We've been proactive about that, but it really just comes down to the durability of those cash flows that we're seeing and how much debt yield and leverage we think is in that.

I think we've got a good idea of where the office market is. Obviously, we've worked through a number of loans within the KREF portfolio. We just got refied out on a D.C. office loan, so we know where there's liquidity and we're using all that to obviously make those statements around and what we see in the rest of the 3-rated office loans.

Don Fandetti
Okay. Thanks.

Operator
The next question will be from Stephen Laws from Raymond James. Please go ahead.

Stephen Laws
Hi, thanks. Good morning. Matt, to follow-up on Sarah's question around Seattle, can you talk a little bit about how that discussion may play out? The timing, is it something we'll hear about next quarter, whether it's modified or REO'd or is that something that lasts longer than that, kind of how that process will play out?

Matt Salem
Yes, Stephen. Thank you for the question. It is always hard to handicap the timing around these discussions. I think this one will go faster, so we should be able to get— I'd hope for sure we'd have an update— well certainly we'll have an update, but potentially more of an idea of what the resolution looks like by our next call. These discussions are— we're pretty deep in them right now, so we should be able to give a more fulsome update at that point in time.

Stephen Laws
Okay. And then, I think multi was covered. So, a quick one on the Mountain View, California. Patrick, I think you said it's probably a 2Q event. Is the specific reserve that will run through DE that we should think about, the difference in the loan principal balance versus the slide that shows the projected REO or are there things where it's not necessarily exactly that difference that will run through as a realized loss?

Patrick Mattson
No, Stephen, that's a good question and that's correct. Yes, Page 13 of the supplemental is where we highlight the REO schedule. We've got the carrying value. So, that gives you a good roadmap for what we expect to happen there in the second quarter.

Stephen Laws
Great. Matt, bigger picture, I guess sort of shifting gears, but what are you looking for to go back on offense, right? I know you look at a lot of investment pipeline across the KKR platform. It seems like you feel like you've got a good handle of proactively addressing your concerns and commentary a second ago leads me to think you have comfort in your current 3-rated loans. Do you expect to do some new originations, especially given the repayments in January? Are new originations a Q2 event? Is it something that's going to be later this year or is it not until '25? Kind of how do you think about turning back to offense given where you are with your existing portfolio and your current liquidity?

Matt Salem
Yes. Thank you, Stephen. I would say a couple things. Let's step away from KREF for a second and think about the broader KKR Real Estate Credit business. We'll expect to win somewhere in the magnitude of $8 billion to $10 billion this year away from KREF. So, we've got an active lending business across a variety of different kind of risk-reward strategies, bank, insurance, and debt fund capital. We're seeing a very large return in transaction volumes, both acquisitions and refinance. As I mentioned, obviously, the macro has cleared up a fair amount and the market is getting its sea legs again. Values have come down a lot. So, you see equity investors in real estate trying to put money to work and it's still a very good lending market just given the elevated rates and the lower basis you can lend on today. So, overall, we do like the market environment to invest today.

I think from a KREF perspective, it really comes back to what we've talked about in the past, which is just seeing a healthy level of repayments in the portfolio. I don't think we want to increase our leverage profile right now. There's still uncertainty. So, as we start to get more repayments, I think that's really where we'll look to redeploy. You're right. We saw a fair amount of repayments this quarter and repayments in sectors that obviously have a little bit less liquidity like office. So, if we see that continue in the portfolio, I think that's really where we'll think about turning it back on. Hard to predict and project when that happens, but I think it's more of a back half of the year for us, if I had to guess today, but we'll continue to monitor that.

Stephen Laws
Great. And then, one last quick one, if I may, to Don's question. You talked about dividend and kind of what would push you to that level you mentioned kind of I believe aggressive is that just given the impact of a floating rate portfolio. Any considerations of buying your own rate floors at some level to take that tail risk off the table?

Matt Salem
I mean, it's something we've looked at over time at different moments in time. Right now, it doesn't feel like the best use of capital, but it's something we can continue to watch.

Stephen Laws
Great, appreciate the comments this morning. Thank you.

Operator
Again, if you have a question, please press star then one.

The next question is from Jade Rahmani from KBW. Please go ahead.

Jade Rahmani
Thank you very much and thanks for all the color in the presentation. Just a basic question. When we think of interest income, what percentage of the interest that KREF receives is funded out of existing reserves versus property cash flows and is there perhaps a third source that I haven't thought of in thinking about that?

Matt Salem
Hi Jade, it's Matt. Thanks for the question today. It's not a number I have in front of me right now. We can take a deeper look and look at that. If you think about most of the largest asset type and the second largest asset type in multifamily and office, most of those are leased assets or in some high level of occupancy. So, I would think that the majority of the portfolio is going to be— of the income coming up into the portfolio, I suppose is coming from actual property cash flows. There is obviously some business plans that are in construction or in lease up and that's really where the reserves are going to factor in, in those— the big amount of reserves are going to factor in, but don't have the exact number in front of me.

Jade Rahmani
The follow-up would just be what you think the true drivers of default will be in this market? You mentioned in multifamily, you don't expect much pressure. It sounds like there'll be modifications, discussions around interest rate caps, but you don't expect much default there. So, what at its core do you think is the driver of default? I know in a lot of cases for the mortgage REITs, much of the interest is in fact funded out of interest reserves, which is similar to construction loans.

Matt Salem
Right. So, I think— I guess a couple of things. Let's just state the obvious. Big secular change and value change in office, so, I think that's— despite cash flow in some cases like there's clearly a very big deterioration there. So, that will be on its own and we're all seeing that. We know that.

The other places I think you could see it is in just these bigger lease up plans. I think the Seattle life science is a good example of that, where you are in the right sector. We are in a good property. Leasing has slowed down. The business plan is very expensive to implement from our existing sponsor's perspective and that obviously is creating an issue and discussions with that loan. So, you'll see that in other places, I think, as well.

On the multifamily side, I speak from our own portfolio, which again tends to be very high-quality real estate. There's a lot of liquidity there I think across the board, but certainly, you could see some noise in the multifamily sector, especially if you have sponsors implementing like deep value-add business plans, heavy renovations that take a long time and then you are trying to kind of re-lease it, because those are—again—they are just deeper, longer time periods that are really exposed to the cost of capital in the market today. So, I'd highlight a few of those things.

Jade Rahmani
Okay. Thanks. And then, just going through the portfolio of details, when I look at life science, specifically, and I compare committed principal to current principal, many of the loans— there's a substantial difference, which means there's a lot of future funding, which means these are not leased assets. These are development deals and there is very weak leasing in life science. I know you said long-term you're bullish, but how do you think about the outlook for those assets? Are we going to see further non-performance beyond this Seattle asset?

Matt Salem
Well, it's not our expectation, at this point in time. I think that when we look at those, one, they are in very strong locations. We're in— on those construction deals, we're in Cambridge, we're in Seaport, in Boston

and we're in South San Francisco, so these are very, very strong locations for life science— the two biggest hubs in the United States and they are purpose built. I think there's going to be a fair amount of demand for that high quality real estate. So, it's not our expectation at this point in time, but you are right to highlight that there is a lease up component involved here. It's just the quality of the real estate and the location, we think— and our basis obviously, but we think will overcome potential issues there, but there's some uncertainty.

Jade Rahmani
And lastly just on the Seattle, since that was originated in October of '21. You said it was converted from traditional office to life science, so that probably took some time, but still it's a three-year loan and also surprised it went from a 3 to a 5 in just one quarter. What do you think a reasonable timeline is to consider stabilizing and optimizing that asset?

Matt Salem
Well, we're doing the work on that now in terms of just really understanding the lease up of that asset, but Seattle, in particular, is a little bit smaller life science market, so that one will take— is going to take a little bit of time. It could take anywhere from 18 plus— 24 months plus to fully stabilize that asset from a leasing perspective.

Jade Rahmani
Thanks very much.

Operator
The next question is from Rick Shane from JPMorgan. Please go ahead.

Rick Shane
Thanks, guys, for taking my questions this morning. I apologize as we're bouncing around a little bit. So, if some of this has been covered, I apologize. Can you talk a little bit about the ability to redeploy capital as you realize losses and removing loans from non-accrual and any potential impact on NII going forward?

Matt Salem
Sure. I could take that. It's Matt. I think in the prepared remarks, we tried to give some context around this. I think the timing component is the difficult one, right? We want to make sure that we really optimize the value of the REO portfolio. That's really the way we're thinking about it is that's the portion of the portfolio that is not creating earnings. There is actually a drag around that from op ex and some financing we have against those assets.

As we stated in the script, if you just repatriate our basis in those assets, we think that can generate an additional $0.12 of DE per quarter. Now the question is how much time it takes to get there and that goes back to our comment where we're going to have to be patient a little bit to Jade's last remarks. Some of these will take a little bit of time to get through, but as we sell those assets— stabilize them, sell them in the market, we should be able to, and of course it could happen at different times for each asset, we should be able to repatriate that equity and then invest it in new loans and start to get some of that $0.12 back.

The $0.12 per quarter is based, again, on our basis, not on where we hope, and the goal is to sell these assets. Obviously, we think we're going to make more over time is why we're going to implement this business plan. So, this gives you a little bit of context of where we could go, but it's not— we're not thinking about this as like the next quarter or two, like we are trying to make sure that we have the runway to be patient.

Rick Shane
Got it. I appreciate the color. Thanks, guys.

Matt Salem
Thank you.

Operator
The next question is from Kaili Wang from Citi. Please go ahead.

Kaili Wang
Thank you. Maybe you could talk about, as you look at the new deal opportunities coming to the market today, how are the spreads trending and what are you seeing from the competitive front in general?

Matt Salem
Yes, thank you for the question. It's Matt again. I'll take that. Again, I'll speak a little bit to our broader— the broader Real Estate Credit platform here at KKR where we're actively lending in the market on a daily basis.

I would say, again, we have a pretty big return in transaction volumes, both acquisition and refinance needs. Our pipeline right now across all of our different pockets of capital is up over 50% from last year. Still down from, call it, the peak ’21 type of levels, but that has picked up a lot over the course of the last, call it, couple months, as you saw the Fed pivot.

Where we're seeing the most competition, I would say, is on real stabilized assets and the insurance capital and the agencies, Freddie Mac and Fannie Mae. I’d say that's really where you've seen the most aggressive from a spread perspective, from a spread of yield.

As you look at what's going on with investment-grade corporates, you look at what's going on with CMBS, there's spread tightening happening across most of fixed income and that's happening in the loan market, as well. So, for like stabilized lending, what used to be low 200s type of spread is now gravitating into the 100s. We've seen insurance companies go as tight as 150 base points over at this point. So, there's clearly a lot of demand for lending in today's market.

I think the big question, as we all know, is the banking market. They are roughly 40% of the overall commercial real estate lending market. We've seen a little bit more bank activity, but it's still largely on the sidelines. As we start to pick up volumes this year, that's the big question: will there be a gap in the need for financing? Of course, there'll be some alternative lenders like ourselves that can step in and fill that gap, but I think that will— this year we'll figure out a little bit of how much the banking system is really going to come back online.

One good news for KREF, I'd say, is that what we are seeing from especially the larger banks is a willingness to lend on loan-on-loan facilities, warehouse facilities, much more— there's been a little bit of a shift away from direct lending, mortgage origination, into more facility type of lending. It's better capital. It's safer. So, that will be, in my mind, one of the big changes as we come out of this market environment is as the banks reduce their footprint in the direct mortgage origination business, they'll likely increase their footprint in the loan-on-loan and warehouse side of things.

Kaili Wang
Great. Thanks for the color.

Matt Salem
Thank you.

CONCLUSION

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

Jack Switala
Great. Thanks, Operator and thanks, everyone, for joining today. You can reach out to me or the team here if you have any questions. Thanks, and take care.

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

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