KKR Real Estate Finance Trust

Q4 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning, and welcome to the KKR's Real Estate Finance Trust, Inc. Fourth Quarter 2024 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 hand the call over to Jack Switala, Head of Investor Relations. Please go ahead.

Jack Switala
Great. Thanks, operator, and welcome to the KKR Real Estate Finance Trust Earnings Call for the fourth quarter of 2024. As the operator mentioned, this is Jack Switala. This morning, I'm joined on the call by our CEO, Matt Salem, our President and COO Patrick Mattson, and our CFO Kendra Decious. I'd like to remind everyone that we will refer to certain non-GAAP financial measures on the call, which are reconciled to GAAP figures in our earnings release and in the supplementary presentation, both of which are available on the Investor Relations portion of our website. This call will also contain certain forward-looking statements which do not guarantee future events or performance. Please refer to our most recently filed 10-K for cautionary factors related to these statements.

Before I turn the call over to Matt, I will go through our results. For the fourth quarter of 2024, we reported GAAP net income of $14.6 million or $0.21 per share. Book value as of December 31, 2024, is $14.76 per share, which is relatively flat quarter-over-quarter. Distributable loss this quarter was negative $14.7 million or -$0.21 per share. We have a $0.25 dividend, which yields 10% as of yesterday's closing price.

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 today. Before we begin, we first wanted to acknowledge the devastating wildfires in California. Our thoughts are with everyone that has been impacted, and our heartfelt thanks to all the first responders.

Before going into our results, I thought I would discuss our 2024 achievements. First, I wanted to highlight KREF's ability to leverage KKR's significant resources and information. KKR manages approximately $80 billion of real estate assets globally. With approximately 140 professionals, we have been able to utilize all our resources across asset management, sourcing, underwriting and capital markets. Just within real estate credit at KKR, we are active across the United States and Europe in both loans and securities, and we invest across the risk-reward spectrum through our bank, insurance and transitional pools of capital. Our dedicated K-Star asset management platform now has over 55 individuals with expertise in asset management, special servicing, underwriting and REO. This team manages a portfolio of over $36 billion in loans and is named special servicer on an additional $45 billion of CMBS.

Turning to KREF, this was a year of transition. Our posture during this challenging environment for real estate has been to transparently and proactively address issues, and we think this approach has led to better asset management outcomes. Over the course of the year, we have decreased our watch list percentage from 13% as of fourth quarter of 2023, to 8% today. As for our REO assets, we've begun to see green shoots in the office and life science sectors. Tenants are re-entering the market, and we have responded to a number of RFPs. Investor sentiment is slowly rebounding, and liquidity is beginning to return for the highest quality assets. The CMBS market has seen a number of large office transactions,

with over $3.5 billion of office SASB issuance in 2024, and a healthy 2025 pipeline. We think our patience on these high-quality assets will optimize shareholder value. As a reminder, as we repatriate the equity in the REO portfolio, we believe we could generate an additional $0.12 per share on our distributable earnings per quarter. With the assistance of our KKR Capital Markets team, our liability structure remains a differentiator for the company. We have diversified financing, and 79% of our financing is non-mark-to-market. We have strong levels of liquidity, with $685 million available at the end of the fourth quarter,

Although we don't have any corporate maturities until 2027, the debt capital markets are healthy, and we continue to watch for opportunities to optimize our capital structure and further extend maturities. Since our last call, sentiment around commercial real estate has continued to improve, and transaction volumes are increasing quarter-over-quarter. The higher US Treasury market may dampen some acquisition activity, but we have a robust pipeline, and there should be ample opportunity to lend on reset values. In January, we closed two loans for approximately $225 million. Looking ahead, we have consistently stated that while we are not fully out of the woods and anticipate further credit migration, we think we have dealt with the majority of the issues in the portfolio.

Before I turn the call over to Patrick, I want to reiterate our optimism heading into 2025. We continue to feel confident in our offensive positioning and look forward to the opportunity that we have in front of us.

With that, Patrick can take it from here.

Patrick Mattson
Thanks, Matt. Good morning, everyone. Fourth quarter repayments exceeded $450 million, comprised of six loans secured by multifamily and industrial properties, as well as the par sale of a Dallas office loan. Full year repayments totaled $1.5 billion, representing approximately 19% of our portfolio. We reported fourth quarter distributable earnings prior to realized losses of $0.31 and DE of -$0.21 per share, which includes the realized loss on the San Carlos life science loan. We now have four watchlist loans in the portfolio, representing 8% of the loan portfolio compared to 13% a year ago. While additional watchlist loans would not be surprising over the course of this year, we remain confident that we are well beyond the peak stress. With excess liquidity, a stabilizing portfolio and leverage at the low end of our target, we are actively looking to invest repayments into new loans. Repayments are expected to exceed $1 billion again this year, and given our current leverage levels, we anticipate originations to outpace repayments in the near-term. We closed two loans for a total of $225 million last month, including a four property multifamily portfolio of newer vintage and recently renovated assets, with a business plan to improve physical occupancy and burn off current concessions.

Turning to our CECL allowance and watchlist, as we suggested in the previous earnings call, in the fourth quarter, we modified the San Carlos life science loan and subordinated a portion of the loan to new sponsor equity. The $36 million subordinated note was written off and the corresponding CECL reserve was released. Subsequently, the restructured and reduced senior loan was upgraded to a risk rating of three. Our total CECL reserve decreased to $120 million, and 92% of the portfolio is risk rated three or better. On our watchlist, we continue to make progress on our West Hollywood multifamily loan, and we are continuing down a path to ownership and subsequent condo sellout. We will keep you updated on the progress in the coming quarters.

As of the fourth quarter, our debt-to-equity ratio is 1.6x, and total leverage ratio is 3.6x. KREF's leverage at this point is on the lower end of our target zone, so, we are actively originating loans. As part of our investment allocation, we've continually looked to evaluate share repurchase opportunities. Prior to the fourth quarter, we bought back almost $100 million of stock since inception of the company. In the fourth quarter, we added to that total, repurchasing $10 million of KREF stock, representing a weighted average stock price of $11.64. We've made great progress on our watch list over the last 12 months, and remain

excited about the current market opportunity.

This should be a strong repayment and origination year for KREF. The lending market is attractive and we plan to be active. We feel confident in our positioning from a portfolio quality, liability structure and leverage perspective, and look forward to the opportunity ahead in 2025. Thank you again for joining us this morning, and now we're happy to take your questions.

QUESTIONS AND ANSWERS

We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster. And the first question will come from Tom Catherwood with BTIG. Please go ahead.

Tom Catherwood
Thanks, and good morning, everybody. Maybe starting with repayments. Obviously, huge jump in 4Q. You had alluded to that obviously with 3Q earnings, just that you expected that pace to be accelerated. How has that pace trended with the steepening of the yield curve? Kind of has that slowed as we've begun 2025, and how much of that do you kind of expect of the billion plus dollars of repayments? Do you think that that's likely an early ‘25 event, or should it come in kind of evenly throughout the year?

Patrick Mattson
Tom, good morning, it's Patrick, I'll take that question. So, you're right. We did have a pretty meaningful acceleration in the fourth quarter. As you know, our loans are pretty chunky, so we get a few more repayments in any one quarter, and that can sort of drive the numbers. Obviously, that was at a time when we saw rates back up and there wasn't a meaningful impact in repayments. I don't see that as a main driver for the repayments. A lot of these loans have reached their business plans, and it's about optimizing the refinance for our counterparties. So, I don't see a material impact there.

In terms of the forecast this year, again, difficult, sort of quarter by quarter. We certainly think it's over a billion dollars this year. If I had to sort of lean one way or another, I'd probably say that's middle to sort of back ended, but it's really difficult to forecast. What we saw in the fourth quarter was an acceleration of some repayments that we had forecasted to repay in 2026, and obviously came early.

Tom Catherwood
Got it. Appreciate that. And, Patrick, just want to make sure I heard you right. Did you say you expect originations to exceed repayments in the near term in your prepared remarks?

Patrick Mattson
That's right, and that really stems from the fact that we're at the low end of our leverage target here. So, as we start to redeploy the capital, we think there's an opportunity for us to get ahead of some of these repayments, but also get back into the mid-range of our leverage ratio. So out of the gates, we had a pretty strong January to start with. There were no repayments that came in that month. So already in the first quarter, we're seeing the trend that I was discussing,

Tom Catherwood
Great. And then, along those lines, can you talk about the — I mean, obviously we appreciate the color on the hospitality loan and in Tennessee and the multifamily loans in various locations. But as far as your pipeline looking forward, can you talk a bit about the asset classes that you're targeting, and maybe how the scope of that pipeline might compare to pre, pre-pandemic, or kind of early 2020 times?

Matt Salem
Hey, Tom, it's Matt. Yeah, I can jump in on that one. I think the first takeaway is largely the same in terms of what we're targeting. We're going to continue to target institutional sponsorship and really high quality real estate and major food groups. So, we'll continue to focus on multifamily, industrial, student housing. Obviously, we did a hotel deal this quarter. That's always been a little bit smaller part of what we've done, but an important piece of the portfolio. In terms of just what's different, I would say a couple things. Number one, for us, Europe. We built a business in Europe over the last few years, and we've been actively lending there. So, we'd like to add that to the portfolio from a diversification perspective. Again, similar property types and sponsors, but we will get that geographic diversity in the portfolio.

And then secondly, I would say, from a business plan perspective, things tend to be a little bit more stabilized. And I think the multifamily deal that we did this January is a good illustration of that, where before the rate increase, we were doing a lot of kind of newly built construction, takeout lending, and providing that bridge to lease the asset up, and we still like that, and we'll still do that, but this most recent deal is more a function of the business plan is, it's mostly leased assets and maybe burn off some concessions over time, but our loan is really just providing the sponsor with just a little bit more time to get into a little bit better rate environment and grow revenues a little bit, but not the same kind of dramatic increase in occupancy that we were lending on a few years back.

So, the underlying business plans have changed. And then, from a property type perspective, the only thing I would add is just the data center sector, — we continue to see a lot of demand for financing there, and so I think that would be a new area that we could potentially introduce into the portfolio.

Tom Catherwood
I appreciate that, Matt, and last one for me, kind of sticking with you. For office, we would usually speak about the sector in hushed tones. Obviously, you mentioned your prepared remarks, some positive shifts recently in the sector, albeit off of a very low base. But kind of, how are you thinking of your office loans right now, both the ones in your loan book, and the REO assets on your balance sheet?

Matt Salem
Yeah, I think there's three segments there probably I would highlight. On the REO, the green shoots that we're beginning to see in the sector are encouraging. It's early still, and I think we have to be patient. But there's leasing activity, and I think what we own, both in the office and the life science sector, it's really high quality real estate. And the reason that we went to title on it, and it's not without cost, let's be clear, but the reason that we did that was because we thought we had really good assets that would lease over time. And now we're beginning to see some of those tenants come back into the market. Again early, but it's got to start somewhere, and so it's nice to kind of see that again.

And then the second part of the portfolio I would comment on is just the three rated office loans. It's a much more positive sign because the financing markets are back. So, these are our three-rated office loans tend to have a long term. They're well leased. They have long remaining lease terms, and our leverage point is reasonable. So, as the financing markets come back, you can see, you can start to see some liquidity in those positions. So, I'd say that's pretty encouraging on that component.

And I think on the watchlist side, it'll still be, we've got a risk favorite office loan in Minneapolis, and is still probably a little bit of a wait and see, and let's keep working through it, and we've modified that, and have big reserves already. But again, we're not out of that asset yet, either. So, a little bit of a mix, depending on which group you're looking at.

Tom Catherwood
Got it. Appreciate all your thoughts. Thanks, everyone.

Operator
Next question will come from Don Fandetti with Wells Fargo. Please go ahead.

Don Fandetti
Yeah, Matt, so it seems like there's some cross-currents in your business. You've got office getting a little bit better, but higher for longer might not be so great for apartments, multifamily. As you think about book value, should investors sort of view this is a more stable environment, maybe a little bit of migration from three to four. But nothing too significant to where you're doing very large reserve builds and eating into that book? Or is that a reasonable kind of base case over the next 12 months?

Matt Salem
I'd say, hard to look out into the future. We're largely through what we think is going to come through the portfolio, but we're not done yet, so I don't know exactly what that means, just because it's hard to look out a couple quarters and project what may happen. And obviously, it's a pretty volatile macro environment, rate complex and in the economy as well. So, it's hard. I think we're entering this phase where we're going to see much more book value stability, but again, hard to project over a few quarters, or a handful of quarters, like, what else might come down the road.

Don Fandetti
Got it. And what's your sense on multifamily and your portfolio? You've had a couple rate cuts, but now it looks like maybe fewer. What are you hearing from borrowers? Are they sort of willing to hang in there? Is there still some hope? And if you do take real estate back, do you still feel like you can still monetize the value, because there's liquidity in multifamily?

Matt Salem
Yeah, with the multifamily, I'll kind of start where you ended, which is there's a tremendous amount of liquidity across the capital structure, senior loans, mezzanine, preferred equity. There is a lot of demand for it. And if you just do the math of the change in the forward curve, it would imply that values are down a little bit more, but there's a few things that are like offsetting that, I would say. Number one, spreads have compressed, so the cost of capital has come in a little bit to offset some of that interest rate increase. Number two, we're further down the road, the supply pipeline road, which means we're closer to that moment in time where, good or bad, these markets are going to be undersupplied again. We're not there yet, but we're closer to it, and that impacts just your projections as it relates to rents over time. And then finally, it feels like this latest rate increase is accompanied by a higher degree of growth in the market. So perhaps investors are going to put a little bit more weight behind rent growth assumptions going forward. So, there's kind of some puts and takes, I would say. As it relates to our portfolio, I honestly don't think we have a lot of rate sensitivity in our multifamily portfolio. We've got a couple of watch list loans. I don't think those are really rate sensitive. And then our overall portfolio, I don't think it really is impacting. There's still equity cushion there, for the most part, and I don't think this rate move is really going to impact us that much. There were a lot of borrowers that elongated capital structures, paid down loans, to try to get to a lower interest rate environment. And clearly they're going to have to wait a little bit longer. My guess is, within our portfolio and the quality of the sponsorship we lend to, my guess is that they'll continue to play that forward, and they'll delever us a little bit and buy some more time. Not every sponsor's got the liquidity to do that, so as you start to get into smaller sponsors, that that's where I think you could see a little bit more of delinquencies, but I don't think values have changed that much over the last couple quarters in multifamily.

Operator
And then our next question will come from Stephen Laws with Raymond James. Please go ahead.

Stephen Laws
Hi. Good morning. Matt, wanted to circle back on, you made a couple of comments to the Minneapolis office, and you guys provided some color on the West Hollywood multi deal. But as you think about that, Minneapolis office asset five rated, it looks like the maturity date sometime in the first half this year, any color you can provide on the resolution path there? Do you think that's something that moves into the real estate portfolio? Do you expect something more along the lines of the San Carlos resolution, kind of, how do you anticipate that moving in the first half of this year?

Matt Salem
Yeah, we don't have a determined path yet, so we could go a couple different ways. I think we have a little bit more time on an asset like that as well, because it continues to be pretty well leased. It's similar occupancy from over the last few years. We've lost some tenants. We've got some tenants. So, it's relatively well leased and cash flowing well, and it competes well in the market. Minneapolis is a really difficult market, but that asset competes fine, competes well in the market for tenants. So, I'm not exactly sure what the path is, but there's probably more options there, just given the cash flow, and we could potentially just try to push that forward again and see if we can buy some more time.

Stephen Laws
Great. Appreciate that color. As you think about originations and use of capital, how do you view additional stock repurchases in the current market especially given kind of the selloff year to date? I guess soon that's a quiet period. But how do you think about repurchase activity versus new originations going forward?

Matt Salem
Well, Patrick did a nice job of highlighting on the remarks that we've been very consistent buyers of our stock when we thought it was undervalued, and I think we'll obviously continue to evaluate that opportunity here, but there needs to be a balance in my mind as well, and our business is to invest capital and make loans. And I think it's important for us for a lot of reasons, vintage exposure, portfolio diversification, duration, to make sure that we're turned back on and making new loans. So, I don't like to think about as one or the other, but I think, as you saw us do over the course of the last few months, a balanced approach is kind of what we've taken in the past.

Stephen Laws
Great. And Patrick, one for you on CECL. As you think about the new originations coming on that originated current environment, current cap rates, new underwriting standards versus a few years ago, how do you think about the right level of reserves on the new originations this year? I mean, is it 75 bps, 100 bps? Like, how do we think about the normalized return level as we move back to a portfolio that's that is increasingly originated in this current environment?

Patrick Mattson
It's good question, Steve. Certainly, as we're originating new loans just on the margin, I'd expect CECL to go up a bit, because it's model driven for these three rated loans, and the model for a short duration loan, like many of the loans on the book today, have a lower CECL than a newly originated five year loan, so I would expect that marginally, we'd sort of go up. Certainly, that's something that we're going to be evaluating as we're making new loans. And I think part of your question is what's a minimum CECL that should be expected? And I think that's something that we continue to do work around. But I do think at the margin, over the course of this year, absent any other movement, we would expect that there's slightly greater CECL.

Stephen Laws
But to clarify that, that says an absolute number, and not necessarily just, and that's largely driven by the

portfolio growth, because of the new originations. Are you referring to some basis points of the portfolio?

Patrick Mattson
A little bit of both, one, because I think from a portfolio growth, there's a growth opportunity here, just where we've got capital and where we're at a leverage level, and then at the margin, putting aside resolutions. Clearly, if we resolve some of the fours and the fives, we'd expect CECL as a percentage to come down. But as I think about our three rated assets and think about the percentage of CECL against those, I would expect that to go up, not only in nominal dollars, but in percentage terms.

Stephen Laws
Okay, great, that's helpful color. I appreciate that, Patrick, appreciate your time today. Thanks.

Operator
Next question will come from Steve Delaney with Citizens JMP. Please go ahead.

Steve DeLaney
Thanks. Good morning, everyone. Look, first, we just want to applaud the buyback activity. It's very shareholder friendly, and it's something, frankly, that it's not always seen among the externally managed companies. Your average price was $11.64, we're down to 14% so that $10.05 now, or around $10 range. And so, we should assume that you continue to view that, regardless of the volume and the leverage, I mean, I assume you still look at buybacks as being a very attractive opportunity. Is that correct?

Matt Salem
Hey, Steve, thanks for the questions. This is Matt. Yeah, I think, like I said earlier, like we're evaluating both buybacks and new loans. And I mean, like we've done in the past, we really go down about a balanced approach.

Steve DeLaney
Sure. Okay, and to that point, Matt, about the portfolio, just curious, looking at the portfolio at $5.9 billion. Obviously, activity has been a little slow over the last year or two. It's been more a credit issue. The high was like $7.6 billion in early ’23. You've got $1.4 billion of equity at year end ’24. Do you have in mind sort of a round number or range for where you think the portfolio could grow over the next year?

Patrick Mattson
Steve, it's Patrick. I'm happy to take that. So yeah, as we think about the portfolio and think about our target leverage range, this is absent resolution of some of the REO assets, because that changes a little bit of that number. But just on the current portfolio, we think that number is in the kind of $6.6 to $6.7 billion range.

Steve DeLaney
Very helpful. Well, thanks for the comments. A lot's been covered, and I think I'm good. Thank you.

Operator
Question will come from Rick Shane with JP Morgan. Please go ahead.

Rick Shane
Morning, everybody. Hey, look, a lot's been covered here, but I guess I really have two questions. First is, we've seen movement in rates. I am curious. The comment was made implicitly that puts a little bit of downward pressure on valuations. When you look at what is transacting in the market, is market sentiment and the ability for the market to clear a function of price, or is it a function of buyers and sellers developing greater confidence about where we are? It's sort of at the end of the cycle. Like, are people

less concerned about, hey, we spent $100 million on this, and yeah, it's going to be miserable to trade out at $50 million, or is it, hey, we're now trading out at $50 million, and we're a lot less worried about it being worth $40 million next week?

Matt Salem
Rick, it's Matt. Thanks for the question. Let me answer it this way, and hopefully what you're looking for comes through. I think it's a function of over the last few years, a couple years, it's been a function of who are the sellers, because a lot of these assets are fundamentally strong, and setting office aside, they're well leased, they're cash flowing, and they have a valuation issue around cost of capital. And so there just haven't been that many willing sellers in the market, and the larger sellers, it's been really around liquidity and it's really been they have to sell to repatriate capital. That's been where most of sales have been.

Now, as we start to enter this next phase, you have, I think there's more certainty within locally, where values are, so there's the bid offer has definitely compressed, and then it's just a question of like, okay, do the existing owners, do they just want to keep buying a little bit more time and playing it forward and trying to get into a little bit lower cost of capital environment, let growth continue to build in their portfolio, let some of these supply pipelines within the multifamily sector burn off and get into a larger rent increase dynamic. So that's really what I think is happening. And then the overlay again, is like this, capital structures are becoming short because you think about all the acquisitions that happened in ‘21 and ’22, a lot of those were financed with five year loans. So just people are just like running a little bit short on time and there's a little bit more acute decision, I think, that they have to make. So that's, that's how I see it. And quarter-over-quarter for the last four or five quarters, like we've seen, volumes build, transaction volumes continue to increase. And I think it's a function of just what I described, like reality setting in, capital structures maturing and people needing liquidity. So, I personally think it'll be a little bit more of a continuation of that. I don't think there's going to be a huge change in transaction volumes this year. We're just in this very slow deleveraging process for the industry.

Rick Shane
Got it. Hey, Matt, first of all, thank you. I know it's a little bit of an amorphous question, and thank you for swinging at the pitch. I appreciate that. I said one more question, but I'm actually going to follow-up and then ask the second question. Is what you just described the explanation for the Minneapolis office loan? You've described it as well leased and alluded to the possibility of extending that a little bit longer. Is it just giving everybody time to let cash flows align a little bit better, if the rate environment improves?

Matt Salem
Well, I would put office in a little bit of a separate category where there's been liquidity for all these other sectors throughout the last couple years, because nobody really wanted to sell at the price that there was liquidity. People just would rather hold out. Then with office, there was, in my mind, very little to zero liquidity. Now you're starting to see some of that liquidity come back into the market. So, it's a little bit of a different dynamic there, where not only could the rate market help improve the valuation of those assets, but just more buyers in the market and some level of interest in owning office, can really help that. I just don't think office was a liquid asset class over the last couple years, and now you're starting with the best, like, I'm not, I don’t want to overstate it, like the highest quality stuff first, but that's where, of course, that's where it's going to start. And I think that's the gun.

Rick Shane
Got it. Thank you. And then the other question I had is this. We tend to take a pretty high level, top down view of the space. And one of the observations I would make is that you guys make three year loans that never last three years. When times are good, they last 18 months or 24 months, and when times are bad, these three year loans that have five year terms or five year extensions go six or seven years, and we

saw the pendulum swing wildly in the last three years or four years on that. You talked about a repayment in the fourth quarter, that was something you didn't expect until 2026. I realize it's just one loan, and everything is super idiosyncratic. Is there any indication that some of the newer loans, that things are swinging a little bit back in the other direction?

Matt Salem
In terms of the portfolio?

Rick Shane
We went from two years to seven years. Is there anything that we're starting to see, stuff, anything out there execute a lot faster than we've been seeing over the last three or four years?

Matt Salem
Yes, I think there's more liquidity in the debt markets today than there has been, which is allowing some of our sponsors to refinance earlier. And I think the new loans that we're making now, I hear your point. I mean, I think the new loans we're making now are pretty, pretty strong. I mean, you have got reset basis, good terms. And I think I agree with you. I think those are likely going to be on the shorter end, as people getting good buys today and if it's a refinance, then they probably don't want all five years. They probably only want a couple years before they repatriate capital. And then part of it is just a function of where we are today – our sponsors have largely had a few years to implement their business plan, so they've executed on it and now they have the cash flows that they can either sell or go refinance. We've been thinking more about duration, to your point, around just always on the treadmill and unsure duration loans and the portfolio exposure that can create. So, it's something that's on our mind as well.

Rick Shane
Okay, really appreciate it, and sorry for all the questions, but I realize we're sort of at the end of this, and hopefully that's okay. Thank you guys.

Operator
Again, if you have a question, please press star then one. Our next question will come from Jason Sabshon with KBW. Please go ahead.

Jason Sabshon
Hi, good morning. Can you please give an update on KREF's life science deals and the outlook for leasing and ultimately, value in those assets? That's probably the number one area of pushback that we hear. So, addressing that would be helpful. And is that where you can see the potential credit migration in the portfolio that you alluded to previously? Thanks.

Patrick Mattson
Yeah, I'll try to cover some of that without going into too much detail. First of all, we've made some progress on the life science piece of it. We foreclosed on an asset. We've modified obviously, last quarter we had that big modification, which hopefully dealt with that. And then a lot of our remaining exposure is on, really construction loans. So, these are really high quality, very well located, trophy like, in some cases, assets, where, when I commented on the green shoots, a lot of it is related to those types of exposures. And we think the tenants are coming back into these markets, and they're really looking for the best assets in the market. And our exposure is not 100%, but largely in that type of space and that type of quality. And our sponsors, I think, are excited about what they're seeing in terms of just the tenants coming back into the market. Why don't I stop there without going loan by loan?

Jason Sabshon
Great. Thank you. And on the multifamily watch list assets, it would be helpful to hear about what the

issues there are. Is it basis, rent, supply or something else? Thanks.

Matt Salem
Yeah, I think it's a little bit depends on the asset. A couple of them are more supply driven markets where you just seen that impact, a little bit occupancies, but certainly rental levels. So that's some of it. I'd say our West Hollywood multifamily is a different deal. That was just a very peak of the market, acquisition or financing. So more of a value issue there, at the end of the day, from a multifamily perspective, which is why we're continuing to move it down the path of a condo sell out there, because it was really built for condo. So, a little bit of a mix, depending on which asset we're looking at.

Jason Sabshon
Thanks.

CONCLUSION

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

Jack Switala
Well, great. Thanks, operator, and thanks, everyone, for joining today, please feel free to reach out to me or the team here if you have any questions. Take care.

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

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