KKR Real Estate Finance Trust, Inc.

Q1 2021 Financial Results Conference Call

Tuesday, April 27, 2021 at 10:00 a.m. Eastern

CORPORATE PARTICIPANTS

Matt Salem - *Chief Executive Officer*

Patrick Mattson - *President and Chief Operating Officer*

Mostafa Nagaty - *Chief Financial Officer*

Jack Switala – *Head of Investor Relations*

PRESENTATION

Operator
Good morning and welcome to the KKR Real Estate Finance Trust, Inc. First Quarter 2021 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 1 on your telephone keypad. To withdraw your question, please press star, then 2. Please note that this event is being recorded.

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

Jack Switala
Great. Thank you, Operator. Welcome to the KKR Real Estate Finance Trust earnings call for the first quarter of 2021. We hope that all of you and your families are safe and healthy. As the Operator mentioned, this is Jack Switala. I recently joined KKR and going forward will serve as the Head of Investor Relations for KREF. I'm looking forward to connecting with you directly.

Today I'm joined on the call by our CEO, Matt Salem; our President and COO, Patrick Mattson; and our CFO, Mostafa Nagaty.

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-Q for cautionary factors related to these statements.

Before I turn the call over to Matt, I will provide a quick recap of our results. For the first quarter of 2021 we had GAAP net income of $29.2 million, or $0.52 per share, which included a $1.6 million benefit from a lower CECL provision. Distributable earnings this quarter were $30.4 million, or $0.55 per share, driven by the growth of our portfolio and continued strong asset performance. Book value per share as of March 31, 2021, increased to $18.89, which includes the CECL impact of $1.06 per share as compared to $18.76 as of December 31st.

Finally, I would note in mid-April we paid a cash dividend of $0.43 per share with respect to the first quarter. Based on yesterday's closing price, the dividend reflects an annualized yield of 8.7%.

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

Matt Salem
Thank you, Jack, and welcome to the team. Good morning, everyone, and thank you for joining us today. We hope you are all healthy and safe.

KREF is off to a great start this year. In terms of financial results, another outstanding quarter, with distributable earnings of $0.55 per share, covering the $0.43 per share dividend by 1.3 times. This is a continuation of the success we had in 2020, where distributable earnings covered our dividend by over 1.1 times, despite the global pandemic. Our earnings continue to benefit from strong portfolio performance and existing LIBOR floors. We are seeing good

progress on property business plans, which we expect to lead to elevated repayments in the back half of the year, after which earnings will begin to normalize.

On the origination front, we remained active, with a continued focus on high-quality real estate owned by premier sponsors. In the first quarter, we originated three loans totaling $535 million, comprised of two office properties and one multi-family property. Net funding this past quarter exceeded $330 million and our portfolio grew to over $5.3 billion as of March 31st.

Our pipeline remains robust, with approximately $750 million of loans either closed or under exclusivity, subsequent to quarter end. To support this growing opportunity set, earlier this month, we raised $172.5 million of of perpetual preferred stock at a fixed-for-life cost of 6.50%. This permanent capital allows us to take advantage of current market opportunities, service our institutional clients, and grow our portfolio, which should lead to improved operating leverage over time.

On the origination front, I want to highlight the Dallas office loan we recently closed. COVID has impacted the office market, so I thought it would be helpful to give a little color on how we are approaching the sector. The short answer is we are marginally more conservative on office, but we'll continue with our same approach as pre-COVID, with a focus on growth markets and a cautious approach to the gateway markets.

The first thing we start with on all loans is sponsorship. In this case, it's a premier sponsor, with over $100 billion of real estate AUM and a deep knowledge of the Dallas/Fort Worth market. Second is asset quality and location. This is a Class A property located in an infill, suburban location in close proximity to affluent housing and decisionmakers that value convenience. Third, the business plan is consistent with our light transitional target profile. The property has recently undergone a CapEx plan and is currently 75% occupied to a diverse tenant base, and the sponsor intends to increase occupancy and rents as tenants' leases expire. Finally, we have a low cost — low basis on acquisition financing at 65% loan to cost.

Turning to our forward pipeline, we've been active in the market with six senior loans that are either closed or under exclusivity, which represent $750 million in committed principal amount for KREF. Our activity reflects our desire to capitalize on attractive opportunities in the current market, some of which stem from COVID's impact on real estate. While we continue to target similar profiles to our pre-COVID activity, like multi-family and select office, we are increasing our focus and activity in the life science and industrial sectors. I'd note that this current pipeline is underwritten to a weighted average IRR in the 13-14% range.

Our portfolio composition remains consistent and is comprised of predominately lighter transitional floating-rate senior loans secured by institutional quality real estate. 85% of the portfolio is comprised of multi-family and office properties. Hospitality and retail continue to be underweight and represent just 6% of the portfolio. Performance on the loan portfolio remains strong, with interest collected on approximately 97% of the portfolio as of the first quarter.

To summarize, we had a successful quarter across earnings, originations, and portfolio performance. We're excited about our franchise and our competitive positioning in the market as we head into the second quarter and beyond.

With that, I will turn the call over to Patrick.

Patrick Mattson
Thank you, Matt, and good morning, everyone. As of quarter end, a market leading 76% of our asset financing remains completely non-mark-to-market, and the 24% remaining balance is only subject to credit marks. Also as of quarter end, our debt-to-equity ratio and total leverage ratio were 2.1 and 3.7x, respectively. Following the preferred stock raise, our debt-to-equity ratio and total leverage ratio sits at 1.7x and 3.1x, respectively, today, but we expect our total leverage ratios to return to the first quarter range in subsequent quarters as we invest the new capital.

As we have discussed in the past, we have a robust quarterly asset review process, and we evaluate every loan in the portfolio to assign an updated risk rating. The current portfolio risk rating of 3.1 on a 5-point scale, is consistent with the weighted average risk-rating last quarter. As we've done in prior quarters, we continue to provide a detailed breakout of our watch list loans in the supplemental presentation. Notably, 89% of our loans are now risk-rated 3 or better, which is improved from 84% in Q4. The improvement is the result of two, 4-risk rated loans being upgraded to a 3-risk rating in Q1, specifically, the Ft. Lauderdale Hotel loan and the San Diego Multi-family loan.

Furthermore, we are seeing improving trends in additional properties which may lead to positive credit momentum in other assets. Approximately 2% of our portfolio is risk-rated a 5 and is primarily comprised of our Portland retail loan. While the property remains challenged, we continue to dialogue with the existing and prospective sponsors regarding the next phase of the property. We continue to believe there are adequate CECL reserves.

We received approximately $244 million of repayments in the first quarter, and while it's always difficult to predict repayments with certainty, consistent with our comments last quarter, our expectation remains for increased repayment activity in the second half of the year. In the near term, KREF should continue to benefit from its in-place LIBOR floors and elevated effective net interest margins. While the portfolio is almost entirely floating rate, currently 69% of the loan portfolio has a LIBOR floor of at least 1% and half of the loan portfolio is subject to a LIBOR floor of at least 1.65%. LIBOR floors on new loans are resetting to spot rates typically around 10 to 15 basis points. As we experience a rotation in our portfolio through loan repayments and new originations, we expect our effective portfolio NIM to compress over time.

Finally, KREF finished the quarter with a strong liquidity position of over $570 million. This total included $209 million of cash and $335 million in undrawn, corporate revolver capacity available to us. Combined with our recent closing of the preferred stock offering, we remain well positioned to capitalize on the growing pipeline of opportunities.

In summary:

- Another strong quarter with elevated distributable earnings of $0.55 per share
- We remained on offense, originating three new floating-rate senior loans totaling $535 million and have a robust pipeline of approximately $750 million under exclusivity or closed since quarter end.
- We completed an inaugural perpetual preferred stock issuance, adding permanent capital that positions the company for portfolio growth and improved operating leverage

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

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star, then 1 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 2. And at this time, we will pause momentarily to assemble the roster.

And our first question today will come from Jade Rahmani with KBW. Please go ahead.

Jade Rahmani
Thank you very much. I was wondering, Matt, if you could just put a little color around your comments that around the back half of the year, elevated repayments, after which you expect earnings to normalize. Are you saying that earnings could be elevated in the back half of the year or under pressure in the back half of the year?

Matt Salem
Hi, Jade. Thank you for the excellent question. I think as we look forward over the next couple of quarters, you know, we still feel like earnings could be elevated as we've said with the existing portfolio and the embedded LIBOR floors. We're seeing the — our best guess — and it's difficult to predict for sure, but our best guess right now is that in the third and fourth quarter, we'll have some pretty heavy repayments, and so once we get through those quarters, that's when you'll start to see a more normalization of of earnings.

Jade Rahmani
And will those repayments have an earnings benefit from accelerated pre-payment income?

Matt Salem
Yes, we'll — I mean, we'll get — some of that will come through. Obviously, in that particular quarter, and then the following quarter, obviously we're not benefitting from those LIBOR floors anymore and could access NIM, but in those quarters, they pay off. We'll see a little bit of that come through.

Jade Rahmani
And the weighted average IRR of 13 to 14% on the pipeline, how does that compare with the IRRs the company has historically generated?

Matt Salem
Yes, you want to just think about the market environment today. I guess comment one would be the pipeline is very big, so there's lots of opportunities to look at. So, that's certainly a positive in what we're seeing. Competitive environment, you know, is high, and you're certainly seeing spread in yield compression in the market. That being said, the way we finance ourselves, there's also a lot of competition in that market, and you've seen cost of capital from the debt sides compress.

And so, you asked about an ROE that we saw kind of in the pipeline. I would say that's slightly higher than what we saw pre-COVID. My guess is some of the loans that we're doing over the next couple quarters will look a little bit more like we did pre-COVID, so closer to that 11 to 12% on an IRR context, just as our expectation of the competitive pressures on the market continue.

Jade Rahmani

And just the last question would be in terms of capital management, capital issuance, the preferred stock issuance, with the stock at about 6 percent above book value, at what level would it make sense to issue common equity?

Matt Salem
Yes, I think we've been pretty disciplined in the past about accessing the market when it's only accretive to the stock. The preferred equity issuance, it took a lot of our near-term — or solved for a lot of our near-term needs for liquidity, so we had a developing pipeline. On the last call, we mentioned that we were focused on equity and we were able to execute a really successful deal on the preferred.

So, looking ahead, what we're really trying to balance is our expectations of these repayments, and so, as we start to think about the third and fourth quarter and heavy repayments, I'd say that takes a little bit of — it probably gives us a little bit more caution in terms of raising equity here in the near term. Because we did the preferred, we can certainly take care of the — our existing pipeline, and then we'll start to get into a repayment schedule. That's not to say things can't change, our pipeline could continue to grow beyond what we think our repayments are, but that's how we're thinking about it in the near term.

Jade Rahmani
Thank you very much.

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

Stephen Laws
Hi, good morning. I guess first, maybe to follow up on Jade's questions, just — you know, I realize these are all unique loans, but — and certainly could be coincidence, but when I look at the subsequent-to-quarter-end loans, it looks like a much lower percentage of that loan was funded than your originations in Q1. As you try and manage your pipeline into that refinanced — or, sorry, repayment wave in the second half, are you actively trying to increase the unfunded commitment balance to have those drawdowns take place in three or six months or 12 months? Is that something you look to do, or is that just coincidental with the post-2Q originations or post-3/31 originations?

Matt Salem
Well, thanks for the question, Stephen, good to talk with you. I think having some base level of future funding is appropriate and takes a little bit of the pressure off quarter-to-quarter originations. That being said, I think what you're describing is a little bit more coincidental and it's a little bit in response to some of the market opportunities you're seeing. Some of that future funding — or most of that future funding is coming from our participation in the industrial sector of the market, where we've rolled out a program where we have some construction lending for, obviously, new-built industrial. So, that's driving most of that, not all, but most of that kind of future funding component that you're seeing in terms of the change quarter over quarter. So it's effective at — historically, we haven't lent a lot on — but obviously with COVID and it's a big, accelerated sector and with e-commerce and we think it's a really attractive opportunity set, and so we've got a couple of deals and that's driving that number.

Stephen Laws
Great. And then pick and pick and comp — I apologize, I haven't made it through the entire Q yet — what was picked income for the quarter, and then maybe how did that change on a year-

over-year basis, which would obviously be a very tough comp for most companies? And then maybe how did that change on a sequential basis?

Patrick Mattson
Stephen, it's Patrick, I'll talk about that. So, on the PIK income, we saw a little bit of change into the first quarter. It's really driven by just a couple of assets, and we've talked about some of these assets in the past, including our one hotel loan in Brooklyn as well as a — as well as the condo loan in New York. So, we've got about $3.3 million in total. I would note that in the quarter, we also saw a reversal of a pick. One of our hotel loans, or other hotel loans, which is the Fort Lauderdale Hotel loan, got modified. There was a $10 million paydown, a true-up of the pick balance, and that loan is now current going forward. So it's a modest amount that we had. I think the net change was about $850,000 for the quarter.

Stephen Laws
Okay, great, so pretty small debt, especially relative to some peers. Thanks, Patrick. Now last question, maybe of the four loans, two New York resi, Brooklyn hospitality, Queens industrial, can you maybe just talk about New York. You guys are there, feet on the ground. So, can you maybe just give us a bigger picture of New York and how you guys are seeing things as far as the reopening and people returning to the office and other things like that, just given you guys are all based there.

Matt Salem
Sure. Well, I think you're just starting to see the reopening, as you mentioned, and that's impacting I would say first and foremost multi-family, where you see the move-ins, that number of folks obviously that moved out during the pandemic, I think you're starting to see the repopulation to come bask as these offices open. And I think New York is a little bit more — it's probably opening more slowly than some of the other markets, with people opening, either a little bit now, but a lot of talk about opening full in the fall, from a lot of tenants. But you're just starting to see, I think, apartment prices stabilize and start to go up a little bit. We've seen some concessions come down in the apartment sector.

I think the office market is still delayed in terms of trying to understand where rents are resetting, where sublease rates are, where occupancy will settle in. So, that's a little bit more I would say uncertain at this point in time. And I would say the financing markets are cautious on certainly the office sector in New York still, and you can — the embedded assumptions I think people are making on new loans are very conservative in Manhattan.

In terms of specifically on the asset qualities that — or the asset property types that we have, when we think about the condo, I think the condo inventory loans that we have, the two that you mentioned, one that has product readily for sale — it's a little bit later in the business cycle — or is it business plan? We've seen a lot of progress and a lot of velocity, and I think you're seeing that across the market. Certainly, you can read about articles in terms of how much velocity there is on condo sales in New York now, and we've certainly seen that at our property. I think we've had almost $50 million of sales since COVID and there's a number of units still under contract that haven't had a close yet. So, it's certainly positive on — in that regard. I think it just shows you that if you lower prices as the market comes down, to meet the market you can certainly sell units and there's liquidity in clearing levels. So those are the comments I'd make around New York.

Stephen Laws

Great. Appreciate the color there. Thanks for the comments, Matt and Patrick, and congratulations on a nice quarter and the recent capital raised.

Matt Salem
Thanks, Stephen.

Patrick Mattson
Thank you.

Operator
And our next question will come from Tim Hayes with BTIG. Please go ahead.

Tim Hayes
Hi, good morning, guys. Matt, I just want to circle back my first question around — I think you might have made a comment about kind of funding costs and how that relates to the all-in ROEs you're seeing on new loans versus pre-COVID. But are you seeing repo costs come down and/or advance rates move up as the banks are competing with a very hot capital markets backdrop right now?

And then just Part B to that is, a lot of your peers have executed on CRE CLOs this year, and just curious with your light transitional strategy, I know you already have one — have done one before, but how you feel about that financing strategy in the near term as well?

Patrick Mattson
Tim, good morning, it's Patrick. I'll take both of those. So first on the financing cost, yes, we are seeing compression on the liability side. Sometimes these don't always move in tandem, and sometimes there's a delay. So, what's happening on the asset side, but we're certainly seeing across the board, repo spreads compress in the market. I think in part that's driven by what's happening in the broader securitization market, including the CLO side. I think this has been a very active year on the CRE CLO side, and as you noted, some of our public and private peers have accessed that market.

We're seeing one or two deals come to market this week, so very active and at a very efficient cost of capital. So, that's an active – that's a market that we continue to track closely. We have a very attractive cost of capital on our existing CLO. We haven't had a lot of retainment to date, so even though we're past the reinvestment period, we're still benefitting from that very attractive cost of capital, but we're encouraged by what we're seeing on the liability side and in particular in the CRE CLO market as we're thinking about financing needs over the course of this year.

Tim Hayes
Got it. That's helpful. And, you know, I guess we'll see what happens there. But just based on what — I guess the velocity of those spreads coming in and maybe what you could — would expect with the CRE CLO, do you think that the trajectory in funding costs would just partially offset the pressure on asset yield you're seeing as repayments are recycled into new assets at tighter spreads or lower bases? Or would it partially offset — fully offset or more than offset, just curious kind of what your expectations are there. And I guess just more broadly, I'm trying to see if it's really the spread, the NIM spread that's coming in that's going to put — I guess bring earnings power more — to a more normalized level next year of it it's really just maybe expectations for portfolio contraction as repayments pick up.

Matt Salem
Sure. So, I think about the offset as being sort of partial to what's happening on the asset spread. I think you also have to separate a little bit of the current effective NIMs that we have in the portfolio — are really a benefit of — from these LIBOR floors. So, when we originally underwrote those loans, that's not the NIM that we were anticipating, but obviously we've gotten the benefit of over the last year and a half or so. So if I compare that — if I compare the market today to some of the pre-pandemic levels and think about that from a NIM standpoint, it's not actually very different from the pre-pandemic market. We're seeing NIMs that are on a relative basis very attractive. I think if we try to compare them to our effective NIMs today, it will look like a lot of compression. If you look at it in comparison to the market pre-pandemic and before we saw a really dramatic drop in LIBOR, they're actually very comparable. So, we're obviously pleased with that and the level of activity that's happening on the liability side.

I think the other thing that we will likely get the benefit of as some of these loans pay down with these higher LIBOR floors, as I mentioned on the opening remarks, we're resetting new LIBOR floors to the current spot rates, so 10 to 15-basis point LIBOR floors, which means that at some point in the future, if and when LIBOR does rise, we'll have some positive correlation within the portfolio to that rising LIBOR and we'll get some positive benefit in higher in the higher-rate environment.

Tim Hayes
Right. That definitely makes sense, and I can go back and see kind of what dividend coverage looked like before COVID and if that's kind of where NIM is expecting to trend, we can put 2 and 2 together, but I'm just curious if you could just provide some comment around your expectations for dividend coverage as we get to that more normalized earnings run rate early next year.

Matt Salem
Yeah, I think our pre-COVID sort of quarters where we were fully deployed, I think are fairly representative. That said, it's really early, right, to think about that and how that all transpires over the next year or so. So, I think our expectation is that it will normalize, i.e. that and some of the elevation that we've had in this — in these earnings will come down, but I think in terms of sort of exact levels and in terms of coverage, I think it's too difficult to predict at tis point.

Tim Hayes
Sure. Okay. And then just on credit, I know you made some comments earlier, but can you maybe give us an idea how interest collection or just rent collections on the properties underlying your portfolios have trended so far in April relative to the first quarter?

Matt Salem
I think on some of the April numbers, and it's probably a tad bit early to get all of that flowthrough, I would say that from an interest-collection standpoint, it remains the same two loans that we're not collecting on, which is the 5-rated loans. I think on the underlying properties, if I look at just some of the occupancy trends that we're seeing in particular on the multi-family assets, we're seeing positive improvement there from the later quarters of last year. So I think that's encouraging. I think — so directionally, I think it's positive. I don't have an exact figure in terms of what those collections have been, but they've been very high across the portfolio. We've seen very little issue with sort of collections at our assets, and I expect that trend to continue.

Tim Hayes

Great. Well, I appreciate the color there, guys. Congrats on a strong quarter.

Matt Salem
Thanks, Tim

Operator
And our next question will come from Charlie Arestia with JP Morgan. Please go ahead.

Charlie Arestia
Hi, good morning, guys. Thanks for taking the questions. Most of them have been covered already, but I wanted to follow up, I guess, on Tim's question on the financing side or, I guess, realistically asking a similar question in a different way. You guys closed the term loan late last year at like L+475, and I think there was a 100-bp floor on that. And I believe that started amortizing in March. When you look at the new loans putting — that are coming on the portfolio that are inside those spreads and overall the more diversified funding structure that you guys have beyond the traditional warehouse lines, can you just talk a bit about where you see loan origination spreads directionally going from here and I guess ultimately how you see the economics of those new loans coming on the books, flowing through to the bottom line versus your all-in funding costs?

Patrick Mattson
Hi, Charlie —

Matt Salem
Thanks for your question. Patrick, why don't I take — I could take the first part of it and then —

Patrick Mattson
Sure.

Matt Salem
Hand it over to you. I would say on the new origination front, for light transitional assets we're seeing all-in coupons, call it, in the mid- to low-3 percent context right now. And we've been creating a little bit more return than that, pointing at some of the sectors we like, like industrial, for instance, to get a little — we can cash a little bit more return there and that's on the construction lending side. So, but I would say in that, call it 3 percent, mid to low-3 percent context like the very light transitional assets right now.

Now, Patrick, I'll hand it over to you for the second part.

Patrick Mattson
Yes. On the financing side, Charlie, the term loan B obviously is one piece of our diversified financing structure. I think we're encouraged by what we're seeing in that market. We've got a soft call date that is — expires September 1st of this year. We think that there are potentially a number of deals that will see fresh pricing points between now and then, but we're encouraged by what we're seeing in that market. And obviously, there's an ability to reset rate there, but it's one component of what we're doing. And we think about that cost of capital holistically and so that you'll see that we've got a range from our repo facilities to the CLO to the term loan B that all aggregate to form this weighted average cost of capital, and I think you've seen we've been very disciplined about, one, diversifying it but, two, driving costs down over time.

Charlie Arestia

Got it. Okay, thanks for that. And then just switching gears real quick, looking at the forward pipeline, I saw one of the new April loans secured by a single-family rental portfolio. Would love to get your thoughts more broadly on that property type. It seems like it's been a real growth area over the last couple of quarters post-COVID and kind of just curious to get your outlook on the competitive environment.

Matt Salem
Yes. It's Matt. I can take that one. Yes, it's a sector we like a lot. Obviously, one of the COVID-accelerated areas as well, and so, when you think about what we're doing, and cross-industrial life sciences would certainly be another area that has benefitted from the pandemic — this particular loan is for — it's a build direct for an institutional sponsor that we covered pre-pandemic. It's a unique opportunity within Phoenix. This is an area that has a lot of — I want to say, single-family rental, broadly. It's got a lot of access to liquidity across the debt and equity. So, I don't see this as being a very large part of the portfolio, but we like the sector, and if we can find opportunities like this, we'll continue to do these. But there's a lot of liquidity in this sector. So, we'll have to find — pick our spots in terms of where we can create returns in the risk profile that makes sense for us.

Charlie Arestia
Thanks very much for taking the questions.

Operator
And our next question will come from Don Fandetti with Wells Fargo. Please go ahead.

Don Fandetti
Yes. Jack, congratulations on the new role. Matt, on the Fort Lauderdale Hotel can you remind us where our occupancy was pre-COVID, where it sort of dipped, and where we are today, just to give a sense on the recovery there?

Matt Salem
Don, thanks for the question. Let me pull that up. I don't have those numbers off the top of my head.

Don Fandetti
No problem.

Matt Salem
So, let me give you the current month. Occupancy was in the 70s, ADR in the high 300s. So, RevPar very high 200s. If you look back to a stabilized number, call it like a T12 pre-COVID, occupancy's in line with that and ADR is actually higher. So, our RevPar for this current month is beating — is ahead of calling the T12 number pre-COVID.

Now, keep in mind this is a — obviously a good time to be in Florida in terms of vacations and things like that, so we would have expected that. But the performance has been very strong, and clearly the sponsor here is committed to the asset with the most recent modification coming out of pocket and paying off the accrued interest that we had or the pick interest and de-levering the loan by $10 million. So — and we upgraded this loan from a 4 to a 3 for all these performance and the most recent modification, et cetera.

Don Fandetti
Got it. Thanks for the details. I guess also on the shift to a little bit leading harder into industrial, I would think that these developments that you — it sounds like there's in — the pipeline for e-commerce would be pretty competitive. Are you seeing a lot of competition in those types of deals, or is there enough construction risk to where you can like create some value?

Matt Salem
It's a competitive sector, but it does feel like there's a lot of opportunity here. The construction component of industrial, obviously, is a little bit more simple than a multi-story building, whether that's multi or office. However, just the fact that it is construction does win it the capital base, especially from some of the regulated institutions. And so, I think there's certainly opportunity here, and it's an area — if you think about the equity side of our business — we have millions of square feet of exposure and market knowledge. And so, I think it works nicely with our overall theme of investing in areas that we have a lot of knowledge in, that we can use the overlap from what we're doing on the equity side and the credit side and vice versa. So, I do think there's — we're certainly seeing a lot of opportunity, just given the increase in demand in that sector, so I'm hoping that will continue through the year.

Don Fandetti
Okay, thank you.

Operator
And our next question will come from Steve Delaney with JMP Securities. Please go ahead.

Steve Delaney
Thanks, and good morning, everyone. I would also like to welcome Jack. We look forward to working with you moving forward. Guys, obviously everything has been covered pretty thoroughly. The only thing I have left on my list is the $1.6 million reduction in the CECL provision. Is that specifically related to the two 4-loans that were upgraded to 3, and given that there are several other 4-rated loans, if those would also be upgraded, could there by additional CECL recoveries in the year ahead? Thanks.

Mostafa Nagaty
Good morning, Steven. This is Mostafa. I hope you're doing well.

Steve Delaney
Thanks, Mostafa.

Mostafa Nagaty
Thanks for the question.

Matt Salem
Hi, Steven.

Mostafa Nagaty
So, yes, a good question. So, with respect to the CECL, obviously had the $1.6 million benefit and there's a variety of factors that kind of resulted in this net decrease or reserve quarter over quarter. Foremost, it's really that that macro economic scenario that we implemented this quarter, which is pretty much in line slightly better than prior quarter, so that's resulted for a good, you know, portion of the increase. There were some offsetting factors, I think, on some of the upgrades that we had and then with the Fort Lauderdale Hotel that also resulted in about a

good portion of the decrease. That was also offset by some of the originations. Keep in mind that this quarter our originations were double the repayments. So, there were some offsetting factors, but I think the two key factors here are kind of the upgrades and the updates for the hotel loan Patrick just touched on as well as the macro economic assumption.

Steve Delaney
Okay. Well, I knew you guys have taken a lot of questions so I'll leave it there. And it sounds like you're in a great position, set up for 2021, so congratulations.

Matt Salem
Thanks.

Operator
And our next question will come from Aaron Cyganovich with Citi. Please go ahead.

Aaron Cyganovich
Thanks. You mentioned your pipeline is fairly large and you had some nice activity post-quarter. What's the activity of the sponsors? Are you seeing that continue to increase? Is it — are the sponsors coming with a lot of the similar type of properties? Are you seeing a more broadening of sponsor activity related to your business?

Matt Salem
Well, thanks for the question. I definitely think we see increased activity from all the — from all of our sponsors, and that's just a continuation, really, of what we saw in the fourth quarter of last year, certainly ramping up into this year. And I think there was a lot of pent-up demand, both on the refinance side but as well as on the acquisition side, and the flow of capital continues in the alternative space and specifically within real estate. And if you think about how the real estate is set up right now, from a macro view, in a low-interest rate environment, where there's potentially long-term concern around inflation, real estate sets up pretty nicely. It's got a yield component to it and can be a hedge against inflation. So, our expectation is that you'll see continued capital flowing into the sector, which will obviously benefit our sponsors and create the activity for us.

In terms of where we see the focus, it's similar to what I think we described on the call. There's a lot of haves in the real estate world now that – and there's like a much clearer bifurcation between the have and the have-nots. And so sectors with the most entrants are all the housing sectors, so obviously, multi-family, single-family, rental. I think there's a lot of demand for coming back for student housing as schools announce their back-to-school programs for the fall. Senior housing is probably a little bit behind all that, given the impact of COVID on that sector. But then you're seeing things like life science, industrial, a lot of activity in those sectors, and that's not just from the capital base. It's obviously from the tenant base as well that's driving this activity, and there's a real need for either converted space or new space in some of these sectors. And that's great for our capital base because that's really what we're set up to do is to lend on that level of transition.

I still think there's a big question mark for most of our sponsors around how to play some of the office sector, how to play the retail sector. Obviously, the retail sector is not something we've historically been that involved in, but certainly we've seen a big pause there for the obvious reasons. So I'd say nothing too unexpected. Just continue the activity and the real focus on where people have identified growth.

Aaron Cyganovich
Very helpful. Thank you.

Operator
And this will conclude the question-and-answer session. I would like to turn the conference back over to Jack Switala for any closing remarks.

CONCLUSION

Jack Switala
Great. Hey, everyone, thanks for joining our call today. Feel free to reach out to me or the team here with any follow-ups. Thanks, everyone.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.

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