KKR Real Estate Finance Trust, Inc.

Q2 2026 Earnings Conference Call

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CORPORATE PARTICIPANTS

Matt Salem - Chief Executive Officer
Patrick Mattson - President and Chief Operating Officer
Kendra Decious - Chief Financial Officer
Jack Switala – Head of Investor Relations

PRESENTATION

Operator:
Good morning and welcome to the KKR Real Estate Finance Trust Inc. Second Quarter 2026 Financial Results Conference Call.

All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0". After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*", then "1" on your telephone keypad. To withdraw your question, please press "*", then "1" again.

Please note, this event is being recorded.

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

Jack Switala:
Great. Thanks, operator, and welcome to the KKR Real Estate Finance Trust Earnings Call for the Second Quarter of 2026.

As the operator mentioned, this is Jack Switala. This morning, I'm joined on the call by our CEO, Matt Salem, our President and COO, Patrick Mattson, and our CFO, Kendra Decious.

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

Before I turn the call over to Matt, I will go through our results. For the second quarter of 2026, we reported a GAAP loss of $122 million, or -$1.95 per share. Book value as of June 30, 2026, was $10.24 per share. We reported a distributable loss of $36 million, or -$0.58 per share. Distributable earnings before realized losses was $6 million, or $0.10 per share. Lastly, we paid a $0.10 cash dividend with respect to the second quarter.

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

Matt Salem:
Thanks, Jack. Good morning, everyone. And thank you for joining us today.

Let me begin by acknowledging our announcement that KREF's Board has initiated a review of strategic alternatives intended to enhance shareholder value. This process will be led by a strategic review committee composed solely of the Board's independent directors. I recognize there may be questions regarding the process. However, given its early stage and the need to preserve the integrity of the committee's review, we do not plan to comment further on this matter. To preempt any questions, to be clear, KKR has not submitted a proposal for any transaction to date. As the committee does its work, KKR will evaluate its potential participation in any KREF transaction, but there's no guarantee that KKR would make any proposal in the future. KKR's stated goal as manager is to support the committee as effectively as possible, and as the largest shareholder, KKR is aligned with the committee's mandate to enhance shareholder value. We do not plan to comment any further on KKR's perspective on this matter as well.

Let me turn to the results next. As we reach the midpoint of 2026, I'd like to focus on the progress we have made executing the action plan we outlined earlier this year. While there is still work ahead, we've made meaningful progress against our key priorities and believe the actions we've taken position KREF for book value stability and longer-term performance. Against that backdrop, we've reported distributable earnings before realized losses of $0.10 per share, covering our quarterly dividend. And as a reminder, we continue to expect $0.40 per year of dividends to be covered by our annual distributable earnings before realized losses as we execute our business plan. Our expectations are for earnings to trough later this year but remain in this area over the next several quarters before the benefit of our portfolio repositioning emerges. Book value declined 13.7% during the quarter, primarily reflecting actions taken to position our watch list assets and legacy office exposures for monetization. This quarter represents a significant step toward achieving our goals. We have adjusted reserves and carrying values to our current expectations for monetization of these assets. While we are still executing these resolutions and final outcomes could affect ultimate recovery levels, we believe the most significant book value impact is now behind us and that KREF is positioned for greater stability going forward.

Let me provide an update on our progress against the goals laid out for the year:

Legacy office. Legacy office exposure declined to 18% of the portfolio at June 30th, compared to 21% at year-end 2025. We remain focused on reducing that exposure below 10% by year-end 2026.

Watch list. The watch list represents 16% of the portfolio as of June 30th. Nearly half of the assets are currently being marketed, and we continue to target a complete reduction by year-end.

Life science. We ended the year having modified approximately 19% of our life science exposure. Today, that figure has increased to 39%, and we believe the vast majority of expected reserves have now been recognized. We remain on track to address substantially all of our life science exposure through modifications or other resolutions by year-end.

Lastly, new originations. Loans originated between 2024 and 2026 now represent approximately 32% of the portfolio, compared with 19% as of 2025 year-end. We are continuing to target increasing newer vintage investments to more than half of the portfolio by year-end.

We believe the portfolio we are building today will ultimately be more resilient and better positioned to support long-term earnings growth and book value stability. Importantly, each of these initiatives is interconnected. As we resolve watch list assets, we generate liquidity that can be redeployed into newer vintage investments. This portfolio rotation is well underway and should continue through the remainder of the year.

Turning to repayments. During the quarter, we received over $800 million of repayments. As a reminder, we continue to expect more than $2 billion of repayments throughout 2026. To put that in some perspective, this represents over 35% of the portfolio size at the beginning of the year and is larger than the approximately $1.5 billion of repayments in each of 2024 and 2025. This repayment activity has generated liquidity to support our broader strategy, including funding new originations, allowing us to reposition the portfolio into newer vintages, and execute share repurchases.

Turning to capital allocation. During the quarter, we repurchased $38 million of common stock at a weighted average price of $6.63 per share, generating approximately $0.32 per share of book value accretion. Subsequent to quarter-end, we repurchased an additional $10 million of common stock at a weighted average price of $7.24 per share. Future capital allocation decisions on share repurchases will be part of the strategic review process.

Overall, we believe the actions we have taken over the past several quarters have meaningfully advanced our transition plan. While there is still work to do, we remain focused on advancing our action plan, resolving certain legacy assets, improving performance of the portfolio, and creating long-term shareholder value.

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

Patrick Mattson:
Thanks, Matt. Good morning, everyone. Overall, we made progress during the quarter as we continue to execute against our priorities. We've taken decisive action to address watch list assets, advanced monetization plans across the portfolio, originated attractive new investments, and maintained a strong liquidity position that provides significant flexibility as we continue to reposition the portfolio.

Let me begin with an update on the portfolio and watch list, where we continue taking proactive steps to align the portfolio with our expectation for asset resolutions. During the quarter, two watch list loans were resolved, including a repayment on our Georgetown multifamily loan, previously risk-rated 4, as well as the Boston Life Science loan, which transitioned into the REO portfolio with no material impact to book value given prior reserves. Reflecting current market conditions, we downgraded our Chicago office and Carrollton multifamily loans from risk-rated 4 to risk-rated 5, and a $42 million Dallas multifamily asset from risk-rated 3 to 4.

Turning to the REO portfolio, our focus remains when executing business plans and positioning assets toward monetization. We made continued progress across several assets. In Portland, Oregon, we expect to complete the entitlement process this month, positioning us to advance the monetization strategy for the mixed-use redevelopment project. In Mountain View, California, as a reminder, we executed a full building lease with OpenAI this year, and we expect the tenant to take occupancy of a portion of space this quarter, and we currently anticipate bringing the property to market within the next year. In West Hollywood, we closed on the first condo sale this month and are in active discussions with prospective buyers on additional units. As we've discussed previously, we believe the REO portfolio contains embedded value that we can unlock through disciplined execution of these business plans and subsequent redeployment into performing loan assets. As we optimize our REO portfolio, we continue to benefit from resources across the broader KKR real assets platform, including our asset management and capital markets capabilities.

Turning next to originations. We remained active during the quarter, originating three loans for approximately $350 million, with a weighted average LTV of 58%. These included a multifamily portfolio loan in Spain, a multifamily loan in Los Angeles, and a California office portfolio loan.

We continue to identify attractive opportunities where we can be highly selective and disciplined in deploying capital.

Finally, I'd like to highlight KREF's strong liquidity position. At quarter end, KREF had over $700 million of liquidity, including $83 million of cash on hand and $350 million of undrawn capacity on our corporate revolver. Our total financing availability was $7 billion, including $2.6 billion of undrawn capacity, and 79% of our financing remains non-mark-to-market. Importantly, we continue to expect elevated repayment activity throughout the remainder of the year. We received approximately $1.2 billion in repayments through the first six months and expect total repayments this year to exceed $2 billion. Our debt-to-equity ratio was 2.6x, and our total leverage was 4.3x as of quarter-end. As repayments continue, we expect total leverage to naturally move back into our target leverage range of 3.5-4.0x. To summarize, we continue to execute against our action plans and have made meaningful progress during this quarter.

Looking ahead, our priorities remain clear. Continue reducing watch list exposure, monetize REO assets where appropriate, redeploy capital into attractive new investments, and drive earnings recovery over time. With our strong liquidity position, robust liability structure, and the support from the broader KKR platform, we believe we are well-positioned to execute on these priorities.

With that, we're happy to take your questions.

Operator:
Thank you. We will now begin the question-and-answer session. To ask a question, you may press "*", then "1" on your touch-tone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press "*", then "1" again. At this time, we will pause momentarily to assemble our roster.

Your first question comes from Tom Catherwood with BTIG. Your line is open.

Tom Catherwood:
Thanks. Good morning, everybody. Matt, maybe starting with you. You mentioned in your prepared remarks how the increases in reserves and the lower book value really reflect your current expectations for monetization of watch list assets. But if we look back to 4Q and 1Q when you introduced the portfolio repositioning plan, if you will, you also took kind of significant reserves there. I think it was a combined another 12% plus. So maybe if we think of this quarter, how was the loan loss review process and book value assessment different than it was in the prior two quarters? And kind of what level of confidence do you have that we've reached book value stability at this point in time?

Matt Salem:
Yes. Thank you, Tom, for joining us, and appreciate the question. I'd say a couple of things to highlight there. First of all, last quarter, we indicated there could be further potential softness as we implemented the action plan. Some of this is discovery, as we go through this process, where are the clearing values? What are we seeing in the market? I think this quarter's decline in book value reflects that and just reflects some of our posture as it relates to trying to monetize as much as possible and some of the transition to four to five, or we've also begun to try to create liquidity on some of that portfolio through note sales as well.

At this point in time, we feel like we're positioned to execute on that with the watch list and have reserves or pricing around our current expectations of monetization. And as I highlighted on the prepared remarks, we haven't finalized all these yet, right? They're in different kind of stages of the process, but we certainly feel like the most significant impact to book value is behind us. And as we finalize these processes, there could be some small up and down, but we feel like we've come down the road and have these in a position where we understand the clearing values a little bit better right now.

Tom Catherwood:
Do you think, was it really this discovery process, or was there also maybe an adjustment in the clearing values of these? Was there some level of erosion this past quarter?

Matt Salem:

Well, it's hard to say in terms of…I think it's a question of did the market move on us, or do we just kind of know more about where the market is? I think it's hard to tell on some of these markets, especially when you're dealing with office assets, which there's some level of illiquidity in the market today for these. I don't think that we have a clear transparency in terms of, "Okay, where was it last quarter? Where is it this quarter?" I think what we have now is we're in a number of processes. We're getting real-time market feedback around levels to sell these, and we're adjusting, obviously, our reserves or our marks accordingly.

Tom Catherwood:
Got it. Appreciate that, Matt. Patrick, maybe last one for us. You've previously ranked priorities for uses of capital. In the past, you discussed maybe buybacks as one, and then originations as two, then B-pieces investing as three. Obviously very busy on the buyback pace in this past quarter. As you look forward, especially with the level of repayments that have come in, how would you rank your capital allocation priorities today if you look out for the rest of the year?

Matt Salem:
Hey, Tom, it's Matt. Maybe I can jump in for Patrick and take that one as well. I think, first of all, just as we think about the overall portfolio size, we'll take into account just some leverage ratios right now. So we got ahead in terms of investing a little bit, and we've been behind in the past, if you recall from earlier quarters, we got a little bit behind. We'll wait and adjust a little bit in terms of new originations here in the near term just because the portfolio leverage is we're at about 4.3x. Think about our normal range is in that 3.5-4.0x area.

So there's a little bit of repayment activity that we've been getting a ton of repayments and we'll get more here. That'll kind of bring us back down in line. And then as we do that, we can start thinking about options for investing. And I think when we start to understand the option for investing, a couple of things to highlight there. First of all, as we think about the share buyback, clearly that was really accretive. And we've done a lot of that over the course of the last couple of quarters here. That's part of really the strategic review committee at this point. So we'll interact with them and try to understand what's the go-forward there. And then outside of that, it's just regular way investing and just keeping in mind our overall leverage ratios.

Tom Catherwood:
Got it. Appreciate the answers. Thanks, Matt.

Operator:
The next question comes from Jade Rahmani with KBW. Your line is open.

Jade Rahmani:
Thank you very much. Starting with life science, can you give an update on the risk-5 Boston Life Science loan, not the one that went into REO, but the other risk-5 rated loan?

Matt Salem:
Yes, it's Matt. Thank you for joining this morning. The update there is we are in modification discussions. We have maybe the more important part of that, and I didn't specifically call it out, but I think we mentioned it in the prepared remarks, is that we do believe we're fully reserved on that loan at this point in time. So we'll continue with the modification discussions, but do not anticipate negative book value implications on that particular asset going forward.

Jade Rahmani:
Okay. And can you say whether you think that will remain alone or could go REO?

Matt Salem:
I think it's too early to say that at this point in time. My guess is it does not go REO, but we've got discussions ahead of us. But I wouldn't look at it as like, if you're thinking about like projecting and drags on earnings and things like that and cash flow, I wouldn't be modeling it like that.

Jade Rahmani:
And what are you seeing across the rest of the life science book? Maybe you could start with Cambridge, which I know is a Class A asset and was already modified, San Carlos and Redwood City both have had some leasing, and then the REO that you now actually own.

Matt Salem:
I mean, I'll speak at a high level. I think that we're seeing…you're certainly starting to see green shoots in the market. You're starting to see some leasing come back. I think it's still early. The markets that are more weighted towards life science, think about Boston, whether that's Cambridge or Seaport or South Boston, I think those are further behind. They're still green shoots, but they're further behind some of the West Coast markets that you mentioned, which are beginning to see more office demand. And that's causing a tightening in the market.

And as you well know, a lot of these assets can be office or life science, so catching demand from both of those, especially as you start to see the tech and AI leasing pickup on some of these West Coast markets, has been helpful. And then as you start to move up the coast on the West Coast, like into Seattle, where we have REO, I'd say that is beginning to happen as well, where we're starting to see AI-related office leases, well, tech-related, but specifically AI as well. Office leases tighten up that market a little bit. And so we're evaluating opportunities there. We have life science tenants in our asset, but could we have office tenants in the asset there too as the office market tightens up? So I think a lot of it right now is life science starting to come back, but it's early. And if you are any market that has AI and tech exposure and you have…that's causing tightening in the overall markets, specifically to office and there's some overflow into life science. So that's kind of how I'd characterize it now, but it still feels early on the life science side.

Jade Rahmani:
Okay. Just overall on the REO book, which stands at $658 million, Seems that the Mountain View has a reasonable chance of being monetized in the next year. Beyond that, what do you think the expected duration is of what would be remaining? You know, we're talking multiple years. Is it possible that there could be a strategy to accelerate, selling this to more of an opportunistic buyer, developer, some other form of capital that could really see that through and then give KREF the chance to repatriate their capital and drive core earnings growth?

Matt Salem:
Right. Setting aside the strategic review committee and how they may look at it and potential options as it relates to that, I don't think we've changed how we think about the portfolio in terms of duration. So we've got a number of assets that we really, we think are more near-term resolutions. And you can see that on page 8 of our supplemental as well, where we've got the West Hollywood condo asset where Patrick mentioned we're getting some traction there. We're selling units now, so that's beginning to move. We still think about our Raleigh, North Carolina multifamily asset as a near-term sale. We are in the market with our Philadelphia office, that's REO, and that should be accomplished this year, hopefully, liquidation. Then we've got the more medium-term resolutions in terms of, as you highlighted, our Mountain View asset. We still think about that as second quarter next year. And then we've got our Portland, Oregon redevelopment where we've made a lot of progress or near final in terms of all the redevelopment rights

that we've been working hard on with that asset, that's more medium-term. And then we've got the two assets that we've always talked about as just longer term, so the Seattle Life Science assets that I've referenced, and now the Boston Life Science asset. Those two are going to be longer term. Like I mentioned, they're a little bit further behind in terms of leasing demand, and we're starting to see some positive things there. But those will take time to season, and we certainly don't want to force anything on those two. So I don't think much has changed. I think we still think about it as like this near-term, medium-term, and then two assets over the longer period of time.

Jade Rahmani:
Thank you.

Matt Salem:
Thanks, Jade.

Operator:
Your next question comes from Gabe Poggi with Raymond James. Your line is open.

Gabe Poggi:
Hey, good morning, guys. Matt, I just want to make sure that I heard you correctly. So the strategic review has been announced. Is KREF able to buy back stock during the strategic review process or is that on hold?

Matt Salem:
Gabe, thank you for the question. I don't think it precludes us from buying back shares, but I think it'll be a conversation with that committee. You think about what's underneath. They'll be reviewing everything. So it certainly should be a part of that when you think about uses of capital.

Gabe Poggi:
Right, Okay. Just piggybacking on some prior comments to Tom's question and uses of capital, et cetera, and your prior commentary following 1Q is obviously you've been putting money to work in buying back stock and just wanted to make sure that the review did not preclude additional repurchases. Second question is, Patrick, you mentioned that about half the watch list, the loan watch list is being marketed. I know the Philly office loan is held for sale. Any other color you guys can provide around what loans maybe being shopped right now?

Matt Salem:
Gabe, I can maybe start out with that and Patrick, feel free to jump in. Well, first of all, let me start out by saying I think we try to be as transparent as possible on these calls and give you guys the color that we can. We are in a more sensitive time period now, I'd say, with some of these processes in terms of liquidations or sales. So I think we want to be mindful of that right now as we answer this type of question, because we'll try to finalize some of these in the near term. One thing I think, because we have had some questions on this initially, we have some loans, we put a loan in held for sale now. I just want to make sure everybody understands. When we look at our portfolio now and we think about the watch list and we tie that back into the action plan, we are looking at every single loan and asking ourselves, how do we optimize the outcome here? And there's all these unique facts and circumstances around what's going on, whether that's the borrower, the asset itself, the market. And we've got an array of options that we have to evaluate, things like, okay, can we modify the loan? Can we short sale it? If we can't do those things, can we note sale it? And obviously you've seen where we think that there's a business plan and a way to enhance long-term value, we'll go to title and we'll take it to REO. So when you see these different outcomes, I would just assume that like we're looking at all these different things, we have the full toolkit available to us, and we're going

to go down the path that we think creates the best outcome as it relates to really moving through the action plan. So maybe that's…I know that doesn't answer your question, but I wanted to frame that a little bit because there's some questions about how we're going about and whether it's a modification or a short sale or a note sale, et cetera.

Gabe Poggi:
That's very helpful. Thanks, Matt.

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

Your next question comes from Chris Muller with Citizens Capital Markets. Your line is open.

Chris Muller:
Hey, guys. Thanks for taking the questions. So I guess on the EU multifamily origination, LTV is lower than we typically see, especially on multifamily. Is that just the EU market and coupons are more on par with the U.S., but LTVs are lower? And then kind of piggybacking off that, does getting the new facilities, the EU facilities in place, mean you guys plan on doing more overseas in London?

Matt Salem:
Well, thank you for joining, and I appreciate the questions. I don't view the European market as different leverage point for multifamily. I think the business plan is a little bit…it is probably a little bit different, where there's a kind of a sale component to this multifamily unit. So you're coming in at a little bit lower leverage point to start than maybe we're typically seeing in the States on just a traditional multifamily. But I don't characterize that. I think the 70-ish LTV is what we would typically see on a multi in Europe. We haven't really…as part of your second question there. I don't think we've changed how we think about Europe as a piece of the overall portfolio. We still think about that in the, call it, 20-25% area. The facilities that we're putting in place just allow us to continue to invest in that market but hasn't materially changed how we think about the portfolio position, or really the relative value, I guess, at the end of the day, is what drives that. We think that the relative value is pretty balanced right now between the U.S. and Europe. And then when you just think about the relative size of the markets, you can translate that into position sizing within the portfolio.

Chris Muller:
Got it. That's very helpful. And then given the elevated repayments, how are spreads on new loans first? What is paying off? Are you guys able to pick up any incremental yield or is that more of a headwind to the bottom line?

Matt Salem:
Well, spreads, just spread to spread are lower for sure, because the new spreads have adjusted for the current rate environment. When you think about ROE, on the levered returns that we can get, I would say those continue to be in historically, at least on a new origination or new investment basis, it's pretty consistent in that 12% area context. Now, of course, some of the loans that we have today are out earning that because they were originated in a lower spread environment and therefore had higher spreads and now they've rolled up the curve, if you will. But in terms of just ROE, that hasn't changed much. It's really what we think about coming up low double digit, 12% area in terms of the target. And we haven't seen, in terms of what's happened locally here, I'd say spreads have been relatively stable, absent a little bit of volatility as it relates to the war in Iran but have

been pretty stable over the course of the year. So we haven't really seen any material tightening or widening for that matter over the course of 2026.

Chris Muller:
Got it. Appreciate you guys taking the questions today.

Matt Salem:
Thank you.

Operator:
Your next question is a follow-up from Jade Rahmani with KBW. Your line is open.

Jade Rahmani:
Thank you very much. I just wanted to take a step back in terms of where we are in the commercial real estate cycle. You did have one downgrade to risk 4 from risk 3, the Dallas multifamily. Multifamily is a lower cap rate asset class. Rates have gone up, and there's still a ton of supply in the Sun Belt. So fundamentals haven't really turned more positive, which is weighing on the space. So if you could talk about just broader credit trends and also focus on multifamily and what you're seeing?

Matt Salem:
Yes, sure, Jade. It's Matt again. I'll take that. I think on the multifamily side, you're right to highlight that just this higher rate environment, higher for longer, I think has put a little bit more pressure on values, and it certainly wasn't the market's expectation we would be where we are now a couple of years ago. I don't think that changes how we have think about the credit risk or the loss content in the multi-family component within KREF, I think that we would characterize it the same way we have been on many of these earnings calls over the last handful of quarters, which is there'll be some noise, and there'll be some losses, but we don't think it's like material to book value. We had a big portfolio of multi, so rates go up 500 basis points. There will be some impact there, but we don't think it's really that material. And these recent, slightly more softer capital markets activity within multifamily is reflected in that statement as well.

I'd say looking forward, you highlighted that there's still supply being digested in these markets, which I think is accurate. But we're almost at the end of that. And so I'd say we are somewhat optimistic that…and the absorption, by the way, has been higher than I think we all would have expected, likely because housing is pretty expensive right now. I think we're relatively optimistic in terms of as you start to look forward here over the next few quarters going into next year, that the market could see a tightening up of both the occupancy and rents, as well as the overall capital markets. It doesn't really change how we're operating within KREF right now, and you can kind of see that in some of the downgrades that we have and some of those were short sailing, right? We're kind of forcing people out. We're not going to wait and kick the can down the road. I think we want to try to get to a point where we don't have some of that noise. But I would admit there's probably locally here a little bit of softness in the market and pressure on values. However, it is still pretty optimistic as we look at a few quarters.

Jade Rahmani:
Thanks very much.

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

Jack Switala:
Well, great. Thanks, operator, and thanks, everyone, for joining this morning. You can reach out to me or the team here if you have any questions. Take care.

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