KKR Real Estate Finance Trust, Inc.

Q3 2026 Earnings Conference Call

October 29, 2026, at 11:00a.m. Eastern

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. Third 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 Third Quarter of 2026. As the operator mentioned, this is Jack Switala. This morning, I am joined on the call by our CEO, Matt Salem, our President and COO, Patrick Mattson, and our CFO, Kendra Decious.

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

Before I turn the call over to Matt, I will go through our results. For the third quarter of 2026, we reported a GAAP net loss of $6 million or $0.11 per share. Book value as of September 30th was $10.14 per share.

We reported a distributable loss of $152 million or $2.64 per share. Distributable earnings before realized losses and Strategic Review expenses were $5 million, or $0.09 per share. Lastly, we paid a $0.10 cash dividend with respect to the third 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 with a brief update on the Strategic Review process. As we announced in July, KREF's Board established a Strategic Review Committee composed solely of independent directors to evaluate potential strategic alternatives. Since that announcement, the committee has retained a financial advisor and legal counsel and continues to evaluate the company's strategic alternatives. Given the review is ongoing, we will not be providing any further commentary on the process during today's call.

Turning to the broader commercial real estate market, the recent increase in interest rates has created renewed pressure on property values, presenting both opportunities and challenges for real estate lenders. Existing borrowers will be impacted by higher debt service costs and lower refinancing proceeds, particularly for assets financed at peak valuations in 2021 and early 2022. We expect this

environment to extend resolution timelines and, in some cases, result in additional credit losses. At the same time, these dynamics should drive increased demand for refinancing and recapitalization capital as borrowers work through upcoming maturities. Importantly, underlying property fundamentals remain generally constructive across most sectors, supported by tenant demand and a meaningful slowdown in new construction activity.

As we continue to reposition KREF's portfolio, we believe this environment provides an attractive opportunity to redeploy capital into new loans with compelling credit characteristics and risk-adjusted returns. Portfolio repayment activity has been particularly strong, with $2.4 billion of repayments year-to-date, surpassing our $2 billion expectation for the year. This quarter, repayments totaled $1.2 billion. This quarter's repayments nearly matched our annual repayments for each of 2024 and 2025. Importantly, much of this activity has been concentrated in our older vintage loans, accelerating the natural rotation of the portfolio and reducing our exposure to loans originated during the 2021 and 2022 market environment. Those vintages accounted for over 80% of the repayments this year. We continue to make substantial progress executing the portfolio action plan we outlined at the beginning of the year. Our priorities have been to accelerate the resolution of watchlist and legacy office exposure, address our Life Science portfolio and reposition the portfolio toward newer vintage loans with more attractive credit characteristics.

During the quarter, we resolved three additional watchlist loans. While the pace of resolutions has been encouraging, the timing and ultimate valuations of remaining assets is challenging. We continue to actively pursue monetization strategies for these assets, although some transactions previously anticipated to close before year-end are now likely to extend into the first half of 2027. We remain focused on advancing these resolutions while maintaining a disciplined approach to maximizing recovery. Given the more challenging liquidity and valuation environment, we could see an increase in reserves in the near term as resolution processes advance and market conditions continue to evolve.

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

Patrick Mattson:
Thanks Matt. Good morning, everyone.

I'll begin with origination activity. During the quarter, we originated $157 million of loans, including a Class A senior housing portfolio secured by four properties across the U.S. and a Class A Texas office property. From a broader market perspective, conditions for new investments remained constructive. Credit spreads have been relatively stable. Financing for loans remains readily available and liquidity across markets remains healthy. We expect our pace of originations to remain measured. Given our focus on maintaining balance sheet flexibility, we have been deliberate in deploying capital rather than seeking to replace repayments with new loans on a dollar-for-dollar basis.

Turning next to balance sheet and liquidity. The combination of significant repayment activity and our disciplined approach to capital management has meaningfully strengthened KREF's financial position throughout the year. At quarter-end, liquidity increased to approximately $853 million, including $166 million of cash, $53 million of loan principal repayments held by a servicer following a repayment on the last day of the quarter and $600 million of undrawn capacity on our corporate revolver. This represents one of the highest liquidity positions for KREF's history, well above the historical average of approximately $600 million. Importantly, this liquidity provides us with significant flexibility as we continue to execute our portfolio strategy. We also continue to further optimize our financing structure. During the quarter, we exercised optional redemptions on our two remaining CRE CLOs, completing the retirement of both transactions. Given the substantial repayment activity and reduction in the

underlying collateral pools, these transactions have become less efficient financing structures relative to other non-mark-to-market financing alternatives available to KREF. Strong repayment activity during the quarter also drove a meaningful reduction in leverage, with our debt-to-equity ratio declining from 2.6x to 2.2x, and total leverage declining from 4.3x to 3.1x, below our historical target range and we expect leverage to remain below the historical range for the fourth quarter.

In summary, the third quarter represented another important step in executing the priorities established at the beginning of the year. We materially reduced the watchlist, advanced the resolution of legacy exposures, exceeded our full-year repayment expectations ahead of schedule and further strengthened our liquidity position.

With that, we are 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 are 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:
Excellent. Thank you, and good morning, everybody. Matt, I want to go back to something you said in your prepared remarks about that you could see or we could see, more reserves in the near term as the resolution process advances. The question that pops into my head is what is holding you back from getting ahead of that and taking worst case scenario type marks right now? Is it that you do not have the market comps because transactions are slow or is it something else that is holding you up from kind of getting ahead of that and kind of creating a worst-case baseline?

Matt Salem:
Yes, Tom, thanks for the question. I think if you think about what is on the watchlist now and the kind of processes we are in, a lot of that is just a function of a little bit of opaqueness and some of these markets are relatively illiquid. So we obviously are marking these and have CECL reserves appropriate for what we are seeing in the market today. But as we have seen over time, number one, markets can change, and number two, just given how the liquidity in some of these markets, like we do not know exactly where these processes can end up. So as we kind of continue to work through those, we will obviously adjust it in real time for what we are seeing, but just understanding where the overall market is today, we wanted to obviously highlight that as we continue to work through the resolutions here.

Tom Catherwood:
And you mentioned resolutions on the watchlist. I assume, though, this applies to kind of the remaining legacy loans. Obviously, that amount came down in 3Q with the repayments, but are you expecting more modifications? Are you expecting more things that you think could have reserves or more migrations out of that legacy, but three-rated or better portfolio?

Matt Salem:
I think everybody, including ourselves, is looking at their portfolios in a new light now, clearly with adjusted values and the interest rate that we are living in today.

And where we are seeing potential noise, I would say, is certainly on some of the multifamily that feels like it has been the most impacted in the rate hike environment in those vintages we called out on the call in terms of the 2021 and 2022 vintages. So that is probably the area we are watching closely. We have got a lot of repayments, and a lot of those loans, like we said, this was a huge repayment quarter for us, equaling almost all of last year and the year before and 80% of that, as we highlighted, was in those vintages. So we are seeing real velocity there. But values are down a little bit, and some of those loans are close to the line and so we will have to continue to monitor those as they come up for refinance.

Tom Catherwood:
Just a quick follow-up on that one, Matt. Do you have a sense of… for those legacy multifamily loans you mentioned, do you have a sense of where those debt yields sit right now?

Matt Salem:
I mean, obviously, there's a huge range. I think on average, we're well into the sixes. But it's the stuff at the lower end of that range that is going to be the most acute and have the most problems, obviously, refinancing. So those are the ones we're really focused on. But we'll continue to see how the market evolves from a value perspective. I think it's changing, I'd say, on a day-to-day basis as the market resets expectations around not only cap rates, but just growth profile as well.

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

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

Jade Rahmani:
Thank you very much. Can you give any color on the Boston Life Science resolution? I did not see clearly in the 10-Q what happened to that loan. Was that sold or acquired? Any color would be helpful.

Patrick Mattson:
Hey, Jade. Good morning. It is Patrick. Happy to take that. On that loan, we had financing on that. That was non-recourse financing. And so, as values have changed on that asset, we assigned that loan back to the lender. And so what you see reflected in this quarter was the loss on our portion of that loan and it is obviously removed from the portfolio at this point.

Jade Rahmani:
Okay. That is helpful. Thank you. On the multifamily portfolio, can you comment as to what percentage is pre-2023 vintage and what the in-place debt yields are on that? And also, can you further comment if there is a property that has, say, a 5.5 to 6% debt yield, would that require KREF to absorb a loss? That would imply close to 100% LTV, so not necessarily a loss, but it depends on the friction points and what happens in such a situation.

Matt Salem:
Yes, I do not have the exact percentage of the 2021 and 2022 multifamily in front of me, so we can follow up on that.

On the second part of your question, the 5.5-6% debt yield area, I think certainly we would be watching those very closely. It really comes down to two things. It's number one: what's the embedded growth in the market? Because the 5.5% in New York City or San Francisco or some of these markets that

are experiencing real growth is very different than some of the Sunbelt markets that are still absorbing supplies, as you well know. So there's going to be a range of cap rates depending on the market.

And the second thing is really around sponsor. And number one, what's their kind of liquidity level? What else is in their portfolio that they're dealing with and what's their kind of willingness to continue to play forward and try to continue to grow cash flows over time to enhance their outcomes on their equity. So these are all in play and we've seen it across the board. I certainly think having a portfolio outside of KREF as well, that we're seeing marginally more capitulation in the multifamily sector from borrowers, given this latest rate hike. That speaks a little bit to the second point I'm making that I think you are seeing a little bit more velocity, whereas before we were getting a lot more paydowns and playing it forward. I think there's been slightly more capitulation in the market today around some of that. But those are certainly the ones that were… that corridor is certainly the ones that we're focused on in terms of their ability to refinance.

Jade Rahmani:
A follow-up would be with multifamily as a more liquid asset class and fundamentals potentially nearing a trough, could you devise an alternative strategy to fund REO with leverage and hold some of these assets, more so than you've done with, say, office? Does that make any sense, or do you think the better outcome is to just work these out? Share some of the value reduction and tickets to book value.

Matt Salem:
Well, I think similar to every time we have an issue in the portfolio, we're going to look at all the options available to us and how do we optimize the outcome and maximize recovery for the balance sheet. And you think about what we did in Raleigh, North Carolina, on that multifamily deal; we felt like we could go in and stabilize cash flow and operations there and then sell it into a better environment. And I think we're proving that out on the operations side for sure. And we feel very good about how the occupancy there and where we are on the cash flow basis. And obviously they carry a lot easier to your point, I think is what you might be suggesting and then some of the life science we have, for instance, where you don't have the tenants there, and so there's a net cost on an ongoing basis. So that certainly will factor into the analysis.

Look, hard to predict the future; obviously the market's very dynamic right now, but when I look at our portfolio, I don't think it's going to be, I don't see like a wave of opportunities to do that if that's part of the question. I think we could have isolated situations where the loan is closed and we ultimately have to take some reserves on it, but I don't think we're looking at it like, wow, this is going to be a big portfolio of multi that we have to make decisions on. So that may help you think through it a little bit.

Jade Rahmani:
Thank you.

Operator:
Your next question comes from Rick Shane with JP Morgan. Your line is open.

Rick Shane:
Hey, guys. Thanks for taking my question this morning. Look, you guys, I know you won't comment per se on the Strategic Review process, but at the same time, you have two other things going on. One is resolution of the existing portfolio. And then the real question is, how are you sort of approaching the market in terms of additional investment? You guys did originate loans this quarter, but leverage is now below target ratio. You're sitting on a lot of liquidity. Do you see yourselves as

active participants in the market and more importantly, from sort of a management perspective, how do you sort of motivate employees in the context of this sort of potential uncertainty?

Matt Salem:
Right. Thank you for the question. I guess just to be direct, 100% we're active participants in the market. We originated two loans this quarter. I'll come back to that piece of the question here in a second. Let me answer your final piece of the question. Keep in mind that the team that invests on behalf of KREF invests for other pools of capital within KKR as well. So this is a smaller piece of our overall business and that business is continuing to grow, and we have lots of different types of capital that we invest there. We invest bank capital, we invest insurance capital, we invest debt fund capital. So there's lots of capital, and we're actively originating loans across our $43 billion of AUM within real estate credit at KKR. So there's lots going on, and the motivation question you had, I don't think, is particularly relevant for our team and our situation. And then when we just think about how we're positioned in the market, I think you're right to put a few things in there. When I look at this quarter in particular, let's just understand last quarter we were above our target leverage ratio and we had talked about wanting to bring that down. So we were able to accomplish that.

The second thing, which I highlighted earlier, was we got a ton of repayments this quarter. And you never quite know, especially in a market where the Fed starts hiking again, like, okay, what's going to come through, what's not, do things get extended? And some of those were actually pretty back-ended in the quarter. So you have this moment in time where certainly that contributed to it, where there's a lot coming through in the quarter, a lot coming through towards the end, and we weren't leaning into originations either because we were trying to bring down leverage and trying to understand kind of where we did in the quarter, so some of it is just the complexity around that. And I'd say the last piece of it is creating some more flexibility right now and optionality for ourselves. I don't think it's a bad thing either, where we start to look at what's going on in the market; values are resetting. You know, perhaps the loan you're going to make tomorrow is better than the loan you could have made 60 days ago. So I think there's also reason to just be prudent as we kind of think about what's going on in the market today.

So none of those factors are the single determinant of where we snapped the line at the end of September, but they're all kind of factoring into it of how we kind of think about to go forward here. But certainly, closed loans in the quarter end are active.

Rick Shane:
No, look, it's a very fair point, and you linked up something that I didn't- that I heard but didn't link up- which is how heavy the repayments were at the very end of the quarter and given the uncertainty that the third quarter events created, the macro events created, and the potential sort of extension of timelines on anything in the meeting of the minds, it makes sense to sort of be careful until all of that stuff closes. I don't know if you covered this; I apologize, but it looks like the cadence of the buyback really was just in July and then slowed down. Is that related to the Strategic Review or how should we think about that going forward, particularly given the leverage, et cetera?

Matt Salem:
Yes, I think you're right to call that out. And I think we mentioned this on the last call. The buybacks, it's all… think about that Strategic Review is one of the key things they're looking at, of course, is capital allocation. And so share buybacks will be part of that. And that really effectively impacted, if you will, how our participation in that investing piece of the business after that announcement.

Rick Shane:

Got it. Okay. Actually, when I really think about that from a legal perspective, it totally makes sense. Thank you for pointing it out and answering that question timely. At the end of the day, it doesn't really make sense to be buying back stock when you're doing that because you've got information. Anyway, I get it. Thank you guys for taking my questions as always.

Matt Salem:
Thank you. Appreciate you joining.

Operator:
Again, if you have a question, please press "*" then "1".

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

Chris Muller:
Hey guys, thanks for taking the questions. So, looking at your slide deck, the interest sensitivity slide stands out. Can you just talk through why higher rates are not a more meaningful benefit to the bottom line?

Patrick Mattson:
Chris, good morning. It's Patrick. I'll take that. Yes, it's a good sort of highlight. We would expect normally that you would get some benefit from higher rates. A couple of factors here. One, we're at the point where we've got some floors that are effectively pretty close. So as we think about going up a little bit higher, it's not changing that much. We're not getting the additional benefit on the asset side. The other factor is just that if you look at our debt outstanding that's subject to a floating rate and look at our loan assets outstanding that are subject to a floating rate, they're fairly close to each other. We're not obviously levered one-to-one. We've got a lot of value tied up, for example, in the REO assets.

But the REO assets aren't producing income, right? So they're not subject to the benefit of higher interest rates. So it's really the fact that the secured debt outstanding, the Term Loan B outstanding, is fairly close to the loan portfolio size.

Chris Muller:
Got it. That makes sense. And then looking at the Strategic Review expenses, I guess I heard you guys mention the legal counsel and financial advisor. Is that all that's going into that bucket there? And is that an ongoing expense, or is it more one-time in nature?

Kendra Decious:
Hi, Chris. It's Kendra. Thanks for the question. So I would say that the Strategic Review costs predominantly include financial advisors and legal advisors. I would point out that it is ongoing, as you asked and also consider the timing of when the Strategic Review Committee was formed. So the expenses were back-ended in Q3. So I think you can assume from that in Q4, those expenses will grow on a full-quarter basis.

Chris Muller:
Got it. That's very helpful. I appreciate you guys taking the questions today.

Kendra Decious:
Thank you.

Operator:

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

Gabe Poggi:
Hey, good morning. Thanks for taking the question. Matt, Patrick, I've got kind of the top-of-the-house question. What is KKR doing holistically? I mean, Matt, you alluded to all the different buckets of capital that the team works on, right? What's KKR looking at across commercial real estate in this environment? What activity do they find is interesting? I noticed the life science JV with Alexandria that was probably announced a few days ago, but any color you can provide as to the kind of the opportunity to KKR or that you're seeing and doing in other pockets of capital away from the REIT, I think would be helpful. Thank you.

Matt Salem:
Thank you for the question, Gabe. I guess you could break it down between equity and debt. And I'd say on the debt side, we remain active with all of our pools of capital and think it's an attractive lending environment for all the reasons we talk about on this call and for our peers talk about ability to lend on a reset basis with supply coming down in a higher interest rate environment. I think it's a good credit story. We're seeing that demand from our insurance company, but also on the private debt fund side, I think there's a lot of capital getting allocated to the sector. And I'd say there we'll continue to invest in what you would expect in terms of on-theme assets from a property type, so nothing too new there.

You saw in this quarter we originated a loan within KREF on senior housing. So that's an area where we certainly have a lot of experience and positive experience on the equity side of our business and have been involved on the debt side. But in terms of new things we're looking at, that's probably one area that we're slightly more active. Otherwise, it continues to be heavily focused on multifamily and industrial lending for the most part.

I think when you put the equity hat on, the market's probably opening up a little bit for us in terms of investing the value-add, opportunistic funds. And it's early days, but I think there's going to be a lot of investors, ourselves included, spending time in the multifamily segment of the market. I think Jade was pointing out the fact that supply is coming down, and yet now you have another pressure point on value. And this could be an interesting entry point, not to call the bottom, but certainly as you think about investing capital, it looks like an attractive place to go, and a lot of capital structures are coming due, like we talked about in our portfolio and in our peers. So I think that's an area in particular we'll spend more time on.

Gabe Poggi:
Thank you.

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

Jack Switala:
Great. Thanks, operator, and thanks, everyone for joining today. Please 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.

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