# KKR Real Estate Finance Trust Inc.

## Q2 2020 Earnings Conference Call

## Tuesday, August 4, 2020, 11:00 A.M. Eastern

**CORPORATE PARTICIPANTS**

**Michael Shapiro** – *Head, Investor Relations*

**Matt Salem** – *Chief Executive Officer*

**Patrick Mattson** – *President and Chief Operating Officer*

**Mostafa Nagaty** – *Chief Financial Officer*

**PRESENTATION**

**Operator**
Good morning, and welcome to the KKR Real Estate Finance Trust Inc. Second Quarter 2020 Financial Result Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key, followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your telephone phone keypad. To withdraw your question, please press star (*) then two (2).

Please note this event is being recorded. I would now like to turn the conference over to Michael Shapiro. Please go ahead.

**Michael Shapiro**
Thank you, operator. Welcome to the KKR Real Estate Finance Trust earnings call for the second quarter of 2020. We hope that all of you and your families are continuing to stay safe and healthy.

Today, I am joined on the phone by our CEO, Matt Salem; our President and COO, Patrick Mattson; 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-K for cautionary factors related to these statements.

Before I turn the call over to Matt, I will provide a brief recap of our results. As a reminder, we provided a preliminary set of results on form 8-K on July 13th. For the second quarter 2020, we had a GAAP net income of $28.6 million or $0.52 per share which included a $1.4 million or $0.02 per share benefit from a slower CECL provision, core earnings were $25 million or $0.45 per share the high end of our preliminary estimated range.

Core earnings included a $4.7 million or $0.08 per share write-off on our small $5.5 million Mezzanine loan. Booked value per share as of June 30, 2020 increased to $18.57 which included the impact of $1.16 per share from CECL as compared to 18.45 as of March 31st.

Finally, I would note that in mid-July we paid a cash dividend of $0.43 per share with respect to the second quarter.

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

**Matt Salem**
Thank you, Michael. Good morning and thank you for joining us today. We hope you all are healthy and safe. We are now five months into the pandemic and the company is continuing to show its strength. Our conservative posture over the last few years for both our lending strategy and liability management has differentiated us during this volatile time while still generating earnings power from our LIBOR floors. KREF has a best in class investment portfolio that was purpose-built for the latter stages of an economic cycle.

Our $5.3 billion almost exclusive senior loan portfolio focuses on institutional real estate and sponsorship and is secured predominantly by class A lighter transitional, multi-family and office properties located in the most liquid real estate markets. Today our average loan size is $134 million and approximately 80% of our loans are located in the top 10 markets in the U.S.

Our investment portfolio is 99% first mortgage senior loans with no direct holdings of securities. Our two largest property type exposures are multi-family and office which represent 81% of the portfolio. In addition, 87% of our multi-family loans and 75% of our office loans are secured by class A properties. Importantly, more volatile property types like hotel and retail represent only 8% of the portfolio and as I mentioned we believe our focus on light transitional properties provides a safer, shorter duration loan, our future funding as a percent of our total commitments so effectively how much more value-add dollars are going into a property is currently 9% which is among the lowest in the industry. We match our loan portfolio with one of the most conservative and diverse set of liabilities.

Our team with the invaluable assistance of KKR capital markets has been focused on growing and diversifying our non-marked to market financing capacity. As of quarter end, 73% of our liabilities across 8 different financing facilities were completely non-marked to market meaning both capital markets and credit markets. This is an important distinction that historically the market did not focus on closely. Patrick will discuss this further in his remarks.

Finally, the company benefits from its affiliation and integration with KKR. As a reminder, KKR is KREF's largest shareholder. In addition, our integration with KKR's growing real estate platform allows us to see around the corner to identify investable and non-investable trends. First KKR real estate has one leadership team and we are fully integrated across our real estate equity and debt businesses.

Our extensive portfolio across real estate equity and credit gives us a differentiated view of real estate fundamentals, trends and values across a broad range of markets and business plans. In addition, we benefit from one firm culture that rewards information sharing. The one team approach has also led KKR to use all of its relationships and wallet share to encourage our financing relationships to support our growing real estate business and KREF specifically. Our ability to access all of the KKR brain is really driven by that culture of collaboration.

Since our last quarterly call, our weekly pipeline discussions have reverted back to market opportunity and originations. With many lenders on the sidelines, we are seeing favorable market dynamics with spread on light transitional loans increasing by approximately 200 basis points. We recently launched a term loan B to allow us to take advantage of the market opportunity we see today. With a focus on the same high-quality real estate, we have been underwriting since our IPO. While we will be measured and selective in new investment opportunities, we are actively quoting transactions and believe we are well-positioned to take advantage of the attractive lending environment. As we had indicated in our pre-release last month, 99.8% of our borrowers made their interest payments in the second quarter and July. Through our robust quarterly asset review process, we re-evaluate every loan in the portfolio to sign an updated risk rating.

Our portfolio which totals $5.3 billion at the end of the quarter has a weighted average risk rating of 3.1 on a 5-point scale. One small Mezzanine loan that was substantially written off moved from a 4 rating to a 5 and one loan moved from a 3 rating to a 4 rating given a recent change in the sponsor's underlying business plan. The 84% of the portfolio was risk rated 3 or better and we feel good about the performance on those properties.

To-date only two loans or two hospitality loans which we discussed in detail during our last quarterly call have had any payment related modifications. In an effort to continue to increase the level of transparency for our investors, we provided a detailed breakout of our 4 rated loans this quarter on page 14 of our supplemental. As a reminder, we had no 4 or 5 rated loans prior to COVID. The 16% in this category are predominantly secured by more COVID sensitive property types like hospitality, retail and for sale condo housing. We feel very good about our relative position in many of these properties and are seeing improving trends in a number of business plans.

Our Portland retail property is most negatively exposed, and we maintain frequent dialogue with the sponsor given the property's planned sale, near-term loan maturity and the underlying business plan which incorporates both retail and entertainment providers such as Live Nation.

Given the limited portfolio activity in the second quarter, I thought I would spend some time diving deeper into our multi-family and office portfolios this quarter. While we believe our overweight positions and these property types is a differentiator, it is also important to understand our level of conservatism within the asset class especially in today's environment. So, let me spend a few minutes providing some incremental background.

On page 10 of our earnings supplemental, we provided some disclosure for our multi-family and office portfolios. Starting on the multi-family side, our average loan size and weighted average LTV was $146 million and 67% respectively. Notably less than 1% of our multi-family portfolio were for construction and the weighted average occupancy was 74%.

Let me spend a minute highlighting the typical fact pattern that we would lend on in the multi-family segment. Typically, we provide construction takeout financing giving our sponsors a better cost of capital and time to lease the property and burn off the initial lease up concessions. Having just been built, the properties are class A with many having the best amenities in the market. We like lending on this stack pattern because we usually have a number of leases in place. The property is already built and there are no moving pieces as it relates to construction. We can look at the individual leases that have been signed and extrapolate that into a stabilized cash flow which we think creates a straightforward underwriting and a simple business plan. Underlying collection on our multi-family properties continue to show a strong trend in the 90% area. On the office side, we have a similar average deal size but a lower weighted average LTV at 64%. We have no exposure to some of the larger co-working tenant markets like New York, San Francisco or Los Angeles and less than 1% of our space is occupied by co-working tenants.

We typically lend on lighter transitional or value-add projects and we value in-place tenancy and cash flow for the stability it provides. Our going in average occupancy on our office portfolio was 72%. So, there's no heroic underwriting assumptions for lease up. We will provide capital for renovations to upgrade things like the lobby, elevator cabs or add amenities to the building.

Our underlying office occupancy remains in the high 70s with a weighted average remaining lease term of over six years and a weighted average debt service coverage ratio in excess of 1.4 times. Our underlying collections have shown relative stability and are only slightly lower than our multi-family portfolio. We believe these overweights represent our differentiated investment strategy and conservative portfolio which will continue to position KREF well in the current environment.

Now let me turn the call over to Patrick.

**Patrick Mattson**
Thank you, Matt and good morning everyone. As of quarter end 73% of our in-place secured financing was completely non-marked to market full stop and the 27% remaining balance was only subject to credit marks. We continue to invest a considerable amount of time and resources to differentiate and diversify our financing sources and are excited to be in the market with our inaugural term loan B issuance. Our focus on non-market to market financing has allowed us to lower the risk of our liabilities while at the same time maintain target leverage levels despite the recent volatility.

On page 15 of the supplemental, we provided incremental details on our financing facilities. In addition to the running cost of funds, we have included advance rates we have borrowed against our underlying loans. Notably we have targeted a lower advance rate across our mark to credit only repo facilities while pursuing slightly higher advance rates when borrowing against non-marked to market facilities. Our repo financing represents 27% of our outstanding secured financing and we have not received any margin calls on any of these marked to credit facilities.

The facilities are diversified across three banks and individually represent small exposures for KREF and our bank lenders. The facilities have term maturities which we have successfully extended a number of times including a recent extension with Goldman Sachs. In aggregate, the repo facilities finance 11 loans. of which almost 75% is class A multi-family and office assets. Our financing facilities and partners are continuing to work in ways consistent to the pre-COVID time and during the second quarter we funded $78 million against loans previously closed consistent with our projected $25 million per month and we borrowed $68 million across our various financing facilities. KREF's liquidity position remains strong with $431 million of availability including cash of $127 million as of 2Q and access to an additional $285 million on our corporate revolver. Additionally, we would anticipate loan repayments to supplement our liquidity position in the coming quarters as a number of properties have reached stabilization.

Finally, almost the entirety of the portfolio remains invested in LIBOR based floating rate loans. As a reminder of some of the details, 98% of the loan portfolio has a LIBOR floor of at least 95 basis points while only 5% of our liabilities have a floor above zero. So, a spot LIBOR rate around 16 basis points and the weighted average LIBOR floor on our assets of approximately 180 basis points, KREF continues to benefit from increased net interest margin in this declining rate environment.

In summary, our best-in-class investment portfolio is providing strong earnings power through significant in the money rate floors. We generated our second-best core earnings quarter in the company's history. We're continuing to diversify our financing sources including growing our market leading 73% non-marked to market secured liabilities. We have a strong liquidity position and are beginning to see interesting opportunities to lend at attractive levels on credits consistent with our historic underwriting.

Thank you again for joining us today and now we're happy to take your questions.

**QUESTIONS AND ANSWERS**

**Operator**
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star (*) then one (1) on your telephone keypad. If you are using a speakerphone, please

pick up your handset before pressing the keys. To withdraw your questions, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster.

The first question will be from Jade Rahmani with KBW. Please go ahead. Go ahead, Jade.

**Jade Rahmani**
Thanks for taking the question. Yes, can you hear me?

**Operator**
We can now. Thank you.

**Jade Rahmani**
Okay. Thanks very much. I was wondering if looking at the disclosure you could provide some color as to how occupancy in the multi-family and office portfolios compared say quarter-over-quarter, I've gotten a couple of questions on that.

**Matt Salem**
Hi, Jade it's good to hear from you. It's Matt. Yes. I would say the occupancy is pretty consistent quarter-over-quarter. We haven't seen large changes in either of those segments.

**Jade Rahmani**
Okay. That's good to hear and in terms of the outlook for repayment, it sounds like you are expecting a pickup in refinancing even in the current environment as a number of properties, I assume in the multi-family have reached stabilization? Is that accurate?

**Matt Salem**
Yes. It's Matt again. That's accurate. It's still difficult to predict the exact timing, but when we look across the portfolio we've got a few multi-family properties that are close to stabilization and in discussion with borrowers they're starting to think about refinancing us or potentially selling the asset and then it's not just multi-family though, there's some office assets as well where they're largely finished with their business plan and lease up.

So, we're watching a number of the loans to see over the next kind of back half of the year if we can get repayments.

**Jade Rahmani**
Okay and just lastly on the outlook for credit, you have any expectation for a near-term increase in the amount of loan loss provisioning based on the loans you disclosed on the watch list?

**Matt Salem**
No. I mean I think that the number we have for our reserves there what we kind of see in the portfolio today based on the model that's being run.

**Jade Rahmani**
Thanks very much.

**Matt Salem**
Thanks Jade.

**Operator**
The next question will come from Don Fandetti with Wells Fargo. Please go ahead.

**Don Fandetti**
Hi, a couple questions. First can you talk a little bit about liquidity in the real estate market? I mean are you seeing more capital willing to step in? Are you seeing sellers willing to sell or things starting to move a little bit more?

**Matt Salem**
Hey Don, thank you. It's Matt. I think that's right. The market is starting to thaw out from March, April inactivity and we expect this fall and going into the winter to be you're very active. There is a lot of capital on the sidelines, but at the same time there's clearly some distress in portfolios and so we do think that that will create transaction activity and there is pent up demand on the refinance side as well and as the market shut down for a couple months there, people will come back to market and try to refinance their existing loans. So, from what we see I think both the equity side of our business and the credit side of our business are really gearing up for a pretty active Fall and winter.

**Don Fandetti**
I guess on looking at some of the stressed properties the Portland asset based on I think you had said the property is being marketed for sale, based on kind of what you're seeing, do you have enough reserve on the balance sheet to cover that scenario or would you expect a book value hit from the sale of that asset?

**Mostafa Nagaty**
Got it. Well I don't think it's necessarily in distress. I mean they're in sale and the plan is it's a big redevelopment plan and I guess it's too early to tell where that sale ultimately -- where the price ultimately shakes out. So, I wouldn't want to speculate on where it is but the way our CECL model works is, it incorporates lots of things in terms of LTV and DSCR and it also incorporates our risk ratings. So, losses tend to be more weighted towards obviously the riskier loans in our portfolio, but I think it's a little bit early to tell exactly what happens on that asset.

**Don Fandetti**
Got it, and then lastly in terms of new originations you'd mentioned spreads are pretty wide, I assume you want to balance that with sort of a defensive position. How much would you be willing to allocate to new originations if you saw fantastic spreads, like can you give us a sense on what you'd be willing to do? Is it $100 million, $200 million?

**Matt Salem**
Yes. I don't think we have an exact number right now, but I think we feel like we have enough liquidity to begin lending and so and we'll judge the market as we proceed and just to be clear I think we're not de-emphasizing liquidity. We're not de-emphasizing being defensive, but if you look at where we are from the liquidity position whether it's cash on the balance sheet, the revolver, potential issuance of a of term loan B, there is going to be lots of liquidity available to us and so I think we're going to start bringing some of that to work and what the market environment looks like and what our prepayments look like that'll really judge the amount of capital that we put into the market over next year or two.

**Don Fandetti**
Got it. Okay. Thank you.

**Operator**
The next question is from Stephen Laws with Raymond James. Please go ahead.

**Stephen Laws**
Hi, good morning. I wanted to follow up a little bit on your comments over the last few minutes on originations and spreads widening. Thinking about the existing portfolio with LIBOR floors, well above market today, can you maybe make it apples to apples if the loan extends or you modify it and you're able to keep an above market LIBOR floor in place, what is the trade-off? How much does spreads need to widen to make a new origination more attractive today than having the benefit of a LIBOR floor at 1.5 or even higher on some of the loans?

**Mostafa Nagaty**
Yes. I guess we don't, we're not thinking about it versus the existing portfolio. The existing portfolio is clearly generating a lot of earnings power right now through those LIBOR floors that you're mentioning. So I would not say that we're encouraging our clients or borrowers to pay us off, so we can go make a new loan in the current environment but I do think if you look at it pre-COVID versus post-COVID just in terms of the NIM and the ROE we can create before obviously the decrease in our LIBOR in monthly LIBOR, the NIM is increased and the ROE we can generate is in the same context or higher than where we were pre-COVID.

So, we still like the market obviously. From a credit perspective, the loans are more conservative today both from structure and leverage. It's more of a lender's market right now. So that's we're seeing good credit. We're seeing attractive returns, but clearly those LIBOR floors on the existing portfolio are very powerful.

**Stephen Laws**
Yes, and on the financing side 73% non-mark-to-market you guys have been one of the highest in the group, for a while in the low 70s. Is that where you'd like this number to be, can it -- can it go higher? I would think there's -- at some point maybe it's -- there's some benefit to having some that's maybe cheaper with some mark-to-market but can you comment on where you'd like to see that non-mark-to-market mix kind of on a go forward basis or maybe the next 12 to 18 months?

**Patrick Mattson**
Hey good morning, Steve and it's Patrick. I'll address that one. So, I think you're right. At 73%, we feel really comfortable where we -- what we've achieved here over the last couple of years. I think there's room for us to do more. I don't think we need to be at a state where we're a 100% non-mark-to-market. We do think there is a place and we obviously have a very good repo counterpart and so we think that's part of our mix going forward, but our biggest focus was really being on diversified and getting to a sort of a higher number and I would quantify 73% as being sort of a higher number.

So, this feels like a good mix or a good level for us to be at, but there is opportunity for us to marginally improve that over time.

**Stephen Laws**
Right. Thanks Patrick and Matt kind of higher level all new investments and just more for the market, given expect -- strong underwriting and good performance of the upcoming vintages post this crisis, how do you think about opportunities maybe doing Mez loans with no balance sheet leverage versus continuing to do the senior mortgages with a couple of turns of balance sheet leverage? Are we at a point in the cycle or advantage where maybe those Mez investments are more attractive or how do you think about the opportunities between senior and Mez loans for new originations?

**Matt Salem**
Well, yes, a lot of it's just driven by client demand and what the market dynamics are. I think pre-COVID there was a lot of liquidity and obviously we wanted to capture as much economics as possible and most of our competitive set including us could quote the whole loan and had pretty attractive financing to be able to create the levered ROE and the question is where are we today? and I think there is a little bit of shift in the market, I think that there's more ability to create the whole loan and sell on a note. So, over time could I see a small shift towards more a higher percentage of Mezzanine loans in the portfolio versus today? I think you could, my guess is at the end of the day the borrowers that we deal with are very institutional in nature. They value certainty of execution, they value the ability to kind of come to one counterparty, one-stop shopping and do the loan. So, I still think the primary business will be quoting the whole loan and providing that to our clients, but I could see the mix shifting a little bit in favor of Mez.

**Stephen Laws**
Great. Thanks for that color and just in closing I appreciate the additional disclosure. The new supplement is extremely helpful. Thank you.

**Matt Salem**
Thanks.

**Patrick Mattson**
Thank you.

**Operator**
And the next question will be from Steve Delaney with JMP Securities.

**Steve Delaney**
Thank you and good morning everyone. First for Patrick, the $512 million of future fundings at June 30, Patrick did I hear you clearly that we should think somewhere about $25 million a quarter is the takedown rate on that $500 million?

**Patrick Mattson**
That's correct Steve. We model that pretty detailed over the next couple of quarters and we've been consistently running at that rate, so that's a good number to assume. Sorry, just to clarify, $25 million a month just to make sure.

**Steve Delaney**
Pardon me, yeah, okay. That's why I was I thought at 25 it's going to be a pretty take a long time to pay down 512. So, okay, 25 a month, 75 a quarter. Okay, well thank you sir, and Matt for you, very positive just the fact that you're looking at new investment opportunities and I guess I don't put words in your mouth I think I heard you say you're actually quoting terms. Could we see an origination as soon as by the end of the third quarter or should we think more like four quarter in terms of when any actual closings might occur?

**Matt Salem**
Difficult to predict and obviously we're coming into August, so we're not in a normal environment but a normal environment you'd expect kind of a little bit of slowdown in transaction activity in late August here, but I think it's around that time frame whether we hit before September 30th or slightly thereafter. I mean I think it's in that context and part of it just depends on what we see

that we like and if we're able to sign up a deal or two but that's certainly where we're active today which would imply that we can have a closing within that time frame.

**Steve Delaney**
Great. That's helpful. Thank you and just last one little quick thing for me, could you, I guess Matt or either of you just give us a high level kind of profile of the tenant mix that your large Minneapolis office buildings, I'm just curious with the credit profile of the tenants are given what's going on in that market these days? Thanks.

**Matt Salem**
Well, I think the most important thing on that particular asset is that it's basically stabilized. So, the occupancy on that is in the 90s and it's pretty long lease term. I don't have the exact average remaining lease term on that property, but it's been leasing up until the weight average we're making at least pretty strong on that one and this was actually a loan that we had marked for potential repayment actually as early as the first quarter given where it is from a business plan perspective and so this isn't one we're particularly you're concerned about from a volatility perspective.

**Steve Delaney**
Yes. It sounds like with that occupancy and the fact that it's, I think you've had the loan since 2017. It looks like it'd be a candidate for a CMBS deal at some point.

**Matt Salem**
This has always been a strong performer. I think the sponsors have done a really excellent job on executing on their business plan which was originally a renovation and we came in post renovation and they've really outperformed all of our assumptions in terms of rent as well as velocity of lease up.

**Steve Delaney**
Great. Well thank you for that color. Congratulations on the quarter.

**Matt Salem**
Thanks.

**Operator**
Again, if you have a question, please press star (*) then one (1). The next question will come from Rick Shane with JP Morgan. Please go ahead.

**Rick Shane**
Thanks, guys, for taking my question and thank you for the additional disclosure, it really is helpful. I wanted to talk about two things. One when we look at the right side of your balance sheet you guys have done a really good job and you've created a lot of opportunity and when we think about that in the context of the significant contribution from floor income, I am curious if you guys are thinking about ways to potentially lock in some of that floor?

**Patrick Mattson**
Rick. Good morning. It's Patrick. I'll take that one. So, we've spent some time looking at that. Obviously, that's a potential sort of path for us. It's not something that we've executed on obviously at this point, but we continue to explore that and think about that. In the interim as you can see from this quarter, we're continuing to, you'll get the benefit of the cash flow on a quarter-by-quarter basis.

**Rick Shane**
Got it. Okay. Thank you. Second question and you'd answered some questions about CECL and in my mind you sort of described it and I think this is probably true for the commercial mortgage REITs in the context of a bottoms-up analysis. We often think about CECL and again this may be informed by our experience with a broad set of companies from a top-down perspective in terms of a number of macro factors. We have seen in our coverage universe changes downgrades or reduced outlook in terms of macro drivers for CECL. If you could just talk a little bit about how you guys are looking at things from that perspective as well?

**Mostafa Nagaty**
Hi Rick, this is Mostafa. I'll take that one. So, you're absolutely right our CECL model is loan level and this factors in underlying property performance securing our loans as well as a macroeconomic scenario. So, this quarter you'll see we get a benefit of $0.02 as a result of as $1.4 million lower CECL reserve quarter-over-quarter and that was mainly driven by a slightly improved economic outlook assumption this quarter compared to last quarter. So, last quarter we use off-the-shelf subscription service that provide modeling for macro-economic scenarios and we used the April macro-economic scenarios and some others have used the March economic scenarios. So we have used the -- the April economic scenario that we have used was pretty severe economic scenario and when the macroeconomic data came out late June with the June unemployment numbers which was better than expected and as days started to reopen, the microeconomic scenarios assumptions improved slightly quarter-over-quarter. That should be the driver for the $1.4 million benefit that you'll see we've taken this quarter, but other than that the analysis is pretty consistent quarter-over-quarter.

**Rick Shane**
That's great. The answer I wasn't sure I understood the answer until you said that you were using April previously versus March because so many other companies used March so that does make sense from a macro perspective. Thank you, guys, for taking my questions.

**Operator**
The next question is a follow-up from Jade Rahmani with KBW. Please go ahead.

**Jade Rahmani**
Yes. Thank you. We've seen a number of rescue financings that have taken place in the mortgage REIT space and I was wondering if you had something, given the liquidity position and the asset quality, that KREF might participate in some of the returns are in the L+ 12% range unlevered. So, wondering if you could opine on that?

**Matt Salem**
Hey Jade, it's Matt. We look at, we try to look at everything that comes to the market whether it's loans or corporate financing and I'll tell you we haven't spent a lot of time on the corporate financing side mostly from just a credit perspective and trying to keep the portfolio comprised of institutional quality real estate and borrowers and as high quality as we can in a market like this. So, I think we still prefer to originate the loans directly at this point.

**Jade Rahmani**
And I think that new market just put out a note about five minutes ago where they're expecting a low loan sale activity but then a meaningful pickup post Labor Day, they said something effective 3.5 billion of named assignments on strategic advisory including a billion of loan sales. Is that something that you're watching and expecting to see an uptick in?

**Matt Salem**
It is and we've added it to our pipeline. We've expanded our coverage in that segment of the market loan sale advisor. I would say a similar thesis, credit thesis is in the loan sale market. It's like what's coming through that channel? Does it really fit our DNA? Does it look like what's in our existing portfolio from a quality perspective and a sponsorship perspective and so that's the first lens we look at and a lot of times that lenses kind of eliminates a lot of those opportunities. I don't want to rule anything out. We would look across both the corporate side as well as the loan sale market, but we bring the same kind of credit thesis with us as we look at those segments and oftentimes the credit you see in those markets is different than what we've been focused on.

**Jade Rahmani**
And lastly what's KKR's overall thesis with respect to real estate values at this point? Is the company taking a wait-and-see approach and viewing commercial real estate as a slow sector to recover? Is there any estimation of impact to values that KKR has a consensus around? How's the company overall -- the parent company viewing real estate?

**Matt Salem**
Well, I think we look at it a couple different ways. We're definitely front footed. We're definitely gearing up for investing as the market activity picks back up. At the same time, real estate values lag and we all know that COVID had a specific impact on different markets and different property types. It's impacted real estate in a different way than other parts of the economy and so I think we're looking at that and trying to evaluate as other real estate investors are like what's the real impact and are these secular changes as it relates to office usage, etc. urban versus suburban. We're studying all these things very closely. However, we do expect there to be lots of opportunity to invest as people reposition their portfolios and we certainly have dry powder that we'd like to be able to put to work in this market.

**Jade Rahmani**
Thanks for taking the questions.

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

**CONCLUSION**

**Michael Shapiro**
Thanks Chad and thanks everybody for joining us today. We appreciate the time and hope you continue to stay well and healthy. If there's any follow-ups, please don't hesitate to reach out to us. I know we'll be talking to many of you but enjoy the rest of your summer.

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

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