# KKR Real Estate Finance Trust Inc.

## Q3 Financial Results Conference Call

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**CORPORATE PARTICIPANTS**

**Michael Shapiro** – *Investor Relations Officer*

**Chris Lee** – *Co-Chief Executive Officer and Co-President*

**Matt Salem** – *Co-Chief Executive Officer and Co-President*

**Patrick Mattson** – *Chief Operating Officer*

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## PRESENTATION

### Operator

Good morning, and welcome to the KKR Real Estate Finance Trust Inc. Third Quarter 2019 Financial Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star, then two. Please note this event is being recorded.

I would now like to turn the conference over to Michael Shapiro. Mr. Shapiro, please go ahead.

### Michael Shapiro

Thank you. Welcome to the KKR Real Estate Finance Trust Earnings Call for the Third Quarter 2019. I am joined today by our co-CEOs, Chris Lee and Matt Salem; our COO, Patrick Mattson; and our CFO, Mostafa Nagaty. Before we begin, 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 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 Chris, I'll provide a brief recap of our results. For the third quarter, our GAAP net income was $23.6 million, or $0.41 per share. Net core earnings were $25 million, or $0.43 per share. Book value per share as of September 30, 2019, was $19.54, consistent with our book value per share as of June 30, 2019. In October, we paid a dividend of $0.43 per share with respect to the third quarter. Based on October 29 closing stock price of $20.17, the dividend reflects an annualized yield of 8.5%. Our board is scheduled to meet in mid-December to discuss the fourth quarter dividend, and we'll make an announcement shortly thereafter.

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

### Chris Lee

Thank you, Michael. Good morning. Happy Halloween and thank you for joining us for our third quarter earnings call. This quarter reflected the earnings potential of our capital base, following a record quarter of originations in the second quarter.

It also highlights our efforts over the past year to negotiate tight LIBOR floors, many of which are already seeing a benefit from. We continue to execute on our strategy of lending on transitional assets in larger liquid markets to experience sponsors. In a competitive environment, in the later stages of an economic cycle, we have more conviction than ever in continuing our conservative investment strategy--focused on capital preservation and credit quality. The combination of our attractively priced liability structure, the quality of our investment team, and the brand and depth of our relationships have allowed us to compete and still win our fair share of deals.

In the third quarter, we closed four loans totaling $484 million. Through October 30th, we have originated approximately $2.4 billion of loans year-to-date, resulting in a record-funded portfolio of approximately $5.2 billion, a 26% increase since the end of 2018. Over the last 12 months, we have originated approximately $3.3 billion, a 22% increase over our 2018 calendar year record origination volume. Notably since inception, we've now made over $7.5 billion of loans.

In addition, we've built a robust pipeline of another $460 million of loans currently under exclusivity that we expect to close within the quarter, subject to customary closing conditions. Of course, as is typical for the industry, we will continue to see fluctuations in deployment due to the timing of closings, repayments, and capital markets activity. To better navigate potential repayment and origination timing mismatch, we implemented a new cash management strategy that we began executing subsequent to quarter-end. Patrick will discuss this strategy in further detail.

This quarter, we further simplified our balance sheet through the successful sale of our remaining investment in our Direct CMBS portfolio, allowing us to deconsolidate approximately $1 billion of assets and liabilities. As a reminder, between second quarter 2015 and first quarter 2016, the company invested in the B-pieces of five CMBS transactions. The investments totaled approximately $426 million in face value of bonds and $187 million of equity invested. This sale represents our full exit from these investments and resulted a gross realized IRR and multiple of investment capital of 18.8% and 1.3 times, respectively.

Lastly, we continue to focus on creating more liquidity in our shares. We are pleased with the company's recent inclusion in the S&P SmallCap 600. We believe that the inclusion will further drive institutional demand for our shares. We will continue to focus on ways to improve the trading volume with a goal of the company being accessible to the broadest array of shareholders.

In summary, the economic backdrop remains favorable for our business. Real estate fundamentals and capital markets have remained open and strong. At KKR, we invest across the capital structure in real estate and across many other risk assets. As we look across the broader real estate and yield-focused investment landscape, we still believe that real estate direct lending offers attractive, absolute, and relative risk-adjusted returns in this rate environment.

We are encouraged by our pipeline and the quality of opportunities we're seeing through our deep relationships with sponsors and intermediaries. We will continue to deploy capital without sacrificing credit quality and are confident in our ability to continue to deliver attractive risk-adjusted returns to our shareholders.

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

**Matt Salem**
Thanks, Chris, and good morning, everyone. I'll start by providing more detail on our recent investment activity. In the third quarter, we originated 4 floating-rate senior loans totaling $484 million. The weighted average LTV and coupon for these loans are 66% and LIBOR plus 2.9%, respectively and on a levered basis, the loans from a weighted average underwritten IRR of 12.9% at spot LIBOR, which is consistent with our existing portfolio.

In order to highlight our differentiated conservative investment focus, we would, again, like to provide some additional details on the loans this quarter. So please bear with me. First, in July, we made an approximately $170 million loan secured by a 39-storey, 1 million square foot Class A office tower, located in Chicago's central loop submarket. The sponsor was a global real estate investment manager with over $30 billion of assets under management. The property underwent a comprehensive renovation in 2015 and at loan closing was approximately 70% leased.

Leasing momentum has been strong with the property 80% leased as of quarter-end. The sponsor's business plan is to lease up the remaining vacancies and expiring leases to stabilize market occupancy of approximately 90%. We source this loan directly with the sponsor, and our reputation and ability to meet the sponsor's timeline differentiated us from other potential bidders. While this was a new relationship for us, it has already led to another transaction, our Colorado mixed-use loan, which I will discuss in a minute.

In August, we made a $61.5 million loan to a repeat sponsor for the refinance of a 360-unit Class B plus multifamily apartment complex located in Atlanta MSA. The sponsor, one of the largest multifamily operators in the United States, acquired the property in March 2013 and executed a comprehensive renovation plan, including interior and exterior renovations, the enhancement of landscape and property amenities and the construction of eight townhouse units. Since acquisition, the sponsor has achieved a monthly rent premium increase of approximately 50%.

In late August, on the back of our successful deal in Chicago, which I just mentioned, we made $185 million loan to refinance a mixed-use property comprised of two luxury multifamily properties with 594 units and 55,000 square feet of retail space, located in Denver, Colorado. The sponsors' near-term business plan is to complete the remaining development of one of the multifamily properties in the retail space and stabilize the delivered property from 77% occupancy currently to 94%.

Finally, in September, we made a $67.5 million loan secured by newly constructed 353 units Class A multifamily asset located in Austin, Texas. The sponsor is a local real estate property management and investment firm with over 70 properties valued at more than $1.5 billion.

At closing, the property was approximately 82% leased. The sponsor plans are to complete its lease-up and burn off in place concessions to achieve market stabilized rents and occupancy. Post quarter-end, we closed the additional $93.4 million loan to a repeat sponsor, secured by a five-building student housing portfolio, consisting of 439 units and more than 1,200 beds. In addition, our forward pipeline remains strong, with another $460 million of loans under exclusivity, which are expected to close during the quarter. As always, these are subject to customary closing conditions.

During the quarter, we received approximately $194 million of repayments. In addition, subsequent to quarter-end, we sold a $65 million participation on our Arlington, Virginia multifamily loan, allowing us to capture incremental economics.

As we said in our calls earlier in the year, we expected to see a higher level of repayments, as our portfolio seasoned and our borrowers execute on the business plans. While repayments were relatively light in the second and third quarter and can be difficult to predict, we still expect the total repayments for the back half of the year to match the $900 million of repayments during the first half of the year.

Turning to our portfolio, as of September 30, the balance totaled approximately $5.2 billion with another $556 million of future funding obligations. The portfolio is 99% invested in senior loans and is diversified both geographically and across property types. Notably, multifamily and office loans comprised 87% of the portfolio. 100% of our loans are performing.

In summary, we have a differentiated portfolio, comprised of institutional real estate and sponsorship, with light transitional business plans. The brand and the franchise are delivering a strong pipeline of opportunities with approximately $2.9 billion of loans closed or pending closing year to date as of today.

Now I'll turn the call over to Patrick.

**Patrick Mattson**

Thank you, Matt, and good morning, everyone. Our portfolio, which totaled $5.2 billion at the end of the quarter, has a weighted average risk rating of 2.9 on a 5-point scale, compared to a 2.8 risk rating at the end of second quarter. During this quarter, no assets experienced a deterioration in risk rating, while the rating of three investments improved. The change in the weighted average rating was a reflection of two loan repayments with a rating of one and the addition of new assets in the portfolio. Additionally, we have no loans with a rating above a three.

Given some of the recent publicity around WeWork  and other co-working tenants, and the potential impact on certain office assets, let me spend a minute on our exposure to that tenant profile. We currently have no WeWork exposure and very minimal co-working exposure. As of quarter-end, we had 12 office loans with approximately 8.7 million square feet of net rentable area.  Of that, approximately 77,000 square feet, or less than 1% of our office portfolio, is leased by co-working tenants.

With the continued diversification and improvement in our funding sources, matched with a decreasing LIBOR, we have been focused on capital deployment and leverage efficiency. As a reminder, we generally target a 3 times to 4 times leverage ratio on new senior loans, depending on the source of financing.  As we have grown our non-mark-to-market financing, which at quarter-end made up 74% of our outstanding secured financing, we have increasingly financed loans at a low 80% advance rate.

As of quarter-end, our debt-to-equity ratio and total leverage ratio were 2 times and 3.6 times, respectively. As of quarter-end, 99% of the portfolio was invested in LIBOR-based floating rate loans. As we discussed previously, LIBOR floors provide income protection in a declining rate environment and we began to see the increased benefit of those floors in the third quarter. Notably, through quarter-end, our 2019 year-to-date originations have a weighted average LIBOR floor of 2.3%.  Additionally, approximately half of our portfolio has a LIBOR floor of at least 2%, and the weighted average floor on our liabilities is close to 0, which, as you can see in the chart on Page 13 of the supplemental materials, should enable us to continue to capture incremental income if we see further declines in LIBOR.

Finally, as Chris mentioned, subsequent to quarter-end and following the discussion with our board, we implemented a short-term investment strategy, targeting liquid securities to better manage the impact of cash drag from loan repayment and origination timing mismatches. The strategy will aim to target floating-rate, investment-grade, single-asset, single-borrower CMBS, and CRE CLO bonds. Given the expected repayments in 4Q that Matt described in his remarks, we began investing this strategy earlier this month with a purchase of $94 million of CMBS securities.

In summary, it was another strong quarter. We simplified our balance sheet with the sale of our remaining direct B-piece investments, and we continued our strong origination pace and the pipeline remains robust. 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 on your touchtone phone.  If you are using a speakerphone, please pick up your handset before pressing the keys.  To withdraw your question, please press the star, then two.

Our first question today comes from Jade Rahmani with KBW. Please go ahead.

**Ryan**
Good morning, everyone. This is actually Ryan on for Jade. Just starting off, I was hoping you can provide us with some commentary on where incremental level returns are. And if you feel if the dividend

is set to an appropriate level for the current environment. Clearly, the IRR, you cited on the 3Q originations was very strong, but just wondering how you're thinking about the recent and potential future rate cuts coupled with ongoing spread compression in the lending markets and if you think that these low double-digit IRRs will be achievable on a go-forward basis?

**Matt Salem**
Ryan, thanks for the question. It's Matt. I'll try to cover a couple of those questions.

Obviously, we're very focused on covering the dividend as we did this quarter. If you look at the existing portfolio, it does benefit a little bit from some of the LIBOR floors. So if you're thinking about forward rate curves, there'll be some impact, a positive impact from that. I think ultimately, it's a discussion that we're going to have to have with the board, and it will depend on a lot of different factors--taxable income, financial conditions and other factors and the sustainability of what we see our earnings. And some of those factors we can control and some we can't.

And a good example of what we can’t control is the forward rate curve. I'd say we're focused on what we can control. And I hope that it's evident that we're really positioning KREF as a different risk profile than our competitors are. If you look at our asset quality, institutional sponsorship, top markets, lower volatility property types look through to kind of the level of transition within each business plan that we underwrite and we think we've created a high-quality and defensive portfolio.

So that's one thing we are not going to change. We're not going to change our credit DNA, if you will and we're not going to go out the risk curve. And I think our earnings will be an output of what a high-quality portfolio yields and what it yields when it's financed at the best-in-class cost of capital, which I’ll note the majority of which today is almost three quarters is on non-mark-to-market basis.

So that's kind of how we're thinking about it right now. As I mentioned before, the LIBOR portfolio has been originated in the last, call it 12 months or so. And so we have some near-term protections in the form of LIBOR floors and prepayment penalties.

**Ryan Tomasello**
Great. Yes, that's very helpful. And then just moving over to the CMBS sale. Can you give us a bit more color on really what drove the decision to execute that? Do you really just view that as a way to unlock capital for reinvestment into core lending, based on the strong IRR you saw in that legacy book?

**Patrick Mattson**
Hi, Ryan, it's Patrick. I'll take that one. So as you recall, last year in the second quarter, we took advantage of a pretty robust market and sold the majority of our CMBS portfolio at that point and recognized a pretty nice gain through that sale. We had some residual positions here, which totaled less than $10 million in value and so we sort of view this sale that we did this quarter as kind of a clean-up for that. And by extension, that $10 million of CMBS value resulted in a gross up of our balance sheet of about $1 billion, both on the asset side and the liability side. So we were able to deconsolidate that through this sale. And at this point, we continue to be effectively 99% senior loan positions.

**Ryan Tomasello**
And then just one more on the cash management strategy that you guys announced with the release. You mentioned you're targeting single asset, single borrower and CRE CLO securities, but just wondering if you can give us a bit more metrics on what you're targeting for ROEs? What kind of leverage you expect to use on these positions? And if you plan to use any sort of hedging in that strategy?

**Matt Salem**
Hi, Ryan, it's Matt. I guess I'll take that. I think from an ROE perspective; I don't think we have a set target. It will depend on what's available in the market at the time and there's going to be a range of ratings we buy, which, on a levered basis, can create different ROEs. We're not thinking about it as a way to fully supplement the yield and the ROE that we can get on our loan portfolio. This is really about cash management. It's about trying to create a little bit more incremental return than we would otherwise get today in cash.

It's really not about fully replacing the yield that we can get on our core lending business. And so, that's kind of how we think about just a little bit incremental earnings from that portfolio. From a leverage perspective, I think you will see us to be relatively conservative in terms of the amount of financing we put against it versus what's available to us in the market.

**Ryan Tomasello**
Thanks for taking the questions.

**Operator**
The next question comes from Steve Delaney with JMP Securities. Please go ahead.

**Steve Delaney**
Good morning, and thanks for taking my question. Matt, I'd like to start with you. Obviously, it seems like repayments have really settled in after you guys had to deal with that huge amount of money coming back in the first quarter. The deployment has really allowed you to show your true earnings power here in the third quarter.

Looking ahead, and you gave us some color for the second half of the year. When you think about the portfolio probably somewhere around $5.5 billion at year-end. And when you look at the average seasoning, can you make, like, a shot at a range of what you would expect prepayments to come in, in 2020? It seems like there was some pretty quick trigger loans that paid off in the first quarter of this year, and just curious if you could ballpark a range, sort of, a high and low on a percentage of year-end principal for next year's repayments? Thank you.

**Matt Salem**
Sure. Very difficult to predict the future as it relates to the repayments, I would say. I mean, the way I think about it is, we are focused on lighter transitional lending, which, we think, is a positive from a risk perspective, just a shorter duration to stabilization, less uncertainty as it relates to either renovation or the amount of lease-up that has to happen. And so, we think that's a positive.

One of the potential negatives for that is that the duration of the loans that we have is slightly less because you would expect those to stabilize a little bit more quickly as compared to something that's a little bit heavier renovation or construction, etc. And so I think, the way I think about our loans is a three-year duration on the outside and we've seen some, obviously, come in and slightly shorter than that. So I think we're monitoring it very, very closely, but just from a modeling perspective to divide our balance by a factor of three or something slightly less would make sense from my perspective.

**Steve Delaney**
That helps frame it. I appreciate that. And Chris, shifting over to you. Congrats on the S&P SmallCap inclusion. That certainly will bring eyeballs. I guess the question is, you guys have pretty much stayed out of the market and I realize capital deployment in the first half of this year certainly had something to do with that, but your shares appear to us to be trading over book now. You haven't taken a bite of the apple, so to speak, since August of 2018.

So speaking to this need for market visibility, market cap, and trading liquidities, a big piece of that because you guys are about 6 million or 7 million a day, the question is, how high is the bar for you guys to do to consider doing more frequent follow-ons to sort of deal with the technical aspects of your stock valuation, because fundamentally, you're doing all the right things? Thank you.

**Chris Lee**
Yes. It's something that we think about a lot. I mean, we think we are doing all the right things. And our strategy has been very consistent prior to IPO and even post IPO, as Matt was talking about earlier. And we sometimes are a little bit frustrated with our stock price, but I think that at the end of the day, we will be very prudent about how we think about accessing the capital markets. We're very focused on earnings per share, dividend coverage per share and making sure that we're only adding capital to the extent there is kind of an immediate use of proceeds. So I think in the short term, we have capital that's available to us on balance sheet. As Matt mentioned, we have a pretty good window into what the repayments are looking like, at least in the near term.

So we feel like we have plenty of capital to fund our pipeline, but we will be very judicious. Of course, you know we have the ATM and other avenues at our disposal, but we'll be pretty thoughtful about how we bring capital in business and increase the share count with a focus on all the per share earnings metrics.

**Steve Delaney**
Well, congrats on the quarter. Thanks for the comments.

**Operator**
The next question comes from Don Fandetti with Wells Fargo. Please go ahead. Mr. Fandetti, your line is open.

**Don Fandetti**
Yes. Good morning. Quick question on the Chicago loan. Were there other bidders on that transaction? And then secondarily, could you just talk a little bit about the competitive environment? I know the CLO market's been continuing to increase. Are you seeing new competitors at the table or is it the same group that's just getting a little bit more aggressive?

**Matt Salem**
Got it. So to answer your first question on the Chicago deal, there were a few competitors on that deal. It was direct with the sponsor there but it was a competitive situation.

I think your second question was, as it relates to, are we seeing new competitors? I don't think we're seeing any new names pop up. Over the last few years, it's been a pretty consistent mix of the same vendors. In my mind, it really speaks to who can make the larger loans and has a relationship with the institutional sponsors. So within the segment of the market, let’s call it, $100 million to $150 million loan size, it's been very, very consistent over time.

**Don Fandetti**
And have you considered other sort of longer duration, different asset classes, aside from the cash management plan that you implemented? Could you look at different areas or were you going to sort of stick with the core here on CRE lending?

**Chris Lee**
Hi, Don, it's Chris. Yes, we definitely explored different asset classes. As you know, we have a much

broader real estate business where we invest across the capital structure and own a large portfolio of assets in the U.S.

We have not seen anything as of late. It's been overly interesting, given the yields that we've been targeting on a gross and a net basis and also from a cash-yielding basis. So right now, we're very focused on the transitional lending strategy, given the risk return that we're seeing in the market, but we're always evaluating different ways to create similar yields to the extent that the returns are justified by the risk that we're taking.

**Don Fandetti**
Thank you.

**Operator**
The next question comes from Arren Cyganovich with Citi. Please go ahead.

**Arren Cyganovich**
Thanks. Just on the cash management strategy, maybe I just don't know the logistics of how this works, but I always just assumed that repayments would generally just go towards paying down the facilities, and how big does this cash management piece going to be? And just maybe some of the dynamics of why you think it's necessary?

**Patrick Mattson**
Hi, good morning, Patrick. I'll take that one. Yes. So I think when we think about repayments, we have several different options. Certainly, one is a repayment of our debt that's outstanding. For some of our financing, whether it's CLO or other types of structures, that's not really applicable and as we get more term, non-mark-to-market facilities in place, that's not necessarily the optimal way. So we look at it as a bridge to, on a short-term basis, if we're getting cash, and we're trying to sort of manage timing that we can invest over a short period of time and then when we get the opportunity to reoriginate that or to originate an asset, we can then deploy that capital.

**Arren Cyganovich**
Okay. In terms of the broader market, there is an article about New York City condo being particularly weak. Are you seeing any other kind of niches within CRE in the gateway markets that you'd highlight as particularly weaker or stronger?

**Chris Lee**
It's Chris. I think maybe starting with the New York City condo market. We have a little bit of exposure, but we like the exposure we have. Broadly, the market is experiencing oversupply, especially it's a very high end of the luxury market. So from our perspective, we've been focused very much on sponsorship, location, price point, and really even unit mix to make sure that you have the broadest array of potential buyers.

We have seen other parts of the market that are showing some weakness. Clearly, retail, broadly across almost all formats has been weaker, just given the retailing environment for many of the companies at least that space and the footprint that they ultimately want to have in a more omni-channel market. I think hotels in certain markets have experienced some pressure, some of the urban locations have experienced pressure, not just on the revenue side, but also on the expense side.

I think New York City, we've seen a little bit of margin deterioration, as REVPAR has been generally flat to down and expenses have continued to move up. And so we're always looking at where we own assets, where we have lending positions and really thinking thematically around where we want to be.

And Matt touched on it earlier, most of what we've been doing has been focused on multifamily or shorter duration business plans in the office sector and we've really only picked our spots. And things like hotels and condos, which are under very, very small majority of our portfolio. And of course, that changes depending on where we are in a cycle or etc., but for right now, we're much more focused on the most defensive asset classes in this market.

**Arren Cyganovich**
Okay. And then your quarter-to-date funding is student housing investment or loan. That seems to be kind of a niche area? What was the thought process around that one?

**Chris Lee**
It's Chris, again. Student housing is actually an area we have a lot of experience as a group. We actually own a platform and control over 4,000 units in our equity business, and it's a market that we have— it's an asset class that we have just a tremendous amount of experience in. So that was an area when we had an opportunity to make the loan that we did, we already had underwritten this market.

We knew the operator and that's really the benefit of having this integrated platform where we own a lot of real estate and can use that expertise to benefit this platform and shareholders, and it also works vice versa in terms of how this platform benefits our equity business. So that's an area where we have a lot of experience, but you have to be very knowledgeable because their markets and assets, depending on how close to campus or not to close campus, you have to be very careful about market, but we have a very strong platform there, a strong understanding of that asset class.

**Arren Cyganovich**
Well, it's a great school, so appreciate it. Thanks.

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

**Ryan Tomasello**
Hi, everyone. Ryan again. Just following up on the repayments commentary, I guess, based on your commentary for the second half, repayments didn't match the first, that would imply somewhere north of $700 million of repayments in the fourth quarter. And I believe you mentioned around $550 million or so million of loans closed or in the pipeline post 3Q. So I guess, do you expect this new CMBS cash management strategy to enable you to manage that headwind in the fourth quarter? Or do you think that 3Q's EPS level might see some temporary blips going into the fourth quarter as you kind of manage that timing gap?

**Matt Salem**
Hey, Ryan, it's Matt. I'll take that again. I think that from a net funding perspective—I'll make two comments. On the origination side, we think we still have a few weeks to potentially add to the fourth-quarter pipeline. So that's a number that, obviously, is variable and can change and go up. On the repayment side, it's never exactly clear and that's kind of what we're estimating. Things can slip. We've seen things get pushed out. So that's an estimate. And then anything, if we had a negative net funding, clearly, that new program in terms of using that liquid market to help kind of offset some of that cash drag will be in place. I think that a combination of those things will obviously drive the fourth-quarter earnings.

**Ryan Tomasello**
And then on the pipeline of originations, can you give us some color on what that is comprised of in

terms of property-type geography and I guess, on IRRs, incremental yields, if those are conserved with what we saw in the second quarter? And then kind of as a follow-up to earlier questions on the condo market, I was wondering if we can get your views on condo inventory loans. We've heard some other competitors talk about that market more recently. Just wanted to get your thoughts if condo inventory loans are still an attractive deployment opportunity, as we've done in the past, particularly in New York?

**Matt Salem**
Got it. Maybe I'll take that first part and then turn it over to Chris and he can discuss the condo market. But just in terms of what's in the pipeline, it looks pretty similar to what we've been doing. And right now, what we've identified is all office and multifamily property types. So I'd say, right down the middle of fairway of the sectors that we've been. We've been focused on office side. Again, it's a lighter transitional, well-leased assets that are going through a small renovation in small lease-up and then similar stories on the multifamily side at this point.

**Chris Lee**
Yes. On the condo inventory loans, there’s definitely liquidity in that market, given that there is yield and there's still financing for providers of that. I would say that's not an area that we're overly focused on. We think of that really as an opportunistic bucket for us that we have utilized for really top-tier sponsors, who are extremely well capitalized, they're extremely capable developers. So like Matt said, it's not something that we're incredibly focused on, but that market does still have liquidity in it.

**Ryan Tomasello**
Thanks for taking the follow-up, guys.

**Operator**
The next question comes from Rick Shane with JP Morgan. Please go ahead.

**Rick Shane**
Hi, guys. Thanks for taking my question. And I apologize, we're scrambling around a little bit, so if this is repetitive, I apologize. I am curious in the current environment, if you anticipate with rates falling a little bit of better pricing power. Again, we know that people think about things on a spread basis, but we also know that they think about them on an all-in coupon basis. And as we saw, when rates were rising, there was a very low beta on an ROE basis to higher rates. I'm curious if you think there's going to be much opportunity to recapture that as rates start to decline, continue to decline, right?

**Matt Salem**
Yes. I think the answer is, it remains to be seen. As you mentioned, with the rate rise, we saw coupons remain similar and spread compression, obviously. What we've seen as the forward expectations have changed is that there's been relatively consistent LIBOR floor market. So all in, coupons have been relatively stable versus expectations around forward LIBOR. Now if that LIBOR floor dynamic changes, could you see spread widening? I think that's a question that remains for the market.

**Rick Shane**
Got it. And obviously, we see the high percentage of loans with 2% LIBOR floors. Presumably, that is ticking down as rates move, or is there some better negotiating power there?

**Patrick Mattson**
Hi, Rick, it's Patrick. Yes, certainly, the 2% LIBOR floors are reflective of the market at the time when we originated those loans. And now as we sit today, with spot LIBOR at 1.78%, very difficult to get a 2% LIBOR floor and so you see the market adjust.

That said, I think what you've seen is that as rates were rising and even as they start to decline, there was a bigger gap between where the spot market was and where the floors are. And I think what we're starting to see now is some compression in that gap, meaning that the floors are much closer to the spot rate in the market. At least that's what we're seeing at the moment.

**Rick Shane**
Right. That's very helpful. Thank you, guys.

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

**CONCLUSION**

**Michael Shapiro**
Thank you very much for joining us this morning. If there's any follow-up, please don't hesitate to reach out and have a Happy Halloween.

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

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