KKR Real Estate Finance Trust, Inc.

Fourth Quarter Financial Results

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CORPORATE PARTICIPANTS

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Patrick Mattson – *Chief Operating Officer*

Mostafa Nagaty – *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the KKR Real Estate Finance Trust, Inc. Fourth Quarter and Full Year 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. Please go ahead.

Michael Shapiro
Thank you. Welcome to the KKR Real Estate Finance Trust earnings call for the fourth quarter 2019. As usual I am joined today by our co-CEOs, Chris Lee and Matt Salem; our COO, Patrick Mattson; and our CFO, Mostafa Nagaty. I would like to remind everyone that we will refer to certain non-GAAP financial measures on this 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 Chris, I'll provide a brief recap of our results. For the full year 2019, our GAAP net income was $90.5 million or $1.57 per diluted share. Net core earnings was $96.3 million or $1.67 per diluted share. For the fourth quarter 2019, our GAAP net income was $24.8 million or $0.43 per diluted share. Net core earnings was $25.5 million or $0.44 per diluted share and book value per share as of December 31, 2019 was $19.52.

In January, we paid a dividend of $0.43 per share with respect to the fourth quarter. Based on the closing price on February 18th of $21.42, the dividend reflects an annualized yield of 8%.

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

Chris Lee
Thank you, Michael. Good morning. And thank you for joining us for our fourth quarter earnings call. Twenty nineteen was another record year for our company. We demonstrated successful execution of our business strategy, while continuing to deliver strong year-over-year growth. In 2019, we grew originations by 14% and from 2018 to a record $3.1 billion across 18 new senior floating rate loans. We continue to execute on our strategy of lending on larger transitional assets in the most liquid markets to experience sponsors by increasing our average loan size by 20% to $173 million.

We grew our portfolio to $5.1 billion, a 23% increase from the end of 2018 and nearly 2.5 times our portfolio at the end of 2017. Finally, we continue to significantly improve the cost and structure of our liabilities, increasing our total funding capacity by $1.2 billion to $5.5 billion as of yearend.

Before I touch on the market backdrop, let me quickly review our 2019 initiatives and the progress we have made on each. Our first initiative was to continue our conservative investment strategy focused on capital preservation. Despite a competitive lending environment, we have been able to secure attractive

investment opportunities consistent with the same risk return parameters we have had since we first went public. Our record originations pace demonstrates our brand awareness and expansion of our client base through creativity, flexibility and certainty of execution. We are seeing the full benefits of our integration with the KKR Real Estate platform and with KKR more broadly. Since inception, we have originated over $8.2 billion of loans with no delinquencies, loan losses or impairments.

Second, we discussed our desire to seek out creative ways to further enhance our balance sheet, while lowering our cost of capital and increasing our non-mark-to-market financing sources. By leveraging the full KKR platform, including the firm's capital markets business, we were able to increase our overall financing capacity while increasing the percentage of our outstanding secured financing that is non-mark-to-market to 72% from 60% in 2018. This included a $900 million attractively priced non mark-to-market term lending agreement.

In addition, we increased the borrowing capacity on our corporate revolver to $250 million as of year-end. And have subsequently increased it to $335 million as of today. By diversifying our funding sources, especially those sources that provide non mark-to-market financing, we have lowered the risk profile of our liabilities while being able to deliver cost-effective financing solutions to our borrowers.

Lastly, we focused on improving the liquidity of our shares and growing the company prudently and accretively. While we entered into an ATM program earlier in the year, given the pace of repayments and our desire to maintain full deployment, we were able to grow and stabilize the company's earnings without raising any primary capital in 2019. Despite this, we were able to improve the liquidity of our shares through our recent addition to the S&P 600. We believe that the inclusion will drive further institutional demand for our shares. We will continue to focus on ways to improve our trading volume, with the goal of the company being as accessible to the broadest array of shareholders. Macroeconomic backdrop remains favorable for our business. Corporate credit yields are at or near historic absolute lows since the data has been collected. BBB, BB and single-B indices are yielding approximately 2.9%, 3.5% and 5.0%, respectively.

This thirst for yield is driving capital to asset classes with yield and indexed to inflation, which includes real estate. We have seen increased allocations to real estate from institutional and individual investors and expect those trends to continue, which is constructive for real estate values. In addition, fundamentals for most property types in the markets we track are attractive, with healthy demand driven by robust job growth, strong urbanization trends, steady corporate profits and accelerating investment spending in the technology sector.

Many of the economic benefits of this current expansion are concentrated in the top 15 markets where we spend the majority of our time. These capital flows are also driving competition in the lending markets where most of the competition is on economic terms not leverage. However, when we look at our net yield, we believe we are delivering very attractive risk adjusted returns relative to other yield proxies.

As a public company and an affiliate of a top global asset manager, we can take advantage of our differentiated access to capital and the robust capital markets to create a pricing advantage. You'll continue to see us focus on investing in defensive asset classes, in liquid markets and with top-tier sponsors, while maintaining our focus on capital preservation. We are excited about our competitive positioning, brand, investment team and the continued growth opportunities for KREF in 2020.

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 investment activity.

As Chris mentioned in 2019 we originated a $3.1 billion of loans compared to $2.7 billion in 2018. The '18 loans had a weighted average LTV and spread of 66% and 2.8%, respectively. And on a levered basis, we're originated to generate a weighted average IRR of approximately 11.5%. While these loans are secured by a mix of property types, multifamily and office properties represented approximately 90% of the total 2019 origination volume.

We continued our focus on the most liquid markets with approximately 77% of our originations in the top 10 MSAs and approximately 90% in the top 30. Finally, our reputation continues to expand while also maintaining our focus on being responsive partner to our existing borrowers. Approximately 35% of our 2019 originations were to repeat borrowers, which speaks volumes about our team, process and reputation to drive new client relationships while converting existing borrowers to repeat ones.

Two thousand nineteen was an exciting year for our real estate credit platform. As we grew our dedicated team to 24 people and celebrated the promotions of 3 team members, including the promotion of one of our senior investment professionals, Julia Butler, to Managing Director.

Turning to the fourth quarter activity. We originated six floating rate senior loans, totally $764 million. The weighted average LTV and coupon for these loans are 63% and LIBOR plus 2.8%, respectively. And on a levered basis, the loans have a weighted average underwritten IRR of approximately 10.7% at spot LIBOR. In order to highlight our differentiated conservative business model, let me spend a few minutes providing additional details on some of the loans this quarter.

In October, we made a $93 million loan to acquire a five building student housing portfolio consisting of 439 units and more than 1,200 beds located across the street from Penn State campus and State college. The loan was made to a repeat borrower, which is a global investment bank with a market cap over $85 billion. The property has historically been fully occupied, but it never has been substantially renovated or institutionally owned or operated. The sponsor plans to execute a comprehensive improvement plan to modernize the assets and drive a post renovation rent premium.

Notably, we won this deal given the borrower's familiarity with our team, certainty of execution and competence in our ability to meet an expedited timeline. Second, in November, we made $183 million loan to refinance an existing loan to a repeat sponsor secured by five property complex, including two Class A office buildings in Irvine, California. The sponsor intends to complete a comprehensive renovation to bring the property to market standard, lease-up the properties existing vacancy and the renewal or re-leasing of existing below-market tenants to take advantage of the strong airport area submarket.

Finally, in December, we made our first retail loan in over three years by lending $147 million to a sponsor group to acquire 23 grocery-anchored properties totally 1.4 million square feet across 10 states. The 23 properties are triple net leased to an investment grade rated grocer. The sponsor group is led by another global investment bank with a nearly $90 billion market cap. The sponsor's business plan includes restructuring and extending a subset of the leases. We found the deal compelling giving the sponsorship, strong in place cash flow supported by an investment grade tenant, combined with a loan structure that hyper amortized the loan after an initial one year period. Post quarter end, we have closed an additional three loans totaling approximately $350 million.

Of note, we made a $20 million mezzanine loan to facilitate the ground up construction of a 237 unit luxury Class A multifamily property in Westbury, New York. While we have been historically cautious on construction loans, this was an opportunity to lend to a repeat sponsor who has showed an end market proof-of-concept on one of our previous loans. The sponsor, a multifamily developer that has built over 7,500 homes across 60 plus communities during its 34 year history, intends to capitalize on its experience

and the current market supply/demand imbalance for luxury rentals.

In addition, our forward pipeline remains strong with approximately $500 million of loans under exclusivity, which are expected to close within the next few months. As always, these are subject to customary closing conditions. As we had previewed, repayments increased during the fourth quarter. During the quarter, we received approximately $765 million of repayments bringing total repayments for the year to approximately $1.9 billion or roughly 45% of our funded portfolio as of the beginning of 2019.

Subsequent to quarter end, the company received approximately $108 million of loan repayments. While the first quarter is traditionally a slower period for repayments and repayments as a whole are difficult to predict, we would expect a similar pace of repayments for 2020 as we saw in 2019. As a reminder, while these loans typically have three year terms given, the wider transitional nature of our sponsors business plans they are at times repaid prior to the initial maturity allowing us to accelerate amortization of OID and generate higher IRRs.

Turning to our portfolio, as of December 31st the balance totaled approximately $5.1 billion with another $616 million of future funding obligations. The portfolio is almost exclusively invested in senior loans and is diversified both geographically and across property types. Notably, multifamily and office loans comprise 84% of the portfolio and 100% of our loans are performing.

In summary, we have a defensively positioned portfolio and our origination activity continues to meet our expectations in terms of credit, volume and return.

Now I will turn the call over to Patrick.

Patrick Mattson
Thank you, Matt, and good morning everyone. Our portfolio which totaled $5.1 billion at the end of the quarter has a weighted average risk rating of 2.9 on a 5 point scale, in line with a 2.9 risk rating at the end of 3Q. During the quarter, no assets experienced a deterioration in risk rating, while the rating of one loan improved, 99.9% of the portfolio was invested in LIBOR-based floating rate loans. As we discussed previously, LIBOR floors provide a net interest income benefit in a declining rate environment. Notably, our 2019 originations, which are both in the early stages of sponsor business plans and have certain prepayment protections, had a weighted average LIBOR floor of 2.2% and on an outstanding principal amount representing approximately 52% of the portfolio.

Additionally, approximately half the portfolio has a LIBOR floor of at least 2.0%. Conversely, almost none of our liabilities have a floor, thus allowing us to benefit from decreased financing costs in a declining rate environment.

Turning to our liabilities. We continue to make progress in optimizing our financing, most notably from sources that are non mark-to-market. As Chris mentioned, in 2019, we increased our overall financing capacity by approximately $1.2 billion which included a new $900 million non mark-to-market term lending agreement with extension options out the seven years matching the term of the longest underlying asset and features an initial pro rata pay down structure, which preserves our leverage for a period of time.

Additionally, we increased the size of our corporate revolving credit facility to $250 million. And finally, subsequent to quarter end, we upsized this revolver by an additional $85 million bringing total capacity to $335 million. All of these initiatives continue to optimize our balance sheet. As of year-end, 72% of our secured financing were non mark-to-market compared to 60% in 2018 and 13% in 2017. We will continue to evaluate all sources of financing and capital markets options, and we will continue to look at the A note market as a source of matched term, non mark-to-market, non-recourse asset financing. The

attractive cost of these various funding options allows us to compete for the highest quality lending opportunities and secure better credits for KREF while still delivering an attractive return to the company.

In addition, our liability structure is more durable from a mark-to-market perspective and improves our ability to manage risk and liquidity on the balance sheet. As we have grown our non mark-to-market financings, we've been willing to finance loans at the low 80% advance rates. As of year-end, our debt-to-equity ratio and total leverage ratio or 1.9 times and 3.5 times, respectively.

It was another strong quarter and year for KREF. We posted record originations with a growing pipeline, our portfolio is performing, and we continue to make significant progress creating differentiated efficient financing.

Before we open the call for your questions, I'll turn it over to Mostafa to briefly touch on our CECL implementation efforts.

Mostafa Nagaty
Thanks, Patrick, and good morning everyone. The Current Expected Credit Losses or the CECL standard was effective for us and similar-sized public companies on January 1, 2020. Our 10-K provides the expected day one impact of CECL adoption on our financial statements.

Let me spend a quick minute on our CECL approach. We utilize a default model combined with a subset of historical data; license it from trip [ph] that most closely represents our focus on larger loans in major markets. Two loans that did not fit the model were evaluated using a probability weighted expected cash flow approach considering varying economic and market conditions.

As disclosed in our 10-K, we expect to record a day one CECL reserve adjustment reducing our January 1, 2020 book value by approximately $16.1 million [ph] or $0.28 per share, of which approximately $2.2 million or $0.04 per share is attributed to unfunded loan commitments. The day one CECL reserve adjustment of $16.1 million represents 29 basis points of our total loan commitments of $5.6 billion and 32 basis points on our aggregate outstanding principal balance of approximately $5 billion as of December 31, 2019. Starting with the first quarter, we will adjust the CECL reserve through debt earnings.

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

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star then 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 star then two. At this time we will pause momentarily to assemble our roster.

The first question today comes from Jade Rahmani of KBW. Please go ahead.

Jade Rahmani
Thank you very much. Can you discuss whether you are seeing incremental levered returns and if you feel the dividend is set at an appropriate level for the current environment?

Matt Salem
Hi Jade, it's Matt. I'll take that one. Thanks for joining the call today. I would say levered returns are in

a similar context as they were last year. The market environment hasn't changed much over the last, say, few quarters. I think if you look at our IRRs this quarter, they're slightly lower. We've put a little bit lower advance rate, an initial advance rate against some of those loans. So just from an underwritten IRR perspective, they're a little bit lower, but my sense is those could go up over time as we put more efficient financing on them.

I would say the other thing that we're seeing is out-performance on our underwritten IRRs, predominantly through prepayments. So as we are underwriting these lighter transitional loans, we're typically modeling these out to an initial maturity, but what we're seeing is those are typically prepaying, in two years or two and a half years versus a fully extended or to the initial maturity dates. Our IRRs are actually coming in slightly higher than we're underwriting.

In terms of where the dividend is set, I think we feel good about it in the near term. Last year we covered three out of four quarters, the one quarter that was a little bit lower was really due to a timing of repayments versus originations in the second quarter. And obviously we put a lot of LIBOR floors in place over the course of the last year that we're benefiting from as well. And so I think in the near term we feel good about it. And like I said in the past though, it's really an output of where we can generate what we think of as good risk adjusted returns.

Jade Rahmani
Okay. Can you give us statistic on the percentage of the overall portfolio that is B-notes? Or maybe quantify the magnitude of A-note sales that have been completed?

Patrick Mattson
Jade, good morning, it's Patrick. Yes, that's simple. So we don't have any B-notes in the portfolio. You'll see in page 14 of the supplement, the senior loan interest, so that's where we've sold an A-note. I think we used the term A-note synonymous with sort of mortgage here. But in reality, every time that we've sold a first mortgage, we retained not a B-note, but we retained a mezz position. So it's a small portion of our overall financing strategy but one that we think can grow as we continue to grow the portfolio.

Jade Rahmani
Is there a target mix for that?

Patrick Mattson
Not a set target.

Jade Rahmani
Okay. In terms of total all-in debt to equity, what is the range? Are you willing to lever up to about 4 times?

Patrick Mattson
I think, as we've talked about it, depending on our source of financing it's been for 3 times to 4 times. I think as we've put on more non mark-to-market financing, we definitely have gravitated on those facilities at a 4 times level. It's available clearly in the market. So this seems like the right range for us, but for us to incrementally get a little bit higher into the higher 3s, I think, that's definitely a possibility.

Jade Rahmani
Just turning to other investment strategies, you noted the mezz loan this quarter. I was wondering broadly if you could touch on whether you are willing to acquire CMBS securities, CLOs, even Freddie Mac K-series deals considering the allocation to multifamily, your constructive view toward multifamily. Any other asset classes that could add duration to the portfolio and help mitigate some of the impact from

repayments?

Matt Salem
Hi, Jade, it's Matt. I would say we're certainly open-minded to other strategies. But right now we're not seriously considering any. But one thing I would note is during the quarter we did acquire and then subsequently sell some CMBS securities. I think your question was really asking about new investment themes; that was more of a cash replacement and interim cash replacement between repayments and loan originations. And so we ramped up and sold it down. We didn't use any leverage on it, it's not a long-term investment strategy for us. It's, more of a cash replacement in the interim.

Jade Rahmani
Okay. And in terms of being able to recapture some of the repayment business either through restructuring a replacement loan, or potentially through securitization, is there a strategy you think could be conceived of to allow you to win more of that business and retain those loans for longer as the business plans come to fruition?

Matt Salem
It is something we think about. I would tell you we are very front footed. And that's really coming through our quarterly asset management meetings where we're thinking about how do we retain this loan, how do we better service our client? And can we proactively refinance some of these given today's market environment and where we can obviously create a better return for our client, but also perhaps a better return for ourselves given the way we finance some of our loans today versus a year or two ago.

So I would say on that front, we're very, very active. And thinking about ways we can obviously capture their business over a longer period of time. But there's nothing easy or obvious at this point.

Jade Rahmani
Thanks for taking the questions.

Operator
Next question comes from Stephen Laws of Raymond James.

Tanner
Good morning. This is Tanner [ph] on for Stephen. I was just looking at the portfolio details on page 17 in the supplement and you have two loans on there, loan 17 and loan 20, which are retail and resi condo loans that have above average coupons. But pretty short remaining terms to maturity. Can you give us any color updates on those or conversations you might be having with the borrowers as they near maturity?

Chris Lee
Hi, Stephen [ph], this is Chris. Yes, on the retail loan, we expect that will be taken out for sale. So it's coming up towards final maturity, but the loan is performing. We probably [ph] have a very low basis from a loan to cost as well as a loan-per-square foot perspective, but given that that loan was made as a retail loan, it has a higher coupon on it. And then on the condo loan that loan has extension tests. So we've seen that that loan continue to deliver and it has been extended.

So I think what you'll see is when we have these loans that are a little bit higher touch, we have a lot of structure. And also, we have a very low basis and protected basis in these assets. But that's the story on those two.

Tanner

Great. Thanks for the color.

Operator
Again, if you have a question please press star then one. The next question comes from Don Fandetti of Wells Fargo.

Don Fandetti
Hi Chris, Matt, just had a quick question on your construction loan. Can you talk a little bit about if there were other bidders, what the competition is, and who those sort of pools of capital might be? And if you look at your construction loan and retail loan, even though the IRRs are a little bit lower than normal, are you sort of willing to get a little more aggressive just given what looks like a steadier economic outlook?

Chris Lee
Yes, just touching on the construction loan. That was in basically limited competition that was not out widely through a brokerage process. We had lent to this sponsor basically down the street on a construction takeout of a similar product type multifamily, luxury multifamily. So the competitive dynamic there was very favorable to us because we had already went on a similar type of business plan. We knew the market very well and had a good experience with the sponsor and they had a good experience with us. So I think we were at a pretty strong competitive advantage in that particular process. But we were up against one or two other folks there from a mezz perspective. And as is the case with a lot of these construction loans they brought in a traditional commercial bank to provide the senior financing on that piece.

As it relates to the returns, I think, the particular deals that you highlighted just have a lot of structure, they are lower leverage, and so the returns are really a reflection of that risk profile. And I'm not sure if it’s really a reflection of us necessarily leaning in or getting aggressive these would be our view on the macro environment. I think that's kind of how we think about it.

Don Fandetti
Thank you.

Operator
The next question comes from Charlie Arestia of J.P. Morgan.

Charlie Arestia
Hi, good morning. This is Charlie on for Rick today. I was looking at your interest rate sensitivity table on slide 15. It just looks like you guys are positioned predominantly for lower rates being kind of neutral to negative on flat to slightly higher rates. So I was just curious to get what your thoughts are on positioning there, especially as those LIBOR floors roll off the vintage ones.

Patrick Mattson
Hi Charlie. Good morning, it's Patrick. I'll take that one. I would say it's less about positioning and more about, I think, what we've created here in the last 18 months. Obviously as LIBOR was ticking up we were very focused putting in LIBOR floors that were really tight to the spot market. In fact, in early ‘19 when the market was very competitive and spread, there's a little bit of a tradeoff sometimes between what you can get in floor and what you can get in spread. And obviously we did well on the floors here. So we're seeing the benefit of the floors currently and you can see that very clearly obviously in the chart of 15. And so any decline in rates will set us up very well, given that our liabilities do not have a floor. So we'll benefit there.

Clearly on the higher rate environment, and you can see it here in the chart as well. It's a bit more sort

of flat because obviously our asset spreads won't increase nearly as quickly as our liability costs given those floors. So it's clearly a demonstration of our ability to get floors in this rate environment. A lot of the floors that we put in place were through our 2019 originations. So a lot of those floors have call protection embedded in the loans or they're early in the business plan. And so we will continue to expect to benefit through those through a good portion of this year. Obviously they will roll off at some point. And at that point we'll reset both on floors and spreads.

Charlie Arestia
Okay. Got it. So, it's more a function of kind of the result of the portfolio over the last call it a couple of quarters rather than an interest rate outlook looking forward.

Patrick Mattson
Yes, definitely.

Charlie Arestia
Okay. Thanks very much.

Patrick Mattson
You're welcome.

Operator
Next question comes from Arren Cyganovich of Citi.

Arren Cyganovich
Thanks. I was wondering if you can just give us an update on New York multifamily and what you're seeing in terms of property valuations there and whether or not there's been much change in your loan portfolio?

Chris Lee
Hi, Arren, it's Chris. We do have some New York multifamily exposure about $820 million of principal balance across five loans. Rated average risk rating across the multifamily portfolio is actually 2.7. We've generally been very prudent in terms of the leverage levels but also very prudent in terms of the business plans. We've been tracking this market for a number of years, so we weren't exposed to any of the very aggressive business plans that were focused on destabilizing units, or taking advantage of the vacancy adjustments and capex adjustments. So the portfolio that we have has not been really impacted by any changes to rent regulation.

That being said, we're tracking it. We actually think there are a lot of interesting opportunities as the capital markets environment has shifted around New York residential. So we will continue to be active there. But across our five loans we feel like we're very well positioned. I'd say the last point is our weighted average LTV across our five loans is 59%.

So we feel good about what we have and they're still looking at opportunities as they come in.

Arren Cyganovich
Okay, thanks. And then you don't really have much exposure to hospitality, but you do have, looks like one loan in Brooklyn. There was an article in the *Journal* the other day kind of highlighting some weakness in the New York City hotel market. Any comment on the strength of hotels in New York?

Chris Lee
Yes, it's Chris. I'll take that. There absolutely has been some weakness in the in the New York City hotel

market. And a lot of that's actually been driven by really two things. One is an excess supply that's put pressure on RevPAR growth in New York, more broadly, has been [ph] mostly focused on the city. And then there's been some expense pressure really being driven by the combination of property taxes, and then just labor and wage increases. When we underwrote this deal in Brooklyn, we actually felt like the Brooklyn market was in much more equilibrium than the Manhattan market. So we have not seen much weakness there.

I think the other thing that we had going for us on that loan is that the property was effectively stabilized. It was a brand new hotel, had already been renovated. We weren't taking renovation or massive kind of leap of faith in terms of where the income was going. So that loan is actually quite stable. It's at a very attractive yield relative to our basis. And our basis is also below replacement costs. So we feel good there. But I think what you're indicating is why you haven't seen us be super aggressive in the New York hospitality market, especially in Manhattan. We think there'll be continued pressure there even in a stable economic environment given some of the issues I outlined.

Operator
The next question is a follow-up from Jade Rahmani of KBW.

Jade Rahmani
Thanks very much. Could you quantify any impact from early prepayment fees in the quarter? If there's anything unusual in this quarter that we should remove from sequential earnings projections?

Patrick Mattson
Sure Jade, it's Patrick again. So for this quarter you saw we had a fairly large repayment as expected in the fourth quarter. The magnitude of prepayment fees was about $0.015 in that quarter. And so while that income is somewhat periodic we do think about that as regular income as we focus on these kind of lighter transitional loans that tend to have short business plans and sometimes get prepaid earlier than anticipated.

Jade Rahmani
Thanks for that. And wanted to ask about co-working if the pull back from WeWork and any of the retrenchment that the other players are going through is impacting the office market places where you've been active like Atlanta, which has seen growth in co-working, other markets. Are you seeing any impact on the office market from that?

Chris Lee
Jade, it's Chris. We have not. As you know in our portfolio we had been very conservative and co-working is less than 1% of our exposure on the office leasing side. We do have co-working exposure across our business. So we think we understand it quite well. We've not seen a major impact in the markets that we are active in from an office perspective. And we actually think co-working is a healthy part of the office market over time in terms of having a better solution for smaller tenants. As you think about clearly the major tenant out there that had some had some issues, that's less of an impact we think to the broader office market given they might slow down their growth. But you still have tenants that have robust demand for space.

So we're not as focused on it because we don't have that direct exposure in our portfolio. But we actually think co-working will continue to have a significant place in the office market over time because it's an important part of landlord's ability to cater to these smaller growing tenants.

Jade Rahmani
Okay. Thanks for the comment.

CONCLUSION

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

Michael Shapiro
Thank you everybody for joining us this morning. If there's any follow-up questions, please feel free to reach out. Have a great day.

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

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