



TRADE ALERT

Sell: **Boston Properties (BXP)**

Buy: **KKR Real Estate Finance Trust (KREF)**

What is Happening

1. I have been holding BXP since late 2020 as office properties recovered from the initial COVID shock. With a 45% gain and nice dividends, I've done well and BXP is facing more headwinds than tailwinds moving forward.
 - a. What I mean is that as tenant leases come up for renewal, the negotiating leverage has been moving in the tenants' direction making it far more expensive and risky for BXP when leases have to be renewed.
 1. COVID has changed what tenants now demand for their offices, including better ventilation, air filtering, spacing for employees, etc.
 2. Landlords have to front those expenses and are constrained in their ability to charge a premium rent to make it as attractive as the pre-pandemic environment.
2. I am replacing BXP with KKR Real Estate Finance Trust (KREF) for higher yielding (profit sharing) and, in my opinion, risk.
 - a. KKR is one of the great names in private finance and they have created a strong portfolio of loans and has to distribute 90% of income to shareholders as dividends.

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- b. The folks who run the KREF are terrific at credit risk management, so I am exchanging owning the building and land to lending to the owners, which reduces my overall risk.
 - c. KREF pays a current 8.8% profit sharing compared to about 3.3% from BXP and you can see how compelling this swap is for me – reduce my risk in the credit exposure while more than doubling my profit sharing.

SAMPLE