UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001-38377

BRIGHTSPIRE CAPITAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland	38-4046290
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

590 Madison Avenue, 33rd Floor
New York, NY 10022
(Address of Principal Executive Offices, Including Zip Code)
(212) 547-2631
(Registrant's Telephone Number, Including Area Code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value $0.01 per share	BRSP	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐	Smaller reporting company	☐
						Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

As of August 1, 2023, BrightSpire Capital, Inc. had 129,985,107 shares of Class A common stock, par value $0.01 per share, outstanding.

BRIGHTSPIRE CAPITAL, INC.

FORM 10-Q

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and contingencies, many of which are beyond our control, and may cause actual results to differ significantly from those expressed in any forward-looking statement.

Currently, one of the most significant factors that could cause actual outcomes to differ materially from our forward-looking statements is the ongoing adverse effects of the COVID-19 pandemic on the financial condition, results of operations, cash flows and performance of the Company, its borrowers and tenants, the real estate market and the global economy and financial markets.

Among others, the following uncertainties and other factors could cause actual results to differ from those set forth in the forward-looking statements:

- operating costs and business disruption may be greater than expected;
- the ongoing impacts of the COVID-19 pandemic, such as changes in consumer behavior and corporate policies that have affected the use of and demand for traditional retail, hotel and office space;
- we depend on borrowers and tenants for a substantial portion of our revenue and, accordingly, our revenue and our ability to make distributions to stockholders will be dependent upon the success and economic viability of such borrowers and tenants;
- rising interest rates may adversely impact the value of our variable-rate investments, result in higher interest expense and in disruptions to our borrowers’ and tenants’ ability to finance their activities, on whom we depend for a substantial portion of our revenue;
- deterioration in the performance of the properties securing our investments (including depletion of interest and other reserves or payment-in-kind concessions in lieu of current interest payment obligations, population shifts and migration, or reduced demand for office, multifamily, hospitality or retail space) may cause deterioration in the performance of our investments and, potentially, principal losses to us;
- the fair value of our investments may be subject to uncertainties including impacts associated with accelerating inflationary trends, recent and potential further interest rate increases, the volatility of interest rates, credit spreads and the transition from LIBOR to SOFR, and increased market volatility affecting commercial real estate businesses and public securities;
- our use of leverage and interest rate mismatches between our assets and borrowings could hinder our ability to make distributions and may significantly impact our liquidity position;
- the ability to realize expected returns on equity and/or yields on investments;
- adverse impacts on our corporate revolver, including covenant compliance and borrowing base capacity;
- adverse impacts on our liquidity, including available capacity under and margin calls on master repurchase facilities, debt service or lease payment defaults or deferrals, demands for protective advances and capital expenditures;
- our real estate investments are relatively illiquid and we may not be able to vary our portfolio in response to changes in economic and other conditions, which may result in losses to us;
- the timing of and ability to deploy available capital;
- our lack of an established minimum distribution payment level, and we cannot assure you of our ability to pay distributions in the future;
- the timing of and ability to complete repurchases of our common stock;
- the risks associated with obtaining mortgage financing on our real estate, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to stockholders; and
- the impact of legislative, regulatory, tax and competitive changes, regime changes and the actions of governmental authorities, and in particular those affecting the commercial real estate finance and mortgage industry or our business; and
- the ongoing impacts of global geopolitical uncertainty and unforeseen public health crises such as the COVID-19 pandemic on the real estate market.

The foregoing list of factors is not exhaustive, and many of these risks are heightened as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic. We urge you to carefully review the disclosures we make concerning risks in the sections entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022, “Risk Factors” in this Form 10-Q for the quarter ended June 30, 2023 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein.

We caution investors not to unduly rely on any forward-looking statements. The forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. The Company is under no duty to update any of these forward-looking statements after the date of this Quarterly Report on Form 10-Q, nor to conform prior statements to actual results or revised expectations, and the Company does not intend to do so.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

BRIGHTSPIRE CAPITAL, INC.
CONSOLIDATED BALANCE SHEETS
(in Thousands, Except Share and Per Share Data)

	June 30, 2023 (Unaudited)	December 31, 2022
Assets		
Cash and cash equivalents	$ 218,170	$ 306,320
Restricted cash	84,587	92,508
Loans and preferred equity held for investment	3,219,701	3,574,989
Current expected credit loss reserve	(106,728)	(106,247)
Loans and preferred equity held for investment, net	3,112,973	3,468,742
Real estate, net	771,383	732,468
Receivables, net	53,481	40,698
Deferred leasing costs and intangible assets, net	58,033	53,980
Other assets ($2,790 and $3,035 at fair value, respectively)	56,126	55,673
Total assets	$ 4,354,753	$ 4,750,389
Liabilities		
Securitization bonds payable, net	$ 992,583	$ 1,167,600
Mortgage and other notes payable, net	644,891	656,468
Credit facilities	1,217,251	1,339,993
Accrued and other liabilities	79,296	87,633
Intangible liabilities, net	4,871	4,839
Escrow deposits payable	67,319	79,055
Dividends payable	26,000	25,777
Total liabilities	$ 3,032,211	$ 3,361,365
Commitments and contingencies (Note 15)		
Equity		
Stockholders' equity		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	—	—
Common stock, $0.01 par value per share		
Class A, 950,000,000 shares authorized, 130,039,469 and 128,872,471 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	1,300	1,289
Additional paid-in capital	2,856,225	2,853,723
Accumulated deficit	(1,530,351)	(1,466,568)
Accumulated other comprehensive income (loss)	(5,745)	(676)
Total stockholders' equity	1,321,429	1,387,768
Noncontrolling interests in investment entities	1,113	1,256
Total equity	1,322,542	1,389,024
Total liabilities and equity	$ 4,354,753	$ 4,750,389

The accompanying notes are an integral part of these consolidated financial statements.

BRIGHTSPIRE CAPITAL, INC.
CONSOLIDATED BALANCE SHEETS
(in Thousands)

The following table presents assets and liabilities of securitization trusts and certain real estate properties that have noncontrolling interests as variable interest entities for which the Company is determined to be the primary beneficiary.

	June 30, 2023 (Unaudited)	December 31, 2022
Assets		
Cash and cash equivalents	$ 4,474	$ 5,163
Restricted cash	9,503	7,831
Loans and preferred equity held for investment, net	1,255,511	1,444,398
Real estate, net	168,459	167,821
Receivables, net	25,245	11,869
Deferred leasing costs and intangible assets, net	9,368	10,956
Other assets	21,883	21,977
Total assets	$ 1,494,443	$ 1,670,015
Liabilities		
Securitization bonds payable, net	$ 992,583	$ 1,167,600
Mortgage and other notes payable, net	172,187	173,960
Accrued and other liabilities	9,515	5,026
Intangible liabilities, net	4,149	4,839
Escrow deposits payable	571	2,366
Total liabilities	$ 1,179,005	$ 1,353,791

The accompanying notes are an integral part of these consolidated financial statements.

BRIGHTSPIRE CAPITAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Net interest income				
Interest income	$ 74,339	$ 53,083	$ 149,955	$ 97,654
Interest expense	(44,095)	(21,455)	(86,757)	(37,527)
Interest income on mortgage loans held in securitization trusts	—	9,721	—	19,095
Interest expense on mortgage obligations issued by securitization trusts	—	(8,586)	—	(17,074)
Net interest income	30,244	32,763	63,198	62,148
Property and other income				
Property operating income	21,727	21,781	44,278	45,948
Other income	3,248	787	6,304	1,063
Total property and other income	24,975	22,568	50,582	47,011
Expenses				
Property operating expense	5,443	5,266	11,295	11,990
Transaction, investment and servicing expense	820	982	1,655	2,106
Interest expense on real estate	6,773	7,117	12,282	14,673
Depreciation and amortization	7,941	8,720	15,937	17,314
Increase of current expected credit loss reserve	28,966	10,143	68,579	9,277
Compensation and benefits (including $3,102, $2,286, $5,398 and $4,166 of equity-based compensation expense, respectively)	9,368	8,269	18,173	16,494
Operating expense	3,273	4,070	6,746	8,419
Total expenses	62,584	44,567	134,667	80,273
Other income				
Other gain, net	177	24,332	832	34,620
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(7,188)	35,096	(20,055)	63,506
Equity in earnings of unconsolidated ventures	—	—	9,055	25
Income tax expense	(310)	(465)	(700)	(501)
Net income (loss)	(7,498)	34,631	(11,700)	63,030
Net (income) loss attributable to noncontrolling interests:				
Investment entities	12	15	87	(7)
Operating Partnership	—	(359)	—	(1,013)
Net income (loss) attributable to BrightSpire Capital, Inc. common stockholders	$ (7,486)	$ 34,287	$ (11,613)	$ 62,010
Net income (loss) per common share - basic (Note 17)	$ (0.06)	$ 0.26	$ (0.09)	$ 0.48
Net income (loss) per common share - diluted (Note 17)	$ (0.06)	$ 0.26	$ (0.09)	$ 0.47
Weighted average shares of common stock outstanding - basic (Note 17)	127,173	127,756	126,920	128,052
Weighted average shares of common stock outstanding - diluted (Note 17)	127,173	129,595	126,920	129,669

The accompanying notes are an integral part of these consolidated financial statements.

BRIGHTSPIRE CAPITAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in Thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Net income (loss)	$ (7,498)	$ 34,631	$ (11,700)	$ 63,030
Other comprehensive income (loss)				
Foreign currency translation loss	(1,606)	(9,810)	(5,069)	(9,134)
Total other comprehensive income (loss)	(1,606)	(9,810)	(5,069)	(9,134)
Comprehensive income (loss)	(9,104)	24,821	(16,769)	53,896
Comprehensive (income) loss attributable to noncontrolling interests:				
Investment entities	12	15	87	(7)
Operating Partnership	—	(505)	—	(1,175)
Comprehensive income (loss) attributable to common stockholders	$ (9,092)	$ 24,331	$ (16,682)	$ 52,714

The accompanying notes are an integral part of these consolidated financial statements.

BRIGHTSPIRE CAPITAL, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(in Thousands)
(Unaudited)

	Common Stock Class A								
	Shares	**Amount**	**Additional Paid-in Capital**	**Retained Earnings (Accumulated Deficit)**	**Accumulated Other Comprehensive Income**	**Total Stockholders' Equity**	**Noncontrolling Interests in Investment Entities**	**Noncontrolling Interest in the Operating Partnership**	**Total Equity**
Balance as of December 31, 2021	129,769	$ 1,298	$ 2,855,766	$ (1,410,562)	$ 8,786	$ 1,455,288	$ 1,472	$ 34,555	$ 1,491,315
Distributions	—	—	—	—	—	—	(110)	—	(110)
Issuance and amortization of equity-based compensation	—	—	1,880	—	—	1,880	—	—	1,880
Other comprehensive income	—	—	—	—	660	660	—	16	676
Dividends and distributions declared ($0.19 per share)	—	—	—	(24,657)	—	(24,657)	—	(584)	(25,241)
Shares canceled for tax withholding on vested stock awards	(136)	(2)	(998)	—	—	(1,000)	—	—	(1,000)
Reallocation of equity	—	—	(13)	—	—	(13)	—	13	—
Net income	—	—	—	27,724	—	27,724	22	654	28,400
Balance as of March 31, 2022	129,633	$ 1,296	$ 2,856,635	$ (1,407,495)	$ 9,446	$ 1,459,882	$ 1,384	$ 34,654	$ 1,495,920
Distributions	—	$ —	$ —	$ —	$ —	$ —	$ (28)	$ —	$ (28)
Issuance and amortization of equity-based compensation	1,524	16	2,270	—	—	2,286	—	—	2,286
Repurchase of common stock	(2,181)	(22)	(18,298)	—	—	(18,320)	—	—	(18,320)
Other comprehensive income (loss)	—	—	—	—	(9,956)	(9,956)	—	146	(9,810)
Dividends and distributions declared $0.20 per share)	—	—	—	(25,565)	—	(25,565)	—	—	(25,565)
Shares canceled for tax withholding on vested stock awards	(11)	—	(254)	—	—	(254)	—	—	(254)
OP Redemption	—	—	9,648	—	—	9,648	—	(35,159)	(25,511)
Net income	—	—	—	34,287	—	34,287	(15)	359	34,631
Balance as of June 30, 2022	128,965	$ 1,290	$ 2,850,001	$ (1,398,773)	$ (510)	$ 1,452,008	$ 1,341	$ —	$ 1,453,349

The accompanying notes are an integral part of these consolidated financial statements.

BRIGHTSPIRE CAPITAL, INC.
CONSOLIDATED STATEMENTS OF EQUITY (Continued)
(in Thousands)
(Unaudited)

	Common Stock Class A							
	Shares	**Amount**	**Additional Paid-in Capital**	**Retained Earnings (Accumulated Deficit)**	**Accumulated Other Comprehensive Income**	**Total Stockholders' Equity**	**Noncontrolling Interests in Investment Entities**	**Total Equity**
Balance as of December 31, 2022	128,872	$ 1,289	$ 2,853,723	$ (1,466,568)	$ (676)	$ 1,387,768	$ 1,256	$ 1,389,024
Distributions	—	—	—	—	—	—	(28)	(28)
Issuance and amortization of equity-based compensation	1,527	15	2,280	—	—	2,295	—	2,295
Other comprehensive loss	—	—	—	—	(3,463)	(3,463)	—	(3,463)
Dividends and distributions declared ($0.20 per share)	—	—	—	(26,170)	—	(26,170)	—	(26,170)
Shares canceled for tax withholding on vested stock awards	(453)	(5)	(2,880)	—	—	(2,885)	—	(2,885)
Net loss	—	—	—	(4,127)	—	(4,127)	(75)	(4,202)
Balance as of March 31, 2023	129,946	$ 1,299	$ 2,853,123	$ (1,496,865)	$ (4,139)	$ 1,353,418	$ 1,153	$ 1,354,571
Distributions	—	$ —	$ —	$ —	$ —	$ —	$ (28)	$ (28)
Issuance and amortization of equity-based compensation	93	1	3,102	—	—	3,103	—	3,103
Other comprehensive loss	—	—	—	—	(1,606)	(1,606)	—	(1,606)
Dividends and distributions declared ($0.20 per share)	—	—	—	(26,000)	—	(26,000)	—	(26,000)
Net loss	—	—	—	(7,486)	—	(7,486)	(12)	(7,498)
Balance as of June 30, 2023	130,039	$ 1,300	$ 2,856,225	$ (1,530,351)	$ (5,745)	$ 1,321,429	$ 1,113	$ 1,322,542

The accompanying notes are an integral part of these consolidated financial statements.

BRIGHTSPIRE CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Thousands)
(Unaudited)

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Cash flows from operating activities:		
Net income (loss)	$ (11,700)	$ 63,030
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in (earnings) losses of unconsolidated ventures	—	(25)
Depreciation and amortization	15,937	17,314
Straight-line rental income	(834)	(731)
Amortization of above/below market lease values, net	(340)	(103)
Amortization of premium/accretion of discount and fees on investments and borrowings, net	(5,755)	(6,912)
Amortization of deferred financing costs	5,979	4,938
Amortization of right-of-use lease assets and operating lease liabilities	66	234
Paid-in-kind interest added to loan principal, net of interest received	(3,346)	5,679
Realized gain on sale of real estate	—	(10,632)
Increase (decrease) of current expected credit loss reserve	68,579	9,277
Amortization of equity-based compensation	5,398	4,166
Mortgage notes above/below market value amortization	(1,381)	98
Realized gain on sales of unconsolidated ventures	—	(21,900)
Deferred income tax (benefit) expense	36	(650)
Other (gain) loss, net	(753)	(1,828)
Changes in assets and liabilities:		
Receivables, net	2,125	(628)
Deferred costs and other assets	(1,090)	1,914
Other liabilities	(10,168)	(8,627)
Net cash provided by operating activities	62,753	54,614
Cash flows from investing activities:		
Acquisition, origination and funding of loans held for investment, net	(35,936)	(815,466)
Repayment on loans held for investment	249,482	470,411
Proceeds from sale of real estate	—	55,600
Acquisition of and additions to real estate, related intangibles and leasing commissions	(5,486)	(1,577)
Proceeds from sale of investments in unconsolidated ventures	—	38,100
Distributions in excess of cumulative earnings from unconsolidated ventures	245	(3)
Repayment of principal in mortgage loans held in securitization trusts	—	15,946
Cash received related to foreclosure of loans held for investment	1,308	—
Change in escrow deposits payable	(11,737)	2,069
Net cash provided by (used in) investing activities	197,876	(234,920)
Cash flows from financing activities:		
Distributions paid on common stock	(51,951)	(48,033)
Distributions paid on common stock to noncontrolling interests	—	(1,138)
Shares canceled for tax withholding on vested stock awards	(2,885)	(1,254)
Repurchase of common stock	—	(18,320)
Redemption of OP units	—	(25,383)
Borrowings from mortgage notes	34,466	—
Repayment of mortgage notes	(30,907)	(82,116)
Borrowings from credit facilities	110,324	698,700
Repayment of credit facilities	(233,141)	(116,254)
Repayment of securitization bonds	(177,529)	(138,369)
Repayment of mortgage obligations issued by securitization trusts	—	(15,947)
Payment of deferred financing costs	(4,731)	(7,863)
Distributions to noncontrolling interests	(56)	(138)
Issuance of common stock	16	—
Net cash provided by (used in) financing activities	(356,394)	243,885
Effect of exchange rates on cash, cash equivalents and restricted cash	(306)	(726)
Net decrease in cash, cash equivalents and restricted cash	(96,071)	62,853
Cash, cash equivalents and restricted cash - beginning of period	398,828	346,563
Cash, cash equivalents and restricted cash - end of period	$ 302,757	$ 409,416

The accompanying notes are an integral part of these consolidated financial statements.

BRIGHTSPIRE CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(in Thousands)
(Unaudited)

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Reconciliation of cash, cash equivalents, and restricted cash to consolidated balance sheets		
Beginning of the period		
Cash and cash equivalents	$ 306,320	$ 259,722
Restricted cash	92,508	86,841
Total cash, cash equivalents and restricted cash, beginning of period	$ 398,828	$ 346,563
End of the period		
Cash and cash equivalents	$ 218,170	$ 317,742
Restricted cash	84,587	91,674
Total cash, cash equivalents and restricted cash, end of period	$ 302,757	$ 409,416

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Supplemental disclosure of non-cash investing and financing activities:		
Accrual of distribution payable	$ (26,000)	$ (25,565)
Assumption of accounts payable, accrued expenses and other liabilities related to real estate owned	(1,861)	—
Assumption of real estate	73,652	—
Right-of-use lease assets and operating lease liabilities	—	3,271

The accompanying notes are an integral part of these consolidated financial statements.

1. Business and Organization

BrightSpire Capital, Inc. (the “Company”) is a commercial real estate (“CRE”) credit real estate investment trust (“REIT”) focused on originating, acquiring, financing and managing a diversified portfolio consisting primarily of CRE debt investments and net leased properties predominantly in the United States. CRE debt investments primarily consist of first mortgage loans, which the Company expects to be its primary investment strategy. Additionally, the Company may selectively originate mezzanine loans and make preferred equity investments, which may include profit participations. The mezzanine loans and preferred equity investments may be in conjunction with the Company’s origination of corresponding first mortgages on the same properties. Net leased properties consist of CRE properties with long-term leases to tenants on a net-lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance capital expenditures and real estate taxes. The Company will continue to target net leased equity investments on a selective basis.

The Company was organized in the state of Maryland on August 23, 2017 and maintains key offices in New York, New York and Los Angeles, California. The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, beginning with the taxable year ended December 31, 2018. The Company conducts all activities and holds substantially all assets and liabilities through the Company’s operating subsidiary, BrightSpire Capital Operating Company, LLC (the “OP”).

Trends Affecting the Business

The global markets are currently characterized by volatility, driven by a tightening of monetary policy and geopolitical uncertainty, coupled with the ongoing impacts of the COVID-19 pandemic. In response to heightened inflation, the Federal Reserve has continued to raise interest rates, which has tempered the loan financing market and created further uncertainty for the economy and for the Company’s borrowers and tenants. To the extent certain borrowers are experiencing significant financial dislocation as a result of economic conditions or the ongoing effects of the COVID-19 pandemic, the Company has and may continue to use interest and other reserves and/or replenishment obligations of the borrower and/or guarantors to meet current interest payment obligations for a limited period. Additionally, the market for office properties was particularly negatively impacted by the COVID-19 pandemic and remains distressed, with high overall vacancy rates due to the normalization of work from home and the hybrid attendance models.

As a result of fewer employees commuting to their offices, businesses are re-evaluating their need for physical office space. These current macroeconomic conditions may continue or intensify and could cause the United States economy or other global economies to experience an economic slowdown or recession. While the Company monitors macroeconomic conditions closely, there are too many uncertainties to predict and quantify the full impact that these factors may have on its business.

2. Summary of Significant Accounting Policies

The significant accounting policies of the Company are described below. The accounting policies of the Company’s unconsolidated ventures are substantially similar to those of the Company.

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by generally accepted accounting principles in the United States of America (“GAAP”) for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented. However, the results of operations for the interim period presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2023, or any other future period. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in, or presented as exhibits to, the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

The accompanying consolidated financial statements include the accounts of the Company and its controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated. The portions of equity, net income and other comprehensive income of consolidated subsidiaries that are not attributable to the parent are presented separately as amounts attributable to noncontrolling interests in the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its controlled subsidiaries. The portions of the equity, net income and other comprehensive income of consolidated subsidiaries that are not attributable to the parent are presented separately as amounts attributable to noncontrolling interests in the consolidated financial statements.

The Company consolidates entities in which it has a controlling financial interest by first considering if an entity meets the definition of a variable interest entity ("VIE") for which the Company is deemed to be the primary beneficiary, or if the Company has the power to control an entity through a majority of voting interest or through other arrangements.

Variable Interest Entities

Variable Interest Entities—A VIE is an entity that either (i) lacks sufficient equity to finance its activities without additional subordinated financial support from other parties; (ii) whose equity holders lack the characteristics of a controlling financial interest; or (iii) is established with non-substantive voting rights. A VIE is consolidated by its primary beneficiary, which is defined as the party who has a controlling financial interest in the VIE through (a) power to direct the activities of the VIE that most significantly affect the VIE's economic performance, and (b) obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE. The Company also considers interests held by its related parties, including de facto agents. The Company assesses whether it is a member of a related party group that collectively meets the power and benefits criteria and, if so, whether the Company is most closely associated with the VIE. In performing the related party analysis, the Company considers both qualitative and quantitative factors, including, but not limited to: the amount and characteristics of its investment relative to the related party; the Company's and the related party's ability to control or significantly influence key decisions of the VIE including consideration of involvement by de facto agents; the obligation or likelihood for the Company or the related party to fund operating losses of the VIE; and the similarity and significance of the VIE's business activities to those of the Company and the related party. The determination of whether an entity is a VIE, and whether the Company is the primary beneficiary, may involve significant judgment, including the determination of which activities most significantly affect the entities' performance, and estimates about the current and future fair values and performance of assets held by the VIE.

Voting Interest Entities—Unlike VIEs, voting interest entities have sufficient equity to finance their activities and equity investors exhibit the characteristics of a controlling financial interest through their voting rights. The Company consolidates such entities when it has the power to control these entities through ownership of a majority of the entities' voting interests or through other arrangements.

At each reporting period, the Company reassesses whether changes in facts and circumstances cause a change in the status of an entity as a VIE or voting interest entity, and/or a change in the Company's consolidation assessment.

Changes in consolidation status are applied prospectively. An entity may be consolidated as a result of this reassessment, in which case, the assets, liabilities and noncontrolling interest in the entity are recorded at fair value upon initial consolidation. Any existing equity interest held by the Company in the entity prior to the Company obtaining control will be remeasured at fair value, which may result in a gain or loss recognized upon initial consolidation. However, if the consolidation represents an asset acquisition of a voting interest entity, the Company's existing interest in the acquired assets, if any, is not remeasured to fair value but continues to be carried at historical cost. The Company may also deconsolidate a subsidiary as a result of this reassessment, which may result in a gain or loss recognized upon deconsolidation depending on the carrying values of deconsolidated assets and liabilities compared to the fair value of any interests retained.

As of June 30, 2023 and December 31, 2022, the Company had identified certain consolidated VIEs. As of December 31, 2022, the Company had identified certain unconsolidated VIEs. Assets of each of the VIEs, other than the OP, may only be used to settle obligations of the respective VIE. Creditors of each of the VIEs have no recourse to the general credit of the Company.

Consolidated VIEs

Consolidated VIEs include the Investing VIEs (as defined and discussed below) and certain operating real estate properties that have noncontrolling interests. At June 30, 2023 and December 31, 2022, the noncontrolling interests in the operating real estate properties represent third party joint venture partners with ownership ranging from 5.0% to 11.0%. These noncontrolling interests do not have substantive kick-out nor participating rights.

Investing VIEs

The Company's previous investments in securitization financing entities ("Investing VIEs") included subordinate first-loss tranches of securitization trusts, which represented interests in such VIEs. As of June 30, 2023, the Company did not hold any tranches of any securitization trusts, with the exception of its securitization bonds payable, net. Refer to Note 8, "Debt", for further discussion. During the three months ended December 31, 2022, the Company sold its remaining subordinate tranches of a securitization trust in one Investing VIE for which it had determined it was the primary beneficiary because it had the power to direct the activities that most significantly impacted the economic performance of the securitization trust. The Company's subordinate tranches of the securitization trust, which represented the retained interest and related interest income, were eliminated in consolidation. As a result, all of the assets, liabilities (obligations to the certificate holders of the securitization trust, less the Company's retained interest from the subordinate tranches of the securitization trust), income and expenses of the Investing VIE were presented in the consolidated financial statements of the Company although the Company legally owned the subordinate tranches of the securitization trust only. Regardless of the presentation, the Company's consolidated financial statements of operations ultimately reflect the net income attributable to its retained interest in the subordinate tranches of the securitization trust.

The Company elected the fair value option for the initial recognition of the assets and liabilities of its consolidated Investing VIE. Interest income and interest expense associated with the Investing VIE are presented separately on the consolidated statements of operations, and the assets and liabilities of the Investing VIE are separately presented as "Mortgage loans held in securitization trusts, at fair value" and "Mortgage obligations issued by securitization trusts, at fair value," respectively, on the consolidated balance sheets. Refer to Note 13, "Fair Value" for further discussion.

The Company has adopted guidance issued by the Financial Accounting Standards Board ("FASB"), allowing the Company to measure both the financial assets and liabilities of a qualifying collateralized financing entity ("CFE"), such as its Investing VIE, using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable. A CFE is a VIE that holds financial assets, issues beneficial interests in those assets and has no more than nominal equity, and the beneficial interests have contractual recourse only to the related assets of the CFE. As the liabilities of the Company's Investing VIE are marketable securities with observable trade data, their fair value is more observable and is referenced to determine fair value of the assets of its Investing VIE. Refer to Note 13, "Fair Value" for further discussion.

Unconsolidated VIEs

As of June 30, 2023, the Company did not hold, and had no remaining obligations to, any unconsolidated VIEs. As of December 31, 2022, the Company held one investment which had no carrying value in an unconsolidated VIE to which the Company did not provide financial support during the year ended December 31, 2022.

The maximum exposure to loss of investments in unconsolidated ventures was determined as the carrying value plus any future funding commitments.

Noncontrolling Interests

Noncontrolling Interests in Investment Entities—This represents interests in consolidated investment entities held by third party joint venture partners.

Allocation of net income or loss is generally based upon relative ownership interests held by equity owners in each investment entity, or based upon contractual arrangements that may provide for disproportionate allocation of economic returns among equity interests, including using a hypothetical liquidation at book value ("HLBV") basis, where applicable and substantive. HLBV uses a balance sheet approach, which measures each party's capital account at the end of a period assuming that the subsidiary was liquidated or sold at book value. Each party's share of the subsidiary's earnings or loss is calculated by measuring the change in the party's capital account from the beginning of the period in question to the end of period, adjusting for effects of distributions and new investments.

Noncontrolling Interests in the Operating Partnership—Prior to the May 2022 redemption of the noncontrolling interests in the OP held by third parties, noncontrolling interests in the OP were allocated a share of net income or loss in the OP based on their weighted average ownership interest in the OP during the period. Noncontrolling interests in the OP had the right to require the OP to redeem part or all of the membership units in the OP for cash based on the market value of an equivalent number of shares of Class A common stock at the time of redemption, or at the Company's election as managing member of the OP, through the issuance of shares of Class A common stock on a one-for-one basis. At the end of each reporting period, noncontrolling interests in the OP were adjusted to reflect their ownership percentage in the OP at the end of the period, through a reallocation between controlling and noncontrolling interests in the OP, as applicable.

There are no noncontrolling interests in the OP and the OP is owned by the Company directly, and indirectly through the Company's subsidiary, BRSP-T Partner, LLC.

Comprehensive Income (Loss)

The Company reports consolidated comprehensive income (loss) in separate statements following the consolidated statements of operations. Comprehensive income (loss) is defined as the change in equity resulting from net income (loss) and other comprehensive income ("OCI"). The components of OCI include unrealized gain (loss) on CRE debt securities available for sale for which the fair value option was not elected, gain (loss) on derivative instruments used in the Company's risk management activities used for economic hedging purposes ("designated hedges"), and gain (loss) on foreign currency translation.

Fair Value Measurement

Fair value is based on an exit price, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Where appropriate, the Company makes adjustments to estimated fair values to appropriately reflect counterparty credit risk as well as the Company's own creditworthiness.

The estimated fair value of financial assets and financial liabilities are categorized into a three-tier hierarchy, prioritized based on the level of transparency in inputs used in the valuation techniques, as follows:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in non-active markets, or valuation techniques utilizing inputs that are derived principally from or corroborated by observable data directly or indirectly for substantially the full term of the financial instrument.

Level 3—At least one assumption or input is unobservable and it is significant to the fair value measurement, requiring significant management judgment or estimate.

Where the inputs used to measure the fair value of a financial instrument fall into different levels of the fair value hierarchy, the financial instrument is categorized within the hierarchy based on the lowest level of input that is significant to its fair value measurement.

Fair Value Option

The fair value option provides an option to elect fair value as an alternative measurement for selected financial instruments. Gains and losses on items for which the fair value option has been elected are reported in earnings. The fair value option may be elected only upon the occurrence of certain specified events, including when the Company enters into an eligible firm commitment, at initial recognition of the financial instrument, as well as upon a business combination or consolidation of a subsidiary. The election is irrevocable unless a new election event occurs.

The Company has elected the fair value option for its indirect interests in real estate through real estate private equity funds ("PE Investments"). The Company has previously elected the fair value option to account for the eligible financial assets and liabilities of its consolidated Investing VIEs in order to mitigate potential accounting mismatches between the carrying value of the instruments and the related assets and liabilities to be consolidated. The Company has adopted the measurement alternative allowing the Company to measure both the financial assets and financial liabilities of a qualifying CFE it consolidates using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable.

Business Combinations

Definition of a Business—The Company evaluates each purchase transaction to determine whether the acquired assets meet the definition of a business. If substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, then the set of transferred assets and activities is not a business. If not, for an acquisition to be considered a business, it would have to include an input and a substantive process that together significantly contribute to the ability to create outputs (i.e., there is a continuation of revenue before and after the transaction). A substantive process is not ancillary or minor, cannot be replaced without significant costs, effort or delay or is otherwise considered unique or scarce. To qualify as a business without outputs, the acquired assets would require an organized workforce with the necessary skills, knowledge and experience that performs a substantive process.

Asset Acquisitions—For acquisitions that are not deemed to be businesses, the assets acquired are recognized based on their cost to the Company as the acquirer and no gain or loss is recognized. The cost of assets acquired in a group is allocated to individual assets within the group based on their relative fair values and does not give rise to goodwill. Transaction costs related to the acquisition of assets are included in the cost basis of the assets acquired. Such valuations require management to make significant estimates and assumptions.

Business Combinations—The Company accounts for acquisitions that qualify as business combinations by applying the acquisition method. Transaction costs related to the acquisition of a business are expensed as incurred and excluded from the fair value of consideration transferred. The identifiable assets acquired, liabilities assumed and noncontrolling interests in an acquired entity are recognized and measured at their estimated fair values. The excess of the fair value of consideration transferred over the fair values of identifiable assets acquired, liabilities assumed and noncontrolling interests in an acquired entity, net of fair value of any previously held interest in the acquired entity, is recorded as goodwill. Such valuations require management to make significant estimates and assumptions.

Cash and Cash Equivalents

Short-term, highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Company did not have any cash equivalents at June 30, 2023 or December 31, 2022. The Company's cash is held with major financial institutions and may at times exceed federally insured limits.

Restricted Cash

Restricted cash consists primarily of borrower escrow deposits, tenant escrow deposits and real estate capital expenditure reserves.

Loans and Preferred Equity Held for Investment

The Company originates and purchases loans and preferred equity held for investment. The accounting framework for loans and preferred equity held for investment depends on the Company's strategy whether to hold or sell the loan, whether the loan was credit-impaired at the time of acquisition, or if the lending arrangement is an acquisition, development and construction loan.

Loans and Preferred Equity Held for Investment

Loans and preferred equity that the Company has the intent and ability to hold for the foreseeable future are classified as held for investment. Originated loans and preferred equity are recorded at amortized cost, or outstanding unpaid principal balance plus exit fees less net deferred loan fees. Net deferred loan fees include unamortized origination and other fees charged to the borrower less direct incremental loan origination costs incurred by the Company. Purchased loans and preferred equity are recorded at amortized cost, or unpaid principal balance plus purchase premium or less unamortized discount. Costs to purchase loans and preferred equity are expensed as incurred.

Interest Income—Interest income is recognized based upon contractual interest rate and unpaid principal balance of the loans and preferred equity investments. Net deferred loan fees on originated loans and preferred equity investments are deferred and amortized as adjustments to interest income over the expected life of the loans and preferred equity investments using the effective yield method. Premium or discount on purchased loans and preferred equity investments are amortized as adjustments to interest income over the expected life of the loans and preferred equity investments using the effective yield method. When a loan or preferred equity investment is prepaid, prepayment fees and any excess of proceeds over the carrying amount of the loan or preferred equity investment is recognized as additional interest income.

The Company has debt investments in its portfolio that contain a payment-in-kind ("PIK") provision. Contractual PIK interest, which represents contractually deferred interest added to the loan balance that is due at the end of the loan term, is generally recorded on an accrual basis to the extent such amounts are expected to be collected. The Company will generally cease accruing PIK interest if there is insufficient value to support the accrual or management does not expect the borrower to be able to pay all principal and interest due.

Nonaccrual—Accrual of interest income is suspended on nonaccrual loans and preferred equity investments. Loans and preferred equity investments that are past due 90 days or more as to principal or interest, or where reasonable doubt exists as to timely collection, are generally considered nonperforming and placed on nonaccrual status. Interest receivable is reversed against interest income when loans and preferred equity investments are placed on nonaccrual status. Interest collected is recognized on a cash basis by crediting income when received; or if ultimate collectability of loan and preferred equity principal is uncertain, interest collected is recognized using a cost recovery method by applying interest collected as a reduction to loan and preferred equity carrying value. Loans and preferred equity investments may be restored to accrual status when all principal and interest are current and full repayment of the remaining contractual principal and interest are reasonably assured.

Loans Held for Sale

Loans that the Company intends to sell or liquidate in the foreseeable future are classified as held for sale. Loans held for sale are carried at the lower of amortized cost or fair value less disposal cost, with valuation changes recognized as impairment loss. Loans held for sale are not subject to Current Expected Credit Losses ("CECL") reserves. Net deferred loan origination fees and loan purchase premiums or discounts are deferred and capitalized as part of the carrying value of the held for sale loan until the loan is sold, therefore included in the periodic valuation adjustments based on lower of cost or fair value less disposal cost.

At June 30, 2023 and December 31, 2022, the Company had no loans classified as held for sale.

Acquisition, Development and Construction ("ADC") Arrangements

The Company provides loans to third party developers for the acquisition, development and construction of real estate. Under an ADC arrangement, the Company participates in the expected residual profits of the project through the sale, refinancing or other use of the property. The Company evaluates the characteristics of each ADC arrangement, including its risks and rewards, to determine whether they are more similar to those associated with a loan or an investment in real estate. ADC arrangements with characteristics implying loan classification are presented as loans held for investment and result in the recognition of interest income. ADC arrangements with characteristics implying real estate joint ventures are presented as investments in unconsolidated joint ventures and are accounted for using the equity method. The classification of each ADC arrangement as either loan receivable or real estate joint venture involves significant judgment and relies on various factors, including market conditions, amount and timing of expected residual profits, credit enhancements in the form of guaranties, estimated fair value of the collateral, and significance of borrower equity in the project, among others. The classification of ADC arrangements is performed at inception, and periodically reassessed when significant changes occur in the circumstances or conditions described above.

At June 30, 2023 and December 31, 2022, the Company had no ADC arrangements.

Operating Real Estate

Real Estate Acquisitions—Real estate acquired in acquisitions that are deemed to be business combinations is recorded at the fair values of the acquired components at the time of acquisition, allocated among land, buildings, improvements, equipment and lease-related tangible and identifiable intangible assets and liabilities, including forgone leasing costs, in-place lease values and above- or below-market lease values and assumed debt, if any. Real estate acquired in acquisitions that are deemed to be asset acquisitions is recorded at the total value of consideration transferred, including transaction costs, and allocated to the acquired components based upon relative fair value. The estimated fair value of acquired land is derived from recent comparable sales of land and listings within the same local region based on available market data. The estimated fair value of acquired buildings and building improvements is derived from comparable sales, discounted cash flow analysis using market-based assumptions, or replacement cost, as appropriate. The fair value of site and tenant improvements is estimated based upon current market replacement costs and other relevant market rate information.

Real Estate Held for Investment

Real estate held for investment is carried at cost less accumulated depreciation.

Costs Capitalized or Expensed—Expenditures for ordinary repairs and maintenance are expensed as incurred, while expenditures for significant renovations that improve or extend the useful life of the asset are capitalized and depreciated over their estimated useful lives.

Depreciation—Real estate held for investment, other than land, is depreciated on a straight-line basis over the estimated useful lives of the assets, as follows:

Real Estate Assets	Term
Building (fee interest)	33 to 47 years
Building leasehold interests	Lesser of remaining term of the lease or remaining life of the building
Building improvements	Lesser of the useful life or remaining life of the building
Land improvements	1 to 15 years
Tenant improvements	Lesser of the useful life or remaining term of the lease
Furniture, fixtures and equipment	2 to 8 years

Impairment—The Company evaluates its real estate held for investment for impairment periodically or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company evaluates real estate for impairment generally on an individual property basis. If an impairment indicator exists, the Company evaluates the undiscounted future net cash flows that are expected to be generated by the property, including any estimated proceeds from the eventual disposition of the property. If multiple outcomes are under consideration, the Company may apply a probability-weighted approach to the impairment analysis. Based upon the analysis, if the carrying value of a property exceeds its undiscounted future net cash flows, an impairment loss is recognized for the excess of the carrying value of the property over the estimated fair value of the property. In evaluating and/or measuring impairment, the Company considers, among other things, current and estimated future cash flows associated with each property, market information for each sub-market, including, where applicable, competition levels, foreclosure levels, leasing trends, occupancy trends, lease or room rates, and the market prices of similar properties recently sold or currently being offered for sale, and other quantitative and qualitative factors. Another key consideration in this assessment is the Company's assumptions about the highest and best use of its real estate investments and its intent and ability to hold them for a reasonable period that would allow for the recovery of their carrying values. If such assumptions change and the Company shortens its expected hold period, this may result in the recognition of impairment losses. See Note 5, "Real Estate, net" and Note 13, "Fair Value" for further detail.

Real Estate Held for Sale

Real estate is classified as held for sale in the period when (i) management approves a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition, subject only to usual and customary terms, (iii) a program is initiated to locate a buyer and actively market the asset for sale at a reasonable price, and (iv) completion of the sale is probable within one year. Real estate held for sale is stated at the lower of its carrying amount or estimated fair value less disposal cost, with any write-down to fair value less disposal cost recorded as an impairment loss. For any increase in fair value less disposal cost subsequent to classification as held for sale, the impairment loss may be reversed, but only up to the amount of cumulative loss previously recognized. Depreciation is not recorded on assets classified as held for sale. At the time a sale is consummated, the excess, if any, of sale price less selling costs over carrying value of the real estate is recognized as a gain.

If circumstances arise that were previously considered unlikely and, as a result, the Company decides not to sell the real estate asset previously classified as held for sale, the real estate asset is reclassified as held for investment. Upon reclassification, the real estate asset is measured at the lower of (i) its carrying amount prior to classification as held for sale, adjusted for depreciation expense that would have been recognized had the real estate been continuously classified as held for investment, and (ii) its estimated fair value at the time the Company decides not to sell.

At June 30, 2023 and December 31, 2022, there were no properties held for sale.

Foreclosed Properties

The Company receives foreclosed properties in full or partial settlement of loans held for investment by taking legal title or physical possession of the properties. Foreclosed properties are generally recognized at the time the real estate is received at foreclosure sale or upon execution of a deed in lieu of foreclosure. Foreclosed properties are initially measured at fair value. If the fair value of the property is lower than the carrying value of the loan, the difference is recognized as current expected credit loss reserves and the cumulative reserve on the loan is charged off. The Company periodically evaluates foreclosed properties for subsequent decrease in fair value, which is recorded as an additional impairment loss. Fair value of foreclosed properties is generally based on third party appraisals, broker price opinions, comparable sales or a combination thereof.

Real Estate Securities

The Company classifies its CRE securities investments as available for sale on the acquisition date, which are carried at fair value. Unrealized gains (losses) are recorded as a component of accumulated OCI in the consolidated statements of equity. However, the Company has elected the fair value option for the assets and liabilities of its consolidated Investing VIEs, and as a result, any unrealized gains (losses) on the consolidated Investing VIEs are recorded in unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations. During the year ended December 31, 2022, the Company sold its retained investments in the subordinate tranches of a securitization trust. In connection with the sale, the Company deconsolidated the securitization trust and recognized a realized gain. Refer to Note 4, "Real Estate Securities" for further discussion.

Impairment

CRE securities for which the fair value option is elected are not evaluated for impairment as any change in fair value is recorded in the consolidated statements of operations. Realized losses on such securities are reclassified to realized loss on mortgage loans and obligations held in securitization trust, net as losses occur.

CRE securities for which the fair value option is not elected are evaluated for impairment quarterly. Impairment of a security is considered when the fair value is below the amortized cost basis, which is then further analyzed when: (i) the holder has the intent to sell the impaired security; (ii) it is more likely than not the holder will be required to sell the security; or (iii) the holder does not expect to recover the entire amortized cost of the security. When a CRE security has been deemed impaired due to (i) or (ii) or (iii), the security is written down to its fair value and an impairment is recognized in the consolidated statements of operations. In all other situations, the unrealized loss is bifurcated into: (a) the amount related to expected credit losses; and (b) the amount related to other factors in excess of expected credit losses. The portion of impairment related to expected credit losses is recognized as an allowance for credit losses. The remaining impairment related to other factors is recognized as a component of accumulated OCI in the consolidated statements of equity. CRE securities which are not high-credit quality are considered to have an impairment if the security has an unrealized loss and there has been an adverse change in expected cash flow. The amount of impairment is then bifurcated as discussed above.

Investments in Unconsolidated Ventures

A noncontrolling, unconsolidated ownership interest in an entity may be accounted for using one of (i) equity method where applicable; (ii) fair value option if elected; (iii) fair value through earnings if fair value is readily determinable, including election of net asset value ("NAV") practical expedient where applicable; or (iv) for equity investments without readily determinable fair values, the measurement alternative to measure at cost adjusted for any impairment and observable price changes, as applicable.

Fair value changes of equity method investments under the fair value option are recorded in earnings from investments in unconsolidated ventures. Fair value changes of other equity investments, including adjustments for observable price changes under the measurement alternative, are recorded in other gain (loss), net on the Company's consolidated statements of operations.

Equity Method Investments

The Company accounts for investments under the equity method of accounting if it has the ability to exercise significant influence over the operating and financial policies of an entity, but does not have a controlling financial interest. The equity method investment is initially recorded at cost and adjusted each period for capital contributions, distributions and the Company's share of the entity's net income or loss as well as other comprehensive income or loss. The Company's share of net income or loss may differ from the stated ownership percentage interest in an entity if the governing documents prescribe a substantive non-proportionate earnings allocation formula or a preferred return to certain investors. For certain equity method investments, the Company records its proportionate share of income on a one to three month lag. Distributions of operating profits from equity method investments are reported as operating activities, while distributions in excess of operating profits are reported as investing activities in the statement of cash flows under the cumulative earnings approach.

Impairment

Evaluation of impairment applies to equity method investments and equity investments under the measurement alternative. If indicators of impairment exist, the Company will first estimate the fair value of its investment. In assessing fair value, the Company generally considers, among others, the estimated fair value of the investee, which is based on significant assumptions including the estimated timing and probabilities of the future cash flows of the unconsolidated joint venture, utilizing discount rates and capitalization rates.

For investments under the measurement alternative, if carrying value of the investment exceeds its fair value, an impairment is deemed to have occurred.

For equity method investments, further consideration is made if a decrease in value of the investment is other-than-temporary to determine if impairment loss should be recognized. Assessment of Other Than Temporary Impairment ("OTTI") involves management judgment, including, but not limited to, consideration of the investee's financial condition, operating results, business prospects and creditworthiness, the Company's ability and intent to hold the investment until recovery of its carrying value. If management is unable to reasonably assert that an impairment is temporary or believes that the Company may not fully recover the carrying value of its investment, then the impairment is considered to be other-than-temporary.

Investments that are other-than-temporarily impaired are written down to their estimated fair value. Impairment loss is recorded in earnings from investments in unconsolidated ventures for equity method investments and in other gain (loss), net for investments under the measurement alternative.

Identifiable Intangibles

In a business combination or asset acquisition, the Company may recognize identifiable intangibles that meet either or both the contractual-legal criterion or the separability criterion. Finite-lived intangibles are amortized over their useful life in a manner that reflects the pattern in which the intangible is being consumed if readily determinable, such as based upon expected cash flows; otherwise, they are amortized on a straight-line basis. The useful life of all identified intangibles will be periodically reassessed and if useful life changes, the carrying amount of the intangible will be amortized prospectively over the revised useful life.

Lease Intangibles—Identifiable intangibles recognized in acquisitions of operating real estate properties generally include in-place leases, above- or below-market leases and deferred leasing costs, all of which have finite lives. In-place leases generate value over and above the tangible real estate because a property that is occupied with leased space is typically worth more than a vacant building without an operating lease contract in place. The estimated fair value of acquired in-place leases is derived based on management's assessment of costs avoided from having tenants in place, including lost rental income, rent concessions and tenant allowances or reimbursements, that hypothetically would be incurred to lease a vacant building to its actual existing occupancy level on the valuation date. The net amount recorded for acquired in-place leases is included in intangible assets and amortized on a straight-line basis as an increase to depreciation and amortization expense over the remaining term of the applicable leases. If an in-place lease is terminated, the unamortized portion is charged to depreciation and amortization expense.

The estimated fair value of the above- or below-market component of acquired leases represents the present value of the difference between contractual rents of acquired leases and market rents at the time of the acquisition for the remaining lease term, discounted for tenant credit risks. Above- or below-market operating lease values are amortized on a straight-line basis as a decrease or increase to rental income, respectively, over the applicable lease terms. This includes fixed rate renewal options in acquired leases that are below-market, which are amortized to decrease rental income over the renewal period. Above- or below-market ground lease obligations are amortized on a straight-line basis as a decrease or increase to rent expense, respectively, over the applicable lease terms. If the above- or below-market operating lease values or above- or below-market ground lease obligations are terminated, the unamortized portion of the lease intangibles are recorded in rental income or rent expense, respectively.

Deferred leasing costs represent management's estimate of the avoided leasing commissions and legal fees associated with an existing in-place lease. The net amount is included in intangible assets and amortized on a straight-line basis as an increase to depreciation and amortization expense over the remaining term of the applicable lease.

Transfers of Financial Assets

Sale accounting for transfers of financial assets requires the transfer of an entire financial asset, a group of financial assets in its entirety or if a component of the financial asset is transferred, that the component meets the definition of a participating interest with characteristics that mirror the original financial asset.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. If the Company has any continuing involvement, rights or obligations with the transferred financial asset (outside of standard representations and warranties), sale accounting requires that the transfer meets the following sale conditions: (1) the transferred asset has been legally isolated; (2) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred asset; and (3) the Company does not maintain effective control over the transferred asset through an agreement that provides for (a) both an entitlement and an obligation by the Company to repurchase or redeem the asset before its maturity, (b) the unilateral ability by the Company to reclaim the asset and a more than trivial benefit attributable to that ability, or (c) the transferee requiring the Company to repurchase the asset at a price so favorable to the transferee that it is probable the repurchase will occur.

If sale accounting is met, the transferred financial asset is removed from the balance sheet and a net gain or loss is recognized upon sale, taking into account any retained interests. Transfers of financial assets that do not meet the criteria for sale are accounted for as financing transactions, or secured borrowing, including the Company's master repurchase facilities.

Derivative Instruments and Hedging Activities

The Company uses derivative instruments to manage its foreign currency risk and interest rate risk. The Company does not use derivative instruments for speculative or trading purposes. All derivative instruments are recorded at fair value and included in other assets or accrued and other liabilities on a gross basis on the Company's consolidated balance sheet. The accounting for changes in fair value of derivatives depends upon whether or not the Company has elected to designate the derivative in a hedging relationship and the derivative qualifies for hedge accounting. The Company has economic hedges that have not been designated for hedge accounting.

Changes in fair value of derivatives not designated as accounting hedges are recorded in the consolidated statements of operations in other gain (loss), net.

For designated accounting hedges, the relationships between hedging instruments and hedged items, risk management objectives and strategies for undertaking the accounting hedges as well as the methods to assess the effectiveness of the derivative prospectively and retrospectively, are formally documented at inception. Hedge effectiveness relates to the amount by which the gain or loss on the designated derivative instrument exactly offsets the change in the hedged item attributable to the hedged risk. If it is determined that a derivative is not expected to be or has ceased to be highly effective at hedging the designated exposure, hedge accounting is discontinued.

Cash Flow Hedges—The Company uses interest rate caps and swaps to hedge its exposure to interest rate fluctuations in forecasted interest payments on floating rate debt. The effective portion of the change in fair value of the derivative is recorded in accumulated other comprehensive income, while hedge ineffectiveness is recorded in earnings. If the derivative in a cash flow hedge is terminated or the hedge designation is removed, related amounts in accumulated other comprehensive income (loss) are reclassified into earnings.

Net Investment Hedges—The Company uses foreign currency hedges to protect the value of its net investments in foreign subsidiaries or equity method investees whose functional currencies are not U.S. dollars. Changes in the fair value of derivatives used as hedges of net investment in foreign operations, to the extent effective, are recorded in the cumulative translation adjustment account within accumulated other comprehensive income (loss).

At the end of each quarter, the Company reassesses the effectiveness of its net investment hedges and as appropriate, designates the portion of the derivative notional amount that is in excess of the beginning balance of its net investments as undesignated hedges.

Release of accumulated other comprehensive income related to net investment hedges occurs upon losing a controlling financial interest in an investment or obtaining control over an equity method investment. Upon sale, complete or substantially complete liquidation of an investment in a foreign subsidiary, or partial sale of an equity method investment, the gain or loss on the related net investment hedge is reclassified from accumulated other comprehensive income to earnings. Refer to Note 14, "Derivatives" for further discussion on the Company's derivative and hedging activity.

Financing Costs

Financing costs primarily include debt discounts and premiums as well as deferred financing costs. Deferred financing costs represent commitment fees, legal and other third-party costs associated with obtaining financing. Costs related to revolving credit facilities are recorded in other assets and are amortized to interest expense using the straight-line basis over the term of the facility. Costs related to other borrowings are recorded net against the carrying value of such borrowings and are amortized to interest expense using the effective interest method. Unamortized deferred financing costs are expensed to other gain (loss), net when the associated facility is repaid before maturity. Costs incurred in seeking financing transactions, which do not close, are expensed in the period in which it is determined that the financing will not occur.

Revenue Recognition

Property Operating Income

Property operating income includes the following:

Rental Income—Rental income is recognized on a straight-line basis over the non-cancellable term of the related lease which includes the effects of minimum rent increases and rent abatements under the lease. Rents received in advance are deferred.

When it is determined that the Company is the owner of tenant improvements, the cost to construct the tenant improvements, including costs paid for or reimbursed by the tenants, is capitalized. For tenant improvements owned by the Company, the amount funded by or reimbursed by the tenants are recorded as deferred revenue, which is amortized on a straight-line basis as additional rental income over the term of the related lease. Rental income recognition commences when the leased space is substantially ready for its intended use and the tenant takes possession of the leased space.

When it is determined that the tenant is the owner of tenant improvements, the Company's contribution towards those improvements is recorded as a lease incentive, included in deferred leasing costs and intangible assets on the balance sheet, and amortized as a reduction to rental income on a straight-line basis over the term of the lease. Rental income recognition commences when the tenant takes possession of the lease space.

Tenant Reimbursements—In net lease arrangements, the tenant is generally responsible for operating expenses related to the property, including real estate taxes, property insurance, maintenance, repairs and improvements. Costs reimbursable from tenants and other recoverable costs are recognized as revenue in the period the recoverable costs are incurred. When the Company is the primary obligor with respect to purchasing goods and services for property operations and has discretion in selecting the supplier and retains credit risk, tenant reimbursement revenue and property operating expenses are presented on a gross basis in the statements of operations. For certain triple net leases where the lessee self-manages the property, hires its own service providers and retains credit risk for routine maintenance contracts, no reimbursement revenue and expense are recognized.

Hotel Operating Income—Hotel operating income includes room revenue, food and beverage sales and other ancillary services. Revenue is recognized upon occupancy of rooms, consummation of sales and provision of services.

Real Estate Securities

Interest income is recognized using the effective interest method with any premium or discount amortized or accreted through earnings based on expected cash flow through the expected maturity date of the security. On a quarterly basis, the Company reviews, and if appropriate, adjusts its cash flow projections based on inputs and analyses received from external sources, internal models, and the Company's judgment about prepayment rates, the timing and amount of credit losses and other factors. Changes in the amount or timing of cash flows from those originally projected, or from those estimated at the last evaluation date, are considered to be either favorable changes or adverse changes.

Adverse changes in the timing or amount of cash flows on CRE securities could result in the Company recording an increase in the allowance for credit losses. The allowance for credit losses is calculated using a discounted cash flow approach and is measured as the difference between the amortized cost of a CRE security and estimate of cash flows expected to be collected discounted at the effective interest rate used to accrete the CRE security. The allowance for credit losses is recorded as a contra-asset and a reduction in earnings. The allowance for credit losses will be limited to the amount of the unrealized losses on the CRE securities. Any allowance for credit losses in excess of the unrealized losses on the CRE securities are accounted for as a prospective reduction of the effective interest rate. No allowance is recorded for CRE securities in an unrealized gain position. Favorable changes in the discounted cash flow will result in a reduction in the allowance for credit losses, if any. Any reduction in allowance for credit losses is recorded in earnings. If the allowance for credit losses has been reduced to zero, the remaining favorable changes are reflected as a prospective increase to the effective interest rate.

Foreign Currency

Assets and liabilities denominated in a foreign currency for which the functional currency is a foreign currency are translated using the exchange rate in effect at the balance sheet date and the corresponding results of operations for such entities are translated using the average exchange rate in effect during the period. The resulting foreign currency translation adjustments are recorded as a component of accumulated other comprehensive income or loss in stockholders' equity. Upon sale, complete or substantially complete liquidation of a foreign subsidiary, or upon partial sale of a foreign equity method investment, the translation adjustment associated with the investment, or a proportionate share related to the portion of equity method investment sold, is reclassified from accumulated other comprehensive income or loss into earnings.

Assets and liabilities denominated in a foreign currency for which the functional currency is the U.S. dollar are remeasured using the exchange rate in effect at the balance sheet date and the corresponding results of operations for such entities are remeasured using the average exchange rate in effect during the period. The resulting foreign currency remeasurement adjustments are recorded in other gain (loss), net on the consolidated statements of operations.

Disclosures of non-U.S. dollar amounts to be recorded in the future are translated using exchange rates in effect at the date of the most recent balance sheet presented.

Equity-Based Compensation

Equity-classified stock awards granted to executive officers and independent directors are based on the closing price of the Class A common stock on the grant date and recognized on a straight-line basis over the requisite service period of the awards for restricted stock awards. For performance stock units ("PSUs") the fair value is based on a Monte Carlo simulation as of the grant date and expense is recognized on a straight-line basis over the measurement period. See Note 10, "Equity-Based Compensation" for further discussion.

The compensation expense is adjusted for actual forfeitures upon occurrence. Equity-based compensation is classified within compensation and benefits in the consolidated statement of operations.

Earnings Per Share

The Company presents both basic and diluted earnings per share ("EPS") using the two-class method. Basic EPS is calculated by dividing earnings allocated to common shareholders, as adjusted for unallocated earnings attributable to certain participating securities, if any, by the weighted-average number of common shares outstanding during the period. Diluted EPS is based on the weighted-average number of common shares and the effect of potentially dilutive common share equivalents outstanding during the period. The two-class method is an allocation formula that determines earnings per share for each share of common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends. The Company has certain share-based payment awards that contain nonforfeitable rights to dividends, which are considered participating securities for the purposes of computing EPS pursuant to the two-class method.

Income Taxes

For U.S. federal income tax purposes, the Company elected to be taxed as a REIT beginning with its taxable year ended December 31, 2018. To qualify as a REIT, the Company must continually satisfy tests concerning, among other things, the real estate qualification of sources of its income, the real estate composition and values of its assets, the amounts it distributes to stockholders and the diversity of ownership of its stock.

To the extent that the Company qualifies as a REIT, it generally will not be subject to U.S. federal income tax to the extent of its distributions to stockholders. The Company believes that all of the criteria to maintain the Company's REIT qualification have been met for the applicable periods, but there can be no assurance that these criteria will continue to be met in subsequent periods. If the Company were to fail to meet these requirements, it would be subject to U.S. federal income tax and potential interest and penalties, which could have a material adverse impact on its results of operations and amounts available for distributions to its stockholders. The Company's accounting policy with respect to interest and penalties is to classify these amounts as a component of income tax expense, where applicable.

The Company may also be subject to certain state, local and franchise taxes. Under certain circumstances, U.S. federal income and excise taxes may be due on its undistributed taxable income. The Company also holds an investment in Europe which is subject to tax in its local jurisdiction.

The Company made joint elections to treat certain subsidiaries as taxable REIT subsidiaries ("TRSs") which may be subject to taxation by U.S. federal, state and local authorities. In general, a TRS of the Company may perform non-customary services for tenants, hold assets that the Company cannot hold directly and engage in most real estate or non-real estate-related business.

Certain subsidiaries of the Company are subject to taxation by U.S. federal, state and local authorities for the periods presented. Income taxes are accounted for by the asset/liability approach in accordance with GAAP. Deferred taxes, if any, represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. Such amounts arise from differences between the financial reporting and tax bases of assets and liabilities and are adjusted for changes in tax laws and tax rates in the period during which such changes are enacted. A provision for income tax represents the total of income taxes paid or payable for the current period, plus the change in deferred taxes. Current and deferred taxes are recorded on the portion of earnings (losses) recognized by the Company with respect to its interest in TRSs. Deferred income tax assets and liabilities are calculated based on temporary differences between the Company's GAAP consolidated financial statements and the U.S. federal, state and local tax basis of assets and liabilities as of the consolidated balance sheet date. The Company evaluates the realizability of its deferred tax assets (e.g., net operating loss and capital loss carryforwards) and recognizes a valuation allowance if, based on the available evidence, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers estimates of expected future taxable income, existing and projected book/tax differences, tax planning strategies available and the general and industry-specific economic outlook. This realizability analysis is inherently subjective, as it requires the Company to forecast its business and general economic environment in future periods. Changes in estimate of deferred tax asset realizability, if any, are included in income tax expense in the consolidated statements of operations.

For the three months ended June 30, 2023 and 2022, the Company recorded income tax expense of $0.3 million and $0.5 million, respectively. For the six months ended June 30, 2023 and 2022, the Company recorded income tax expense of $0.7 million and $0.5 million, respectively.

Current Expected Credit Losses ("CECL") reserve

The CECL reserve for the Company's financial instruments carried at amortized cost and off-balance sheet credit exposures, such as loans, loan commitments and trade receivables, represents a lifetime estimate of expected credit losses. Factors considered by the Company when determining the CECL reserve include loan-specific characteristics such as loan-to-value ("LTV") ratio, vintage year, loan term, property type, occupancy and geographic location, financial performance of the borrower, expected payments of principal and interest, as well as internal or external information relating to past events, current conditions and reasonable and supportable forecasts.

The general CECL reserve is measured on a collective (pool) basis when similar risk characteristics exist for multiple financial instruments. If similar risk characteristics do not exist, the Company measures the specific CECL reserve on an individual instrument basis. The determination of whether a particular financial instrument should be included in a pool can change over time. If a financial asset's risk characteristics change, the Company evaluates whether it is appropriate to continue to keep the financial instrument in its existing pool or evaluate it individually.

In measuring the general CECL reserve for financial instruments that share similar risk characteristics, the Company primarily applies a probability of default ("PD")/loss given default ("LGD") model for instruments that are collectively assessed, whereby the CECL reserve is calculated as the product of PD, LGD and exposure at default ("EAD"). The Company's model principally utilizes historical loss rates derived from a commercial mortgage-backed securities database with historical losses from 1998 through June 2023 provided by a third party, Trepp LLC, forecasting the loss parameters using a scenario-based statistical approach over a reasonable and supportable forecast period of twelve months, followed by a straight-line reversion period of twelve-months back to average historical losses.

For determining a specific CECL reserve, financial instruments are assessed outside of the PD/LGD model on an individual basis. This occurs when it is probable that the Company will be unable to collect the full payment of principal and interest on the instrument. The Company elected to apply the practical expedient, afforded to the Company under ASC 326, to use the fair value of the collateral to determine the specific CECL reserve. The Company applies a discounted cash flow ("DCF") methodology for financial instruments where the borrower is experiencing financial difficulty based on the Company's assessment at the reporting date, and the repayment is expected to be provided substantially through the operation or sale of the collateral.

In developing the CECL reserve for its loans held for investment, the Company considers the risk ranking of each loan and preferred equity as a key credit quality indicator. The risk rankings are based on a variety of factors, including, without limitation, underlying real estate performance and asset value, values of comparable properties, durability and quality of property cash flows, sponsor experience and financial wherewithal, and the existence of a risk-mitigating loan structure. Additional key considerations include loan-to-value ratios, debt service coverage ratios, loan structure, real estate and credit market dynamics, and risk of default or principal loss. Based on a five-point scale, the Company's loans and preferred equity held for investment are rated "1" through "5," from less risk to greater risk, and the ratings are updated quarterly. At the time of origination or purchase, loans and preferred equity held for investment are ranked as a "3" and will move accordingly going forward based on the ratings which are defined as follows:

1. *Very Low Risk*-The loan is performing as agreed. The underlying property performance has exceeded underwritten expectations with very strong net operating income ("NOI"), debt service coverage ratio, debt yield and occupancy metrics. Sponsor is investment grade, very well capitalized, and employs a very experienced management team.
2. *Low Risk*-The loan is performing as agreed. The underlying property performance has met or exceeds underwritten expectations with high occupancy at market rents, resulting in consistent cash flow to service the debt. Strong sponsor that is well capitalized with an experienced management team.
3. *Average Risk*-The loan is performing as agreed. The underlying property performance is consistent with underwriting expectations. The property generates adequate cash flow to service the debt, and/or there is enough reserve or loan structure to provide time for sponsor to execute the business plan. Sponsor has routinely met its obligations and has experience owning/operating similar real estate.
4. *High Risk/Delinquent/Potential for Loss*-The loan is in excess of 30 days delinquent and/or has a risk of a principal loss. The underlying property performance is behind underwritten expectations. Loan covenants may require occasional waivers/modifications. Sponsor has been unable to execute its business plan and local market fundamentals have deteriorated. Operating cash flow is not sufficient to service the debt and debt service payments may be coming from sponsor equity/loan reserves.
5. *Impaired/Defaulted/Loss Likely*-The loan is in default, or a default is imminent, and has a high risk of a principal loss, or has incurred a principal loss. The underlying property performance is significantly worse than underwritten expectation and sponsor has failed to execute its business plan. The property has significant vacancy and current cash flow does not support debt service. Local market fundamentals have significantly deteriorated resulting in depressed comparable property valuations versus underwriting.

The Company also considers qualitative and environmental factors, including, but not limited to, economic and business conditions, nature and volume of the loan portfolio, lending terms, volume and severity of past due loans, concentration of credit and changes in the level of such concentrations in its determination of the CECL reserve.

The Company has elected to not measure a CECL reserve for accrued interest receivable as it is reversed against interest income when a loan or preferred equity investment is placed on nonaccrual status. Loans and preferred equity investments are charged off when all or a portion of the principal amount is determined to be uncollectible.

Changes in the CECL reserve for the Company's financial instruments are recorded in increase/decrease in current expected credit loss reserve on the consolidated statement of operations with a corresponding offset to the loans and preferred equity held for investment or as a component of other liabilities for future loan fundings recorded on the Company's consolidated balance sheets. See Note 3, "Loans and Preferred Equity Held for Investment, net" for further detail.

Accounting Standards Adopted in 2022

Credit Losses—In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures,* which eliminates the Troubled Debt Restructuring ("TDR") model for creditors that have adopted Topic 326, CECL. The general loan modification guidance in Subtopic 310-20 will apply to all loan modifications, including modifications for borrowers experiencing financial difficulty. ASU 2022-02 also requires entities within the scope of ASC 326 to provide vintage disclosures which show the gross writeoffs recorded in the current period by origination year. ASU No. 2022-02 is effective in reporting periods beginning after December 15, 2022. During the fourth quarter of 2022, the Company adopted the TDR enhancements and new vintage disclosures under ASU 2022-02, and the impact was not material. Refer to Note 3, "Loans and Preferred Equity Held for Investment, net."

3. Loans and Preferred Equity Held for Investment, net

The following table provides a summary of the Company's loans and preferred equity held for investment, net (dollars in thousands):

	June 30, 2023				December 31, 2022			
	Unpaid Principal Balance	Carrying Value	Weighted Average Coupon[(1)]	Weighted Average Maturity in Years	Unpaid Principal Balance	Carrying Value	Weighted Average Coupon[(1)]	Weighted Average Maturity in Years
Variable rate								
Senior loans	$ 1,835,549	$ 1,830,902	8.6 %	3.2	$ 1,981,973	$ 1,972,952	7.9 %	3.5
Securitized loans[(2)]	1,277,178	1,276,058	8.7 %	2.4	1,468,790	1,466,754	7.8 %	2.7
Mezzanine loans	12,330	12,450	16.1 %	0.5	12,000	12,120	15.4 %	0.0
	3,125,057	3,119,410			3,462,763	3,451,826		
Fixed rate								
Mezzanine loans	77,288	77,212	11.1 %	2.9	100,765	100,666	12.2 %	2.6
Preferred equity interests	23,290	23,079	12.0 %	9.4	22,720	22,497	12.0 %	9.9
	100,578	100,291			123,485	123,163		
Loans held for investment	3,225,635	3,219,701			3,586,248	3,574,989		
CECL reserve	—	(106,728)			—	(106,247)		
Loans and preferred equity held for investment, net	$ 3,225,635	$ 3,112,973	8.7 %	2.9	$ 3,586,248	$ 3,468,742	8.0 %	3.2

(1) Calculated based on contractual interest rate. As of June 30, 2023, all variable rate loans utilize Term Secured Overnight Financing Rate ("Term SOFR").
(2) Represents loans transferred into securitization trusts that are consolidated by the Company.

The Company had $16.1 million and $16.4 million of interest receivable related to its loans and preferred equity held for investment, net as of June 30, 2023 and December 31, 2022, respectively. This is included in receivables, net on the Company's consolidated balance sheets.

Activity relating to the Company's loans and preferred equity held for investment, net was as follows (dollars in thousands):

	Carrying Value	
	Six Months Ended June 30,	
	2023	2022
Balance at January 1	$ 3,468,742	$ 3,449,009
Acquisitions/originations/additional funding	35,936	815,466
Loan maturities/principal repayments	(263,563)	(472,470)
Transfer to Real Estate, net [(1)]	(136,762)	—
Discount accretion/premium amortization	5,755	6,912
Capitalized interest	3,346	(1,992)
(Increase) decrease of CECL reserve [(2)]	(68,244)	(9,031)
Charge-off [(1)]	67,763	1,251
Balance at June 30	$ 3,112,973	$ 3,789,145

(1) During the second quarter of 2023, the Company acquired legal title of two Long Island City, New York office properties through a deed-in-lieu of foreclosure. The CECL reserves related to these properties were charged off and the net amount is reflected as an addition to real estate, net. Refer to Note 5, "Real Estate, net" for further discussion.
(2) Provision for loan losses excludes $0.3 million for the six months ended June 30, 2023 and $0.3 million for the six months ended June 30, 2022 as determined by the Company's PD/LGD model for unfunded commitments reported on the consolidated statement of operations, with a corresponding offset to accrued and other liabilities recorded on the Company's consolidated balance sheets.

During the second quarter of 2023, the Company amended and restructured a development mezzanine loan related to a multifamily property located in Milpitas, California (the "Development Mezzanine Loan"), bifurcating it into a $30.2 million Mezzanine A note (the "Mezzanine A Note") and a $14.5 million Mezzanine B note (the "Mezzanine B Note") to facilitate a new equity contribution from the borrower behind the Mezzanine A Note and ahead of the Mezzanine B Note. As part of the restructuring, the Company extended the terms of both the Mezzanine A Note and the Mezzanine B Note to be conterminous with the senior loan, which was extended to March 2025, with an additional one-year extension option to March 2026. Prior to the amendment, the Development Mezzanine Loan had a fixed interest rate of 13%. After the amendment, the Mezzanine A Note has a fixed interest rate of 10% and the Mezzanine B Note has a fixed interest rate of 12%. In connection with the amendment and restructuring of the Development Mezzanine Loan, the Company placed the Mezzanine B Note on nonaccrual status in April 2023 and recorded a $14.5 million specific CECL reserve during the first quarter of 2023. As of June 30, 2023, the amortized cost basis of the Mezzanine A Note was $31.0 million and the Mezzanine B Note was $14.5 million.

Nonaccrual and Past Due Loans and Preferred Equity

Loans and preferred equity that are 90 days or more past due as to principal or interest, or where reasonable doubt exists as to timely collection, are generally considered nonperforming and placed on nonaccrual status.

The following table provides an aging summary of loans and preferred equity held for investment at carrying values before CECL reserve (dollars in thousands):

	Current or Less Than 30 Days Past Due	30-59 Days Past Due[1] [2]	60-89 Days Past Due[3]	90 Days or More Past Due[4][5]	Total Loans and Preferred Equity
June 30, 2023	$ 3,123,371	$ 24,918	$ 14,477	$ 56,935	$ 3,219,701
December 31, 2022	3,494,437	68,432	—	12,120	3,574,989

(1) At June 30, 2023, represents one Oakland, California office senior loan which was placed on a nonaccrual status as of May 9, 2023. In July 2023, this property was acquired through a deed-in-lieu of foreclosure. Refer to Note 18, "Subsequent Events" for further discussion.
(2) At December 31, 2022, represents the Long Island City, New York office senior loan which was in interest payment default and was placed on a nonaccrual status on September 9, 2022. In June, 2023, this loan was foreclosed through a deed-in-lieu foreclosure. Refer to Note 5, "Real Estate, net" for further discussion.
(3) At June 30, 2023, represents the Mezzanine B Note which was placed on nonaccrual status on April 3, 2023.
(4) At June 30, 2023, represents the Washington, D.C. office senior loan which is in maturity default and was placed on nonaccrual status on February 9, 2023.
(5) At December 31, 2022 represents the New York, New York Hotel mezzanine loan which was in maturity default as of March 2022. In January 2023, the New York, New York Hotel mezzanine loan was extended to December 2023 and is current on interest payments as of June 30, 2023.

Current Expected Credit Loss Reserve

The following table provides details on the changes in CECL reserves (dollars in thousands):

CECL reserve at December 31, 2022	**$**	**106,247**
Increase (decrease) in general CECL reserve[1]		(15,418)
Increase in specific CECL reserve[2]		55,007
CECL reserve at March 31, 2023	**$**	**145,836**
Increase (decrease) in CECL reserve[1]		17,737
Increase in specific CECL reserve[3]		10,918
Charge-offs of CECL reserve[4]		(67,763)
CECL reserve at June 30, 2023	**$**	**106,728**
CECL reserve at December 31, 2021	**$**	**36,598**
Increase (decrease) in general CECL reserve[1]		(1,343)
Charge-offs of CECL reserve[5]		(1,251)
CECL reserve at March 31, 2022	**$**	**34,004**
Increase (decrease) in general CECL reserve[1]		10,374
CECL reserve at June 30, 2022	**$**	**44,378**

(1) Excludes the increase (decrease) in CECL reserves related to unfunded commitments reported on the consolidated statement of operations for the three months ended: March 31, 2023: a de minimis amount, June 30, 2023: $0.3 million, March 31, 2022: $0.5 million, June 30, 2022: $(0.3) million.

(2) During the first quarter of 2023, the Company recorded specific CECL reserves of $29.9 million related to one Washington, D.C. office senior loan, $14.5 million related to the Development Mezzanine Loan and $10.6 million related to one Long Island City, New York office senior loan. The specific CECL reserves for the two office senior loans were based on the estimated fair value of the collateral using a discounted cash flow model, which included inputs based on the location, type and nature of the property, current and prospective leasing data and anticipated market conditions. The specific CECL reserve for the Development Mezzanine Loan was recorded in connection with the restructuring and modification of the loan in April 2023, which is collateralized by multifamily with a retail component. The specific CECL reserve was based on the estimated proceeds the Company expects to receive upon the resolution of the asset. Refer to Note 13, "Fair Value" for information on valuation inputs.

(3) During the second quarter of 2023, the Company recorded specific CECL reserves of $10.9 million related to one Oakland, California office senior loan. The Company elected to apply the practical expedient, afforded to the Company under ASC 326, to use the fair value of the collateral to determine the specific CECL reserve. The estimated fair value of the collateral was determined by using a discounted cash flow model, which included inputs based on the location, type and nature of property, current and prospective leasing data and anticipated market conditions. In July 2023, this property was acquired through a deed-in-lieu of foreclosure. Refer to Note 18, "Subsequent Events" for further discussion.

(4) During the second quarter of 2023, the Company acquired legal title through a deed-in-lieu of foreclosure of two Long Island City, New York office properties. The CECL reserves related to these properties were charged off and the net amount is reflected as an addition to real estate, net. Refer to Note 5, "Real Estate, net" for further discussion.

(5) During the first quarter of 2022, the Company received a $36.5 million repayment on one senior loan collateralized by a student housing property, which was $1.3 million less than the unpaid principal balance. As such, during the fourth quarter of 2021, the Company had recorded a $1.3 million specific CECL reserve on the loan, as the loss was probable at that point in time and was subsequently charged off in the first quarter of 2022.

Credit Quality Monitoring

Loans are typically secured by direct senior priority liens on real estate properties or by interests in entities that directly own real estate properties, which serve as the primary source of cash for the payment of principal and interest. The Company evaluates its loans at least quarterly and differentiates the relative credit quality principally based on: (i) whether the borrower is currently paying contractual debt service in accordance with its contractual terms; and (ii) whether the Company believes the borrower will be able to perform under its contractual terms in the future, as well as the Company's expectations as to the ultimate recovery of principal at maturity.

As of June 30, 2023, all loans and preferred equity were performing in accordance with the contractual terms of their governing documents and were categorized as performing loans, except for the Washington D.C. office senior loan, one Oakland, California office senior loan and the Mezzanine B Note as noted in "Nonaccrual and Past Due Loans and Preferred Equity" above. As of December 31, 2022, all loans and preferred equity were performing in accordance with the contractual terms of their governing documents and were categorized as performing loans, except for the New York, New York Hotel mezzanine loan and the Long Island City, New York Office senior loan, as noted in "Nonaccrual and Past Due Loans and Preferred Equity" above. For the six months ended June 30, 2023 and June 30, 2022, no debt investment contributed more than 10.0% of interest income.

The following tables provide a summary by carrying values before any CECL reserves of the Company's loans and preferred equity held for investment by year of origination and credit quality risk ranking (dollars in thousands) as of June 30, 2023 and December 31, 2022, respectively. Refer to Note 2, "Summary of Significant Accounting Policies" for loan risk ranking definitions.

	June 30, 2023					
	Year of Origination					
Risk Rankings	2023	2022	2021	2020	2019 and earlier	Total
Senior loans						
2	$ —	$ —	$ 50,904	$ —	$ 25,954	$ 76,858
3	—	811,474	1,099,638	96,618	504,574	2,512,304
4	—	49,520	192,990	—	193,435	435,945
5	—	—	24,918	—	56,935	81,853
Total Senior loans	—	860,994	1,368,450	96,618	780,898	3,106,960
Mezzanine loans						
3	1,699	25,572	—	—	47,914	75,185
5[(1)]	—	—	—	—	14,477	14,477
Total Mezzanine loans	1,699	25,572	—	—	62,391	89,662
Preferred equity interests						
3	—	23,079	—	—	—	23,079
Total Preferred equity interests	—	23,079	—	—	—	23,079
Total Loans and preferred equity held for investment	$ 1,699	$ 909,645	$ 1,368,450	$ 96,618	$ 843,289	$ 3,219,701

(1) Represents the Mezzanine B Note for which the Company recorded a $14.5 million specific CECL reserve during the first quarter of 2023.

As of June 30, 2023, the weighted average risk ranking for loans and preferred equity held for investment was 3.1.

	December 31, 2022					
	Year of Origination					
Risk Rankings	2022	2021	2020	2019	2018 and Earlier	Total
Senior loans						
2	$ —	$ 141,457	$ 42,710	$ 25,904	$ —	$ 210,071
3	845,097	1,267,092	53,386	112,689	291,996	2,570,260
4	—	24,871	—	192,920	304,822	522,613
5	—	—	—	68,330	68,432	136,762
Total Senior loans	845,097	1,433,420	96,096	399,843	665,250	3,439,706
Mezzanine loans						
3	24,056	—	—	—	4,459	28,515
4	—	—	—	72,151	—	72,151
5	—	—	—	—	12,120	12,120
Total Mezzanine loans	24,056	—	—	72,151	16,579	112,786
Preferred equity interests						
3	22,497	—	—	—	—	22,497
Total Preferred equity interests	22,497	—	—	—	—	22,497
Total Loans and Preferred Equity held for investment	$ 891,650	$ 1,433,420	$ 96,096	$ 471,994	$ 681,829	$ 3,574,989

As of December 31, 2022, the weighted average risk ranking for loans and preferred equity held for investment was 3.2.

Lending Commitments

The Company has lending commitments to borrowers pursuant to certain loan agreements in which the borrower may submit a request for funding contingent on achieving certain criteria, which must be approved by the Company as lender, such as leasing, performance of capital expenditures and construction in progress with an approved budget. Assuming the terms to qualify for future advances, if any, had been met, total gross unfunded lending commitments were $225.6 million and $263.4 million at June 30, 2023 and December 31, 2022, respectively. Refer to Note 15, “Commitments and Contingencies” for further details. The Company recorded $0.7 million and $0.4 million for allowance for lending commitments in accrued and other liabilities on its consolidated balance sheets in accordance with CECL at June 30, 2023 and December 31, 2022, respectively. See Note 2, “Summary of Significant Accounting Policies” for further details.

4. Real Estate Securities

Investments in Investing VIEs

As of June 30, 2023 and December 31, 2022, the Company did not hold any assets or liabilities attributable to securitization trusts.

The Company did not generate net income attributable to investments in the subordinate tranches of securitization trusts for the three and six months ended June 30, 2023.

The below table presents net income attributable to the Company’s common stockholders for the three and six months ended June 30, 2022 generated from the Company’s investments in the subordinate tranches of securitization trusts (dollars in thousands):

	Three Months Ended June 30,	Six Months Ended June 30,
	2022	2022
Statement of Operations		
Interest income on mortgage loans held in securitization trusts	$ 9,721	$ 19,095
Interest expense on mortgage obligations issued by securitization trusts	(8,586)	(17,074)
Net interest income	1,135	2,021
Operating expense	(245)	(342)
Net income attributable to BrightSpire Capital, Inc. common stockholders	$ 890	$ 1,679

5. Real Estate, net

The following table presents the Company's net lease portfolio, net, as of June 30, 2023 and December 31, 2022 (dollars in thousands):

	June 30, 2023	December 31, 2022
Land and improvements	$ 124,422	$ 128,608
Buildings, building leaseholds, and improvements	487,021	505,297
Tenant improvements	18,812	17,851
Subtotal	$ 630,255	$ 651,756
Less: Accumulated depreciation	(92,938)	(87,109)
Net lease portfolio, net	$ 537,317	$ 564,647

The following table presents the Company's portfolio of other real estate, net as of June 30, 2023 and December 31, 2022 (dollars in thousands):

	June 30, 2023	December 31, 2022
Land and improvements	$ 54,955	$ 29,582
Buildings, building leaseholds, and improvements	190,615	152,186
Tenant improvements	23,485	18,757
Furniture, fixtures and equipment	323	135
Construction-in-progress	3,906	3,011
Subtotal	$ 273,284	$ 203,671
Less: Accumulated depreciation	(39,218)	(35,850)
Other portfolio, net	$ 234,066	$ 167,821

At June 30, 2023, the Company held two foreclosed properties in other real estate, net with a combined carrying value of $65.6 million.

Depreciation Expense

Depreciation expense on real estate was $6.0 million and $6.4 million for the three months ended June 30, 2023 and 2022, respectively. Depreciation expense on real estate was $12.0 million and $12.5 million for the six months ended June 30, 2023 and 2022, respectively.

Property Operating Income

For the three and six months ended June 30, 2023 and 2022 the components of property operating income were as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Lease revenues				
Minimum lease revenue	$ 18,958	$ 19,334	$ 38,346	$ 39,068
Variable lease revenue	2,569	2,388	5,592	5,214
	$ 21,527	$ 21,722	$ 43,938	$ 44,282
Hotel operating income	—	—	—	1,566
Total property operating income(1)	$ 21,527	$ 21,722	$ 43,938	$ 45,848

(1) Excludes net amortization income related to above and below-market leases of $0.2 million and $0.3 million for the three and six months ended June 30, 2023, respectively. Excludes de minimis and $0.1 million of net amortization income related to above and below-market leases for the three and six months ended June 30, 2022, respectively.

For the six months ended June 30, 2023 and 2022, the Company had no single property with property operating income equal to or greater than 10.0% of total revenue of the Company.

Minimum Future Rents

Minimum rental amounts due under leases are generally either subject to scheduled fixed increases or adjustments. The following table presents approximate future minimum rental income under noncancellable operating leases, excluding variable lease revenue of tenant reimbursements, to be received over the next five years and thereafter as of June 30, 2023 (dollars in thousands):

Remainder of 2023	$ 38,500
2024	76,826
2025	71,723
2026	64,888
2027	60,654
2028 and thereafter	330,495
Total	$ 643,086

The rental properties owned at June 30, 2023 are leased under noncancellable operating leases with current expirations ranging from 2023 to 2038, with certain tenant renewal rights. For certain properties, the tenants pay the Company, in addition to the contractual base rent, their pro rata share of real estate taxes and operating expenses. Certain lease agreements provide for periodic rental increases and others provide for increases based on the consumer price index.

Commitments and Contractual Obligations

Ground Lease Obligation

In connection with real estate acquisitions, the Company assumed certain noncancellable operating ground leases as lessee or sublessee with expiration dates through 2050. Rents on certain ground leases are paid directly by the tenants. Ground rent expense for the three and six months ended June 30, 2023 was $0.8 million and $1.6 million, respectively. Ground rent expense for the three and six months ended June 30, 2022 was $0.8 million and $1.5 million, respectively.

Refer to Note 15, “Commitments and Contingencies” for the details of future minimum rental payments on noncancellable ground lease on real estate as of June 30, 2023.

Real Estate Acquisition

In 2019, the Company originated two senior mortgage loans secured by two office properties located in Long Island City, New York. The New York City metro office markets have experienced and continue to experience higher vacancy rates due to the impact of employee work from home arrangements. The Long Island City market has experienced increases in vacancy as other newly developed or renovated properties have become available for leasing. Given these factors, the Company recorded a total of $67.8 million of specific CECL reserves and placed one of the loans on nonaccrual status in September 2022 and the other in April 2023.

In June 2023, the Company acquired legal title to the two office properties through deeds-in-lieu of foreclosure. In accordance with ASC 805, the Company allocated the fair value of the assumed assets and liabilities on the respective acquisition dates. Following the acquisitions, the two properties are included in real estate, net on the Company's consolidated balance sheets.

The following table summarizes the Company's real estate acquisitions for three months ended June 30, 2023 (dollars in thousands):

				Purchase Price Allocation					
Acquisition Date	Property Type and Location	Number of Buildings	Purchase Price[1]	Land and Improvements[2]	Building and Improvements[2]	Lease Intangible Assets[2]	Other Assets	Lease Intangible Liabilities[2]	Other Liabilities
Three Months Ended June 30, 2023									
June	Office - New York[1]	1	$ 36,177	$ 10,380	$ 24,484	$ 1,898	$ 432	$ (528)	$ (489)
June	Office - New York[1]	1	36,922	14,786	15,958	6,867	876	(193)	(1,372)
			$ 73,099	$ 25,166	$ 40,442	$ 8,765	$ 1,308	$ (721)	$ (1,861)

(1) Represents assets acquired by the Company through deeds-in-lieu of foreclosure.
(2) Useful life of real estate acquired is 45 years for buildings, eight to nine years for tenant improvements, and three to 12 years for lease intangibles.

Real Estate Sales

There were no sales during the six months ended June 30, 2023.

During the six months ended June 30, 2022, the Company completed the sale of one net lease property for a gross sales price of $19.6 million which resulted in a $7.6 million gain on sale and is included in other gain, net on the consolidated statement of operations. The Company also sold one hotel property for a gross sales price of $36.0 million which resulted in a $2.9 million gain on sale and is included in other gain, net on the consolidated statement of operations.

6. Deferred Leasing Costs and Other Intangibles

The Company's deferred leasing costs, other intangible assets and intangible liabilities, excluding those related to assets held for sale, at June 30, 2023 and December 31, 2022 are as follows (dollars in thousands):

	June 30, 2023		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Deferred Leasing Costs and Intangible Assets			
In-place lease values	$ 78,265	$ (37,739)	$ 40,526
Deferred leasing costs	30,190	(17,103)	13,087
Above-market lease values	11,646	(7,226)	4,420
	$ 120,101	$ (62,068)	$ 58,033
Intangible Liabilities			
Below-market lease values	$ 16,797	$ (11,926)	$ 4,871

	December 31, 2022		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Deferred Leasing Costs and Intangible Assets			
In-place lease values	$ 75,503	$ (35,805)	$ 39,698
Deferred leasing costs	28,641	(15,843)	12,798
Above-market lease values	8,359	(6,875)	1,484
	$ 112,503	$ (58,523)	$ 53,980
Intangible Liabilities			
Below-market lease values	$ 16,074	$ (11,235)	$ 4,839

The following table summarizes the amortization of deferred leasing costs, intangible assets and intangible liabilities for the three and six months ended June 30, 2023 and 2022 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Above-market lease values	$ (145)	$ (286)	$ (344)	$ (574)
Below-market lease values	345	346	684	677
Net increase to property operating income	$ 200	$ 60	$ 340	$ 103
In-place lease values	$ 1,249	$ 1,537	$ 2,533	$ 3,138
Deferred leasing costs	673	748	1,337	1,554
Amortization expense	$ 1,922	$ 2,285	$ 3,870	$ 4,692

The following table presents the amortization of deferred leasing costs, intangible assets and intangible liabilities, for each of the next five years and thereafter as of June 30, 2023 (dollars in thousands):

	2023	2024	2025	2026	2027	2028 and thereafter	Total
Above-market lease values	$ (726)	$ (1,326)	$ (1,148)	$ (644)	$ (136)	$ (440)	$ (4,420)
Below-market lease values	722	1,444	1,442	769	65	429	4,871
Net increase (decrease) to property operating income	$ (4)	$ 118	$ 294	$ 125	$ (71)	$ (11)	$ 451
In-place lease values	$ 2,849	$ 5,442	$ 4,757	$ 3,923	$ 3,819	$ 19,736	$ 40,526
Deferred leasing costs	1,370	2,502	2,241	1,196	1,055	4,723	13,087
Amortization expense	$ 4,219	$ 7,944	$ 6,998	$ 5,119	$ 4,874	$ 24,459	$ 53,613

7. Restricted Cash, Other Assets and Accrued and Other Liabilities

The following table presents a summary of restricted cash as of June 30, 2023 and December 31, 2022 (dollars in thousands):

	June 30, 2023	December 31, 2022
Restricted cash:		
Borrower escrow deposits	$ 67,319	$ 79,055
Capital expenditure reserves	9,643	8,623
Real estate escrow reserves	4,480	1,583
Working capital and other reserves	2,268	2,145
Tenant lockboxes	877	1,102
Total	$ 84,587	$ 92,508

The following table presents a summary of other assets as of June 30, 2023 and December 31, 2022 (dollars in thousands):

	June 30, 2023	December 31, 2022
Other assets:		
Right-of-use lease asset	$ 23,401	$ 25,237
Tax receivable and deferred tax assets	18,861	19,117
Deferred financing costs, net - credit facilities	5,941	4,630
Investments in unconsolidated ventures ($2,790 and $3,035 at fair value, respectively)	2,790	3,035
Prepaid expenses and other	2,778	2,053
Derivative assets	2,355	1,601
Total	$ 56,126	$ 55,673

The following table presents a summary of accrued and other liabilities as of June 30, 2023 and December 31, 2022 (dollars in thousands):

	June 30, 2023	December 31, 2022
Accrued and other liabilities:		
Operating lease liability	$ 24,191	$ 25,961
Current and deferred tax liability	23,525	26,198
Accounts payable, accrued expenses and other liabilities	15,133	15,087
Interest payable	7,567	11,680
Prepaid rent and unearned revenue	7,241	7,688
Unfunded CECL loan allowance	725	389
Tenant security deposits	695	411
Other	219	219
Total	$ 79,296	$ 87,633

Investments under Fair Value Option

Private Funds

The Company elected to account for its limited partnership interests in PE Investments under the fair value option, which interests ranged from 1.0% to 15.6% as of June 30, 2023 and December 31, 2022. The Company records equity in earnings for these investments based on a change in fair value of its share of projected future cash flows.

Investments in Unconsolidated Ventures

In the first quarter of 2023, the Company realized a one-time gain from its ratable share of dispute resolution proceeds of approximately $9.0 million from the senior mezzanine lender at the Company’s prior Los Angeles, California mixed-use project construction mezzanine loan and retained B-participation investment, which is recorded in equity in earnings of unconsolidated ventures on the Company’s consolidated statements of operations. In connection with the settlement, effective January 26, 2023, the Company has no further interest in the loan or investment.

8. Debt

The following table presents debt as of June 30, 2023 and December 31, 2022 (dollars in thousands):

						June 30, 2023		December 31, 2022	
	Capacity ($)	Recourse vs. Non-Recourse[1]	Final Maturity	Contractual Interest Rate		Principal Amount[2]	Carrying Value[2]	Principal Amount[2]	Carrying Value[2]
Securitization bonds payable, net									
CLNC 2019-FL1[3]		Non-recourse	Aug-35	SOFR[4] + 2.14%		$ 325,187	$ 325,187	$ 502,717	$ 501,406
BRSP 2021-FL1[3]		Non-recourse	Aug-38	SOFR[4] + 1.49%		670,000	667,396	670,000	666,194
Subtotal securitization bonds payable, net						995,187	992,583	1,172,717	1,167,600
Mortgage and other notes payable, net									
Net lease 1		Non-recourse	Sep-33	4.77%		200,000	198,825	200,000	198,778
Net lease 2[5]		Non-recourse	Jun-25	3.91%		148,800	149,511	162,449	164,752
Net lease 3		Non-recourse	Aug-26	4.08%		29,679	29,544	30,009	29,853
Net lease 4		Non-recourse	Oct-27	4.45%		22,269	22,269	22,559	22,559
Net lease 5[6]		Non-recourse	Nov-26	4.45%		17,286	17,036	17,486	17,200
Net lease 5[7]		Non-recourse	Mar-28	4.38%		11,399	10,961	11,526	11,089
Net lease 6		Non-recourse	Nov-26	4.45%		6,868	6,769	6,948	6,834
Net lease 7		Non-recourse	Jul-23	SOFR + 2.15%		187	186	432	424
Net lease 8		Non-recourse	Nov-26	4.45%		3,183	3,137	3,220	3,168
Other real estate 1		Non-recourse	Oct-24	4.47%		102,243	102,322	103,218	103,391
Other real estate 2		Non-recourse	Jan-25	4.30%		70,097	69,865	70,870	70,569
Loan 1[8]		Non-recourse	Jun-26	SOFR + 4.25%		34,466	34,466	27,851	27,851
Subtotal mortgage and other notes payable, net						646,477	644,891	656,568	656,468
Bank credit facility									
Bank credit facility	$ 165,000	Recourse	Jan-27 [9]	SOFR + 2.25%		—	—	—	—
Subtotal bank credit facility						—	—	—	—
Master repurchase facilities									
Bank 1	600,000	Limited Recourse[10]	Apr-27[11]	SOFR + 2.17%	(12)	512,430	512,430	415,892	415,892
Bank 2	600,000	Limited Recourse[10]	Apr-26[13]	SOFR + 1.88%	(12)	280,798	280,798	351,539	351,539
Bank 3	400,000	(14)	June-27[15]	SOFR + 1.74%	(12)	234,374	234,374	247,404	247,404
Bank 4	400,000	Limited Recourse[10]	July-27[16]	SOFR + 1.79%	(12)	189,649	189,649	220,054	220,054
Bank 5[17]	—	Limited Recourse[10]	(17)	(17)		—	—	105,104	105,104
Subtotal master repurchase facilities	$ 2,000,000					1,217,251	1,217,251	1,339,993	1,339,993
Subtotal credit facilities						1,217,251	1,217,251	1,339,993	1,339,993
Total						$ 2,858,915	$ 2,854,725	$ 3,169,278	$ 3,164,061

(1) Subject to customary non-recourse carveouts.
(2) Difference between principal amount and carrying value of securitization bonds payable, net and mortgage and other notes payable, net is attributable to deferred financing costs, net and premium/discount on mortgage notes payable.
(3) The Company, through indirect Cayman subsidiaries, securitized commercial mortgage loans originated by the Company. Senior notes issued by the securitization trusts were generally sold to third parties and subordinated notes retained by the Company. These securitizations are accounted for as secured financing with the underlying mortgage loans pledged as collateral. Principal payments from underlying collateral loans must be applied to repay the notes until fully paid off, irrespective of the contractual maturities on the notes. Underlying collateral loans have initial terms of two to three years.

(4) As of June 17, 2021, the benchmark index interest rate for CLNC 2019-FL1 was converted from the one-month London Interbank Offered Rates ("LIBOR") to Compounded Secured Overnight Financing Rate ("SOFR"), plus a benchmark adjustment of 11.448 basis points. As of February 19, 2022, the benchmark index interest rate was converted from Compounded SOFR to Term SOFR, plus a benchmark adjustment of 11.448 basis points, conforming with the indenture agreement. As of May 26, 2023, the benchmark index interest rate for BRSP 2021-FL1 was converted from LIBOR to Term SOFR, plus a benchmark adjustment of 11.448 basis points, conforming with the indenture agreement.
(5) As of June 30, 2023, the outstanding principal of the mortgage payable was NOK 1.6 billion, which translated to $148.8 million.
(6) Payment terms are periodic payment of principal and interest for debt on two properties and periodic payment of interest only with principal at maturity (except for principal repayments to release collateral properties disposed) for debt on one property.
(7) Represents a mortgage note collateralized by three properties.
(8) In June 2023, the Company completed a refinancing of Loan 1 which modified the interest rate to SOFR plus 4.25%. The current maturity of the note payable is June 2024, with two one-year extensions available at the Company's option, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
(9) On January 28, 2022, the Company, through its subsidiaries, including the OP, entered into an Amended and Restated Credit Agreement. Refer to "Bank Credit Facility" within this note for more details.
(10) Recourse solely with respect to 25.0% of the financed amount.
(11) The current maturity date is April 2025, with two one-year extension options, which may be exercised upon the satisfaction of certain customary conditions set forth in the governing documents.
(12) Represents the weighted average spread as of June 30, 2023. The contractual interest rate depends upon asset type and characteristics and ranges from SOFR plus 1.50% to 2.75%.
(13) The current maturity date is April 2025, with a one-year extension available at the option of the Company, which may be exercised upon the satisfaction of certain customary conditions set forth in the governing documents.
(14) Recourse is either 25.0% or 50.0% depending on loan metrics.
(15) The current maturity date is June 2025, with two one-year extensions available at the option of the Company, which may be exercised upon the satisfaction of certain customary conditions set forth in the governing documents.
(16) The current maturity date is July 2024, with three one-year extension options, which may be exercised upon the satisfaction of certain customary conditions set forth in the governing documents.
(17) Upon reaching the June 2023 contractual maturity date, the Company did not extend Bank 5 and thus no longer has capacity.

Future Minimum Principal Payments

The following table summarizes future scheduled minimum principal payments at June 30, 2023 based on initial maturity dates or extended maturity dates to the extent criteria are met and the extension option is at the borrower's discretion (dollars in thousands):

	Total	Securitization Bonds Payable, Net	Mortgage Notes Payable, Net	Credit Facilities
Remaining 2023	$ 1,255	$ —	$ 1,255	$ —
2024	138,928	—	138,928	—
2025	221,226	—	221,226	—
2026	335,369	—	54,571	280,798
2027	956,812	—	20,359	936,453
2028 and thereafter	1,205,325	995,187	210,138	—
Total	$ 2,858,915	$ 995,187	$ 646,477	$ 1,217,251

Bank Credit Facility

The Company uses bank credit facilities (including term loans and revolving facilities) to finance the business. These financings may be collateralized or non-collateralized and may involve one or more lenders. Credit facilities typically have maturities ranging from two to five years and may accrue interest at either fixed or floating rates.

On January 28, 2022, the OP (together with certain subsidiaries of the OP from time to time party thereto as borrowers, collectively, the "Borrowers") entered into an Amended and Restated Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent (the "Administrative Agent"), and the several lenders from time to time party thereto (the "Lenders"), pursuant to which the Lenders agreed to provide a revolving credit facility in the aggregate principal amount of up to $165.0 million, of which up to $25.0 million is available as letters of credit. Loans under the Credit Agreement may be advanced in U.S. dollars and certain foreign currencies, including euros, pounds sterling and swiss francs. The Credit Agreement amended and restated the OP's prior $300.0 million revolving credit facility that would have matured on February 1, 2022.

The Credit Agreement also includes an option for the Borrowers to increase the maximum available principal amount up to $300.0 million, subject to one or more new or existing Lenders agreeing to provide such additional loan commitments and satisfaction of other customary conditions.

Advances under the Credit Agreement accrue interest at a per annum rate equal to, at the applicable Borrower's election, either (x) an adjusted SOFR rate plus a margin of 2.25%, or (y) a base rate equal to the highest of (i) the Wall Street Journal's prime rate, (ii) the federal funds rate plus 0.50% and (iii) the adjusted SOFR rate plus 1.00%, plus a margin of 1.25%. An unused commitment fee at a rate of 0.25% or 0.35%, per annum, depending on the amount of facility utilization, applies to un-utilized borrowing capacity under the Credit Agreement. Amounts owed under the Credit Agreement may be prepaid at any time without premium or penalty, subject to customary breakage costs in the case of borrowings with respect to which a SOFR rate election is in effect.

The maximum amount available for borrowing at any time under the Credit Agreement is limited to a borrowing base valuation of certain investment assets, with the valuation of such investment assets generally determined according to a percentage of adjusted net book value. As of June 30, 2023, the borrowing base valuation is sufficient to permit borrowings of up to the entire $165.0 million. If any borrowing is outstanding for more than 180 days after its initial draw, the borrowing base valuation will be reduced by 50% until all outstanding borrowings are repaid in full. The ability to borrow new amounts under the Credit Agreement terminates on January 31, 2026, at which time the OP may, at its election and by written notice to the Administrative Agent, extend the termination date for two additional terms of six months each, subject to the terms and conditions in the Credit Agreement, resulting in a latest termination date of January 31, 2027.

The obligations of the Borrowers under the Credit Agreement are guaranteed pursuant to a Guarantee and Collateral Agreement by substantially all material wholly owned subsidiaries of the OP (the "Guarantors") in favor of the Administrative Agent (the "Guarantee and Collateral Agreement") and, subject to certain exceptions, secured by a pledge of substantially all equity interests owned by the Borrowers and the Guarantors, as well as by a security interest in deposit accounts of the Borrowers and the Guarantors in which the proceeds of investment asset distributions are maintained.

The Credit Agreement contains various affirmative and negative covenants, including, among other things, the obligation of the Company to maintain REIT status and be listed on the New York Stock Exchange, and limitations on debt, liens and restricted payments. In addition, the Credit Agreement includes the following financial covenants applicable to the OP and its consolidated subsidiaries: (a) minimum consolidated tangible net worth of the OP to be greater than or equal to the sum of (i) $1,112,000,000 and (ii) 70% of the net cash proceeds received by the OP from any offering of its common equity after September 30, 2021 and of the net cash proceeds from any offering by the Company of its common equity to the extent such proceeds are contributed to the OP, excluding any such proceeds that are contributed to the OP within ninety (90) days of receipt and applied to acquire capital stock of the OP; (b) the OP's ratio of EBITDA plus lease expenses to fixed charges for any period of four (4) consecutive fiscal quarters to be not less than 1.50 to 1.00; (c) the OP's minimum interest coverage ratio to be not less than 3.00 to 1.00; and (d) the OP's ratio of consolidated total debt to consolidated total assets to be not more than 0.80 to 1.00. The Credit Agreement also includes customary events of default, including, among other things, failure to make payments when due, breach of covenants or representations, cross default to material indebtedness, material judgment defaults, bankruptcy matters involving any Borrower or any Guarantor and certain change of control events. The occurrence of an event of default will limit the ability of the OP and its subsidiaries to make distributions and may result in the termination of the credit facility, acceleration of repayment obligations and the exercise of remedies by the Lenders with respect to the collateral.

As of June 30, 2023, the Company was in compliance with all of its financial covenants under the Credit Agreement.

Securitization Financing Transactions

Securitization bonds payable, net represent debt issued by securitization vehicles consolidated by the Company. Senior notes issued by these securitization trusts were generally sold to third parties and subordinated notes retained by the Company. Payments from underlying collateral loans must be applied to repay the notes until fully paid off, irrespective of the contractual maturities of the loans.

CLNC 2019-FL1

In October 2019, the Company executed a securitization transaction, through wholly-owned subsidiaries, CLNC 2019-FL1, Ltd. and CLNC 2019-FL1, LLC (collectively, "CLNC 2019-FL1"), which resulted in the sale of $840.4 million of investment grade notes. As of June 30, 2023, the securitization reflects an advance rate of 66.20% at a weighted average cost of funds of Adjusted Term SOFR plus 2.14% (before transaction expenses) and is collateralized by a pool of 15 senior loan investments.

On March 5, 2021, the Financial Conduct Authority of the U.K. (the “FCA”) announced that LIBOR tenors relevant to CLNC 2019-FL1 would cease to be published or no longer be representative after June 30, 2023. The Alternative Reference Rates Committee (the “ARRC”) interpreted this announcement to constitute a benchmark transition event. As of June 17, 2021, the benchmark index interest rate was converted from LIBOR to compounded SOFR, plus a benchmark adjustment of 11.448 basis points with a lookback period equal to the number of calendar days in the applicable Interest Accrual Period plus two SOFR business days, conforming with the indenture agreement and recommendations from the ARRC. Compounded SOFR for any interest accrual period shall be the “30-Day Average SOFR” as published by the Federal Reserve Bank of New York on each benchmark determination date.

As of February 19, 2022, the benchmark index interest rate was converted from Compounded SOFR to Term SOFR, plus a benchmark adjustment of 11.448 basis points, conforming with the indenture agreement. Term SOFR for any interest accrual period shall be the one-month CME Term SOFR Reference Rate as published by the CME Group Benchmark Administration on each benchmark determination date.

CLNC 2019-FL1 included a two-year reinvestment feature that allowed the Company to contribute existing or newly originated loan investments in exchange for proceeds from repayments or repurchases of loans held in CLNC 2019-FL1, subject to the satisfaction of certain conditions set forth in the indenture. The reinvestment period for CLNC 2019-FL1 expired on October 19, 2021. During the six months ended June 30, 2023 and through August 1, 2023, two loans held in CLNC 2019-FL1 were fully repaid and one loan was partially repaid totaling $136.3 million. Two loans held in CLNC 2019-FL1 were removed as a result of the loans becoming defaulted collateral interests, totaling $97.7 million. The Company exchanged/purchased the two defaulted collateral interests for substitute loan investments and cash equal to the par purchase price of the defaulted collateral interests. The proceeds from the repayments were used to amortize the securitization bonds in accordance with the securitization priority of repayments. At June 30, 2023, the Company had $491.3 million of unpaid principal balance of CRE debt investments financed with CLNC 2019-FL1.

Additionally, CLNC 2019-FL1 contains note protection tests that can be triggered as a result of contributed loan defaults, losses, and certain other events outlined in the indenture, beyond established thresholds. A note protection test failure that is not remedied can result in the redirection of interest proceeds from the below investment grade tranches to amortize the most senior outstanding tranche. While the Company continues to closely monitor all loan investments contributed to CLNC 2019-FL1, a deterioration in the performance of an underlying loan could negatively impact its liquidity position.

As of June 30, 2023, the Company had transitioned the CLNC 2019-FL1 mortgage assets to SOFR, eliminating the basis difference between CLNC 2019-FL1 assets and liabilities. The transition to SOFR is not expected to have a material impact to CLNC 2019-FL1’s assets and liabilities and related interest expense.

BRSP 2021-FL1

In July 2021, the Company executed a securitization transaction through wholly-owned subsidiaries, BRSP 2021-FL1, Ltd. and BRSP 2021-FL1, LLC (collectively, “BRSP 2021-FL1”), which resulted in the sale of $670.0 million of investment grade notes. The securitization reflects an advance rate of 83.75% at a weighted average cost of funds of Term SOFR plus 1.49% (before transaction costs), and is collateralized by a pool of 28 senior loan investments.

As of May 26, 2023, the benchmark index interest rate was converted from LIBOR to Term SOFR, plus a benchmark adjustment of 11.448 basis points, pursuant to the indenture agreement. Term SOFR for any interest accrual period shall be the one-month CME Term SOFR reference rate as published by the CME Group benchmark administration on each benchmark determination date.

BRSP 2021-FL1 includes a two-year reinvestment feature that allows the Company to contribute existing or newly originated loan investments in exchange for proceeds from repayments or repurchases of loans held in BRSP 2021-FL1, subject to the satisfaction of certain conditions set forth in the indenture. In addition to existing eligible loans available for reinvestment, the continued origination of securitization eligible loans is required to ensure that the Company reinvest the available proceeds within BRSP 2021-FL1. During the six months ended June 30, 2023 and through August 1, 2023, three loans held in BRSP 2021-FL1 were fully repaid, totaling $62.1 million. The Company replaced the repaid loans by contributing existing loan investments of equal value. At June 30, 2023, the Company had $800.0 million of unpaid principal balance of CRE debt investments and other assets financed with BRSP 2021-FL1.

Additionally, BRSP 2021-FL1 contains note protection tests that can be triggered as a result of contributed loan defaults, losses, and certain other events outlined in the indenture, beyond established thresholds. A note protection test failure that is not remedied can result in the redirection of interest proceeds from the below investment grade tranches to amortize the most senior outstanding tranche. The Company will continue to closely monitor all loan investments contributed to BRSP 2021-FL1, a deterioration in the performance of an underlying loan could negatively impact its liquidity position.

As of June 30, 2023, the Company had $1.3 billion carrying value of CRE debt investments and other assets financed with $1.0 billion of securitization bonds payable, net. As of December 31, 2022, the Company had $1.5 billion carrying value of CRE debt investments financed with $1.2 billion of securitization bonds payable, net.

Master Repurchase Facilities

As of June 30, 2023, the Company, through subsidiaries, had entered into repurchase agreements with multiple global financial institutions to provide an aggregate principal amount of up to $2.0 billion to finance the origination of first mortgage loans and senior loan participations secured by CRE debt investments (“Master Repurchase Facilities”). The Company agreed to guarantee certain obligations under the Master Repurchase Facilities, which contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. The Master Repurchase Facilities act as revolving loan facilities that can be paid down as assets are repaid or sold and re-drawn upon for new investments. As of June 30, 2023, the Company was in compliance with all of its financial covenants under the Master Repurchase Facilities.

As of June 30, 2023, the Company had $1.7 billion carrying value of CRE debt investments financed with $1.2 billion under the Master Repurchase Facilities. As of December 31, 2022, the Company had $1.8 billion carrying value of CRE debt investments financed with $1.3 billion under the Master Repurchase Facilities.

As of June 30, 2023, the Company had one counterparty which held collateral that exceeded amounts borrowed by more than 10% of its total equity. The Company’s net exposure to Bank 1 was $216.4 million. As of December 31, 2022, the Company did not hold any Master Repurchase Facilities where the collateral exceeded the amounts borrowed by more than 10% of its total equity.

9. Related Party Arrangements

The Company had no related party transactions for the three and six months ended June 30, 2023 and 2022.

10. Equity-Based Compensation

On February 15, 2022, the Company’s Board of Directors adopted, and at the annual meeting of stockholders held on May 5, 2022, the stockholders approved, the 2022 Equity Incentive Plan (the “2022 Plan”), which was effective as of May 5, 2022 and amends and restates the Company’s 2018 Equity Incentive Plan (the “2018 Plan”) to increase the total number of shares of the Class A common stock issuable by 10.0 million shares (subject to adjustment pursuant to the terms of the 2022 Plan) and extending the termination date to May 4, 2032. Awards may be granted under the 2022 Plan to (x) any employee, officer, director, consultant or advisor (who is a natural person) providing services to the Company, or its affiliates and (y) any other individual whose participation in the 2022 Plan is determined to be in the best interests of the Company. The following types of awards may be made under the 2022 Plan, subject to the limitations set forth in the plan: (i) stock options (which may be either incentive stock options or non-qualified stock options); (ii) stock appreciation rights; (iii) restricted stock awards; (iv) stock units; (v) unrestricted stock awards; (vi) dividend equivalent rights; (vii) performance awards; (viii) annual cash incentive awards; (ix) long-term incentive units; and (x) other equity-based awards.

Shares subject to an award granted under the 2022 Plan will be counted against the maximum number of shares of Class A common stock available for issuance thereunder as one share of Class A common stock for every one share of Class A common stock subject to such an award. Shares subject to an award granted under the 2022 Plan will again become available for issuance under the 2022 Plan if the award terminates by expiration, forfeiture, cancellation, or otherwise without the issuance of such shares (except as set forth in the following sentence). The number of shares of Class A common stock available for issuance under the 2022 Plan will not be increased by (i) any shares tendered or withheld in connection with the purchase of shares upon exercise of a stock option, (ii) any shares deducted or delivered in connection with the Company’s tax withholding obligations, or (iii) any shares purchased by the Company with proceeds from stock option exercises. Shares granted to non-independent directors, officers and employees, if applicable, generally vest ratably in three annual installments following the grant date.

On May 5, 2022, the Company granted 1,456,366 shares of Class A common stock to certain of its employees, including executive officers. Remaining one-third increments of such share grant will vest on March 15, 2024 and March 15, 2025. On March 6, 2023, the Company granted 1,391,217 shares of Class A common stock to certain of its employees, including executive officers. The shares vest in one-third increments on March 15, 2024, March 15, 2025 and March 15, 2026.

On May 6, 2022, the Company granted 62,190 shares of Class A common stock to the independent directors of the Company which vested on May 6, 2023.

On May 17, 2023, the Company granted 93,285 shares of Class A common stock to the independent directors of the Company which vest on May 17, 2024.

Equity-Based Compensation Expense

In connection with the share grants, the Company recognized share-based compensation expense of $3.1 million and $5.4 million within compensation and benefits in the consolidated statement of operations for the three and six months ended June 30, 2023, respectively. In connection with the share grants, the Company recognized share-based compensation expense of $2.3 million and $4.2 million within compensation and benefits in the consolidated statement of operations for the three and six months ended June 30, 2022, respectively.

Restricted Stock—Restricted stock awards relating to the Company's Class A common stock are granted to independent directors of the Company and generally vest within one year. Restricted stock awards are granted to certain employees of the Company, with a service condition only and are generally subject to annual time-based vesting in equal tranches over a three-year period. Restricted stock is entitled to dividends declared and paid on the Company's Class A common stock and such dividends are not forfeitable prior to vesting of the award. Restricted stock awards are valued based on the Company's Class A common stock price on grant date and equity-based compensation expense is recognized on a straight-line basis over the requisite three-year service period.

Performance Stock Units ("PSU")—PSUs are granted to certain employees of the Company and are subject to both a service condition and a performance condition. Following the end of the measurement period for the PSUs, the recipients of PSUs may be eligible to vest in all or a portion of PSUs granted, and be issued a number of shares of the Company's Class A common stock, ranging from 0% to 200% of the number of PSUs granted and eligible to vest, to be determined based upon the performance of the Company's Class A common stock relative to the Company's GAAP book value at the end of a two-year measurement period for the 2021 PSU grant (the "2021 Grant") or the Company's total shareholder return relative to certain peer group companies at the end of a three-year measurement period for the 2023 PSU grant (the "2023 Grant"). PSUs also contain dividend equivalent rights which entitle the recipients to a payment equal to the amount of dividends that would have been paid on the shares that are ultimately issued at the end of the measurement period.

Fair value of PSUs, including dividend equivalent rights, was determined using a Monte Carlo simulation, with the following assumptions:

	2023 Grant
Expected volatility[1]	74.4 %
Risk free rate[2]	4.6 %
Expected dividend yield[3]	—

(1) Based upon the Company's historical stock volatility.
(2) Based upon the continuously compounded zero-coupon U.S. Treasury yield for the term coinciding with the measurement period of the award as of valuation date.
(3) Based upon award holders being entitled to dividends paid during the measurement period on any shares earned.

Fair value of PSU awards, excluding dividend equivalent rights, is recognized on a straight-line basis over their measurement period as compensation expense. Following the completion of the measurement period for the 2021 Grant, the Company issued 136,000 shares of Class A common stock to certain of its employees in March 2023.

The table below summarizes the Company's awards granted, forfeited or vested under the 2022 Plan during the six months ended June 30, 2023 and 2022:

	Number of Shares			Weighted Average Grant Date Fair Value	
	Restricted Stock	PSUs	Total	Restricted Stock	PSUs
Unvested shares at December 31, 2021	1,482,094	272,000	1,754,094	$ 12.35	$ 11.96
Vested	(500,462)	—	(500,462)	9.14	—
Unvested shares at March 31, 2022	981,632	272,000	1,253,632	11.54	11.96
Granted	1,524,482	—	1,524,482	8.59	—
Vested	(104,960)	—	(104,960)	9.34	—
Unvested shares at June 30, 2022	2,401,154	272,000	2,673,154	10.23	11.96
Unvested shares at December 31, 2022	2,308,691	272,000	2,580,691	$ 8.47	$ 11.96
Granted	1,391,217	384,378	1,775,595	6.90	9.69
Vested	(888,834)	(136,000)	(1,024,834)	8.46	11.96
Forfeited	—	(136,000)	(136,000)	—	11.96
Unvested shares at March 31, 2023	2,811,074	384,378	3,195,452	7.65	9.69
Granted	93,285	—	93,285	5.36	—
Vested	(62,190)	—	(62,190)	8.04	—
Unvested shares at June 30, 2023	2,842,169	384,378	3,226,547	7.56	9.69

Fair value of equity awards that vested during the six months ended June 30, 2023 and June 30, 2022, determined based on their respective fair values at vesting date, was $5.7 million and $3.8 million, respectively. Fair value of granted awards is determined based on the closing price of the Class A common stock on the date of grant of the awards. Equity-based compensation is classified within compensation and benefits in the consolidated statement of operations.

At June 30, 2023, aggregate unrecognized compensation cost for all unvested equity awards was $21.1 million, which is expected to be recognized over a weighted-average period of 2.2 years. At June 30, 2022, aggregate unrecognized compensation cost for all unvested equity awards was $17.4 million, which is expected to be recognized over a weighted-average period of 2.3 years.

11. Stockholders' Equity

Authorized Capital

As of June 30, 2023, the Company had the authority to issue up to 1.0 billion shares of stock, at $0.01 par value per share, consisting of 950.0 million shares of Class A common stock and 50.0 million shares of preferred stock.

The Company had no shares of preferred stock issued and outstanding as of June 30, 2023.

Dividends

During the six months ended June 30, 2023 and 2022, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Per Share
March 16, 2023	March 31, 2023	April 17, 2023	$0.20
June 16, 2023	June 30, 2023	July 14, 2023	$0.20
March 15, 2022	March 31, 2022	April 15, 2022	$0.19
June 15, 2022	June 30, 2022	July 15, 2022	$0.20

Share Repurchases

In April 2023, the Company's board of directors authorized a stock repurchase program ("Stock Repurchase Program") under which the Company may repurchase up to $50.0 million of its outstanding Class A common stock until April 30, 2024. The Stock Repurchase Program replaces the prior repurchase program authorization which expired on April 30, 2023. Under the Stock Repurchase Program, the Company may repurchase shares in open market purchases, in privately negotiated transactions or otherwise. The Company has a written trading plan as part of the Share Repurchase Program that provides for share repurchases in open market transactions that is intended to comply with Rule 10b-18 under the Exchange Act. The Stock Repurchase Program will be utilized at management's discretion and in accordance with the requirements of the SEC. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate requirements and other conditions.

The Company did not repurchase any shares of its Class A common stock during the six months ended June 30, 2023. As of June 30, 2023, there was $50.0 million remaining available to make repurchases under the Stock Repurchase Program.

Accumulated Other Comprehensive Income (Loss)

The following tables present the changes in each component of Accumulated Other Comprehensive Income (Loss) ("AOCI") attributable to stockholders and noncontrolling interests in the OP, net of immaterial tax effect.

Changes in Components of AOCI - Stockholders

(dollars in thousands)	Unrealized gain on net investment hedges	Foreign currency translation loss	Total
AOCI at December 31, 2022	$ 18,603	$ (19,279)	$ (676)
Other comprehensive loss	—	(3,463)	(3,463)
AOCI at March 31, 2023	$ 18,603	$ (22,742)	$ (4,139)
Other comprehensive loss	—	(1,606)	(1,606)
AOCI at June 30, 2023	$ 18,603	$ (24,348)	$ (5,745)

(dollars in thousands)	Unrealized gain on net investment hedges	Foreign currency translation gain (loss)	Total
AOCI at December 31, 2021	$ 17,893	$ (9,107)	$ 8,786
Other comprehensive income	—	660	660
AOCI at March 31, 2022	$ 17,893	$ (8,447)	$ 9,446
Other comprehensive income (loss) before OP reclassification	—	(9,810)	(9,810)
Amounts reclassified from OP	710	(856)	(146)
Net current period OCI	710	(10,666)	(9,956)
AOCI at June 30, 2022	$ 18,603	$ (19,113)	$ (510)

Changes in Components of AOCI - Noncontrolling Interests in the OP

(dollars in thousands)	Unrealized gain on net investment hedges	Foreign currency translation gain (loss)	Total
AOCI at December 31, 2021	$ 710	$ (872)	$ (162)
Other comprehensive income	—	16	16
AOCI at March 31, 2022	$ 710	$ (856)	$ (146)
Other comprehensive income (loss) before Stockholders reclassification	—	—	—
Amounts reclassified to Stockholders	(710)	856	146
Net current period OCI	(710)	856	146
AOCI at June 30, 2022	$ —	$ —	$ —

Changes in Components of AOCI - Noncontrolling Interests in investment entities

(dollars in thousands)	Foreign currency translation gain (loss)	Total
AOCI at December 31, 2021	$ 1,872	$ 1,872
Other comprehensive income before reclassification	—	—
Amounts reclassified from AOCI	(1,872)	(1,872)
Net current period OCI	(1,872)	(1,872)
AOCI at March 31, 2022	$ —	$ —
Other comprehensive income	—	—
AOCI at June 30, 2022	$ —	$ —

12. Noncontrolling Interests

Operating Partnership

Net income (loss) attributable to the noncontrolling interests was based on such members ownership percentage of the OP. For the three and six months ended June 30, 2023, there were no noncontrolling interests in the OP and the OP is owned by the Company directly, and indirectly through the Company's subsidiary, BRSP-T Partner, LLC. Net income attributable to the noncontrolling interests of the OP was $0.4 million and $1.0 million for the three and six months ended June 30, 2022.

Investment Entities

Noncontrolling interests in investment entities represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net loss attributable to noncontrolling interests in the investment entities was de minimis and $0.1 million for the three and six months ended June 30, 2023, respectively. Net income and net loss attributable to noncontrolling interests in the investment entities was de minimis for both the three and six months ended June 30, 2022, respectively.

13. Fair Value

Determination of Fair Value

The following is a description of the valuation techniques used to measure fair value of assets accounted for at fair value on a recurring basis and the general classification of these instruments pursuant to the fair value hierarchy.

PE Investments

The Company accounts for PE Investments at fair value which is determined based on either a valuation model using assumptions for the timing and amount of expected future cash flow for income and realization events for the underlying assets in the funds and discount rate, or pending sales prices, if applicable. This fair value measurement is generally based on unobservable inputs and, as such, is classified as Level 3 of the fair value hierarchy, unless the PE Investments are valued based on pending sales prices, which are classified as Level 2 of the fair value hierarchy. The Company considers cash flow and NAV information provided by general partners of the underlying funds ("GP NAV") and the implied yields of those funds in valuing its PE Investments. The Company also considers the values derived from the valuation model as a percentage of GP NAV, and compares the resulting percentage of GP NAV to precedent transactions, independent research, industry reports as well as pricing from executed purchase and sale agreements related to the disposition of its PE Investments. The Company may, as a result of that comparison, apply a mark-to-market adjustment. The Company has not elected the practical expedient to measure the fair value of its PE Investments using the NAV of the underlying funds.

Real Estate Securities

CRE securities are generally valued using a third-party pricing service or broker quotations. These quotations are not adjusted and are based on observable inputs that can be validated, and as such, are classified as Level 2 of the fair value hierarchy. Certain CRE securities may be valued based on a single broker quote, dealer bid or an internal price. Situations where management applies adjustments based on or using unobservable inputs would be classified as Level 3 of the fair value hierarchy. Management determines the prices are representative of fair value through a review of available data, including observable inputs, recent transactions as well as its knowledge of and experience in the market.

Investing VIEs

The Company has elected the fair value option for the financial assets and liabilities of the consolidated Investing VIEs. The Investing VIEs are "static," that is no reinvestment is permitted and there is very limited active management of the underlying assets. The Company is required to determine whether the fair value of the financial assets or the fair value of the financial liabilities of the Investing VIEs are more observable, but in either case, the methodology results in the fair value of the assets of the securitization trust being equal to the fair value of their liabilities. The Company has determined that the fair value of the liabilities of the securitization trust is more observable, since market prices for the liabilities are available from a third-party pricing service or are based on quoted prices provided by dealers who make markets in similar financial instruments. The financial assets of the securitization trust are not readily marketable and their fair value measurement requires information that may be limited in availability.

In determining the fair value of the trust's financial liabilities, the dealers will consider contractual cash payments and yields expected by market participants. Dealers also incorporate common market pricing methods, including a spread measurement to the treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security. The Company's collateralized mortgage obligations are classified as Level 2 of the fair value hierarchy, where a third-party pricing service or broker quotations are available and are based on observable valuation inputs, and as Level 3 of the fair value hierarchy, where internal price is utilized based on or using unobservable inputs. In accordance with ASC 810, *Consolidation*, the assets of the securitization trust are an aggregate value derived from the fair value of the trust's liabilities, and the Company has determined that the valuation of the trust's assets in their entirety including its retained interests from the securitizations (eliminated in consolidation in accordance with GAAP) should be classified as Level 3 of the fair value hierarchy.

Derivatives

Derivative instruments consist of interest rate contracts and foreign exchange contracts that are generally traded over-the-counter, and are valued using a third-party service provider. Quotations on over-the counter derivatives are not adjusted and are generally valued using observable inputs such as contractual cash flows, yield curve, foreign currency rates and credit spreads, and are classified as Level 2 of the fair value hierarchy. Although credit valuation adjustments, such as the risk of default, rely on Level 3 inputs, these inputs are not significant to the overall valuation of its derivatives. As a result, derivative valuations in their entirety are classified as Level 2 of the fair value hierarchy.

Fair Value Hierarchy

Financial assets recorded at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table presents financial assets that were accounted for at fair value on a recurring basis as of June 30, 2023 and December 31, 2022 by level within the fair value hierarchy (dollars in thousands):

	June 30, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Other assets - PE Investments	$ —	$ —	$ 2,790	$ 2,790	$ —	$ —	$ 3,035	$ 3,035
Other assets - derivative assets	—	2,355	—	2,355	—	1,601	—	1,601

The following table presents the changes in fair value of financial assets which are measured at fair value on a recurring basis using Level 3 inputs to determine fair value for the six months ended June 30, 2023 and 2022 (dollars in thousands):

	Six Months Ended June 30,		
	2023	2022	
	Other assets - PE Investments	Other assets - PE Investments	Mortgage loans held in securitization trusts(1)
Beginning balance	$ 3,035	$ 4,406	$ 813,310
Distributions/paydowns	(245)	—	(15,946)
Unrealized loss in earnings	—	—	(79,029)
Ending balance	$ 2,790	$ 4,406	$ 718,335

(1) For the six months ended June 30, 2022, the Company recorded an unrealized loss of $79.0 million related to mortgage loans held in securitization trusts, at fair value and an unrealized gain of $79.0 million related to mortgage obligations held in securitization trusts, at fair value.

As of June 30, 2023 and December 31, 2022, the Company utilized a discounted cash flow model, comparable precedent transactions and other market information to quantify Level 3 fair value measurements on a recurring basis. As of June 30, 2023 and December 31, 2022, the key unobservable inputs used in the analysis of PE Investments included discount rates with a range of 11.0% to 12.0% and timing and amount of expected future cash flows. Significant increases or decreases in any one of the inputs described above in isolation may result in significantly different fair value of the financial assets and liabilities using such Level 3 inputs.

Fair Value Option

The Company may elect to apply the fair value option of accounting for certain of its financial assets or liabilities due to the nature of the instrument at the time of the initial recognition of the investment. The Company elected the fair value option for PE Investments and eligible financial assets and liabilities of its consolidated Investing VIEs because management believes it is a more useful presentation for such investments. The Company determined recording the PE Investments based on the change in fair value of projected future cash flow from one period to another better represents the underlying economics of the respective investment. As of June 30, 2023 and December 31, 2022, the Company has elected not to apply the fair value option for any other eligible financial assets or liabilities.

Fair Value of Financial Instruments

In addition to the above disclosures regarding financial assets or liabilities which are recorded at fair value, GAAP requires disclosure of fair value about all financial instruments. The following disclosure of estimated fair value of financial instruments was determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value.

The following table presents the principal amount, carrying value and fair value of certain financial assets and liabilities as of June 30, 2023 and December 31, 2022 (dollars in thousands):

	June 30, 2023			December 31, 2022		
	Principal Amount	**Carrying Value**	**Fair Value**	**Principal Amount**	**Carrying Value**	**Fair Value**
Financial assets:[(1)]						
Loans held for investment, net[(2)]	$ 3,225,635	$ 3,112,973	$ 3,118,907	$ 3,586,248	$ 3,468,472	$ 3,480,001
Financial liabilities:[(1)]						
Securitization bonds payable, net	$ 995,187	$ 992,583	$ 995,187	$ 1,172,717	$ 1,167,600	$ 1,172,717
Mortgage and other notes payable, net	646,477	644,891	620,611	656,568	656,468	656,568
Master repurchase facilities	1,217,251	1,217,251	1,217,251	1,339,993	1,339,993	1,339,993

(1) The fair value of other financial instruments not included in this table is estimated to approximate their carrying value.
(2) Excludes future funding commitments of $225.6 million and $263.4 million as of June 30, 2023 and December 31, 2022, respectively.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of June 30, 2023. Although management is not aware of any factors that would significantly affect fair value, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

Loans Held for Investment, Net

For loans held for investment, net, fair values were determined: (i) by comparing the current yield to the estimated yield for newly originated loans with similar credit risk or the market yield at which a third party might expect to purchase such investment; or (ii) based on discounted cash flow projections of principal and interest expected to be collected, which includes consideration of the financial standing of the borrower or sponsor as well as operating results of the underlying collateral. These fair value measurements of CRE debt are generally based on unobservable inputs and, as such, are classified as Level 3 of the fair value hierarchy. Carrying values of loans held for investment are presented net of allowance for loan losses, where applicable.

Securitization Bonds Payable, Net

The Company's securitization bonds payable, net bear floating rates of interest. As of June 30, 2023, the Company believes the unpaid principal balance approximates fair value. These fair value measurements are based on observable inputs, and as such, are classified as Level 2 of the fair value hierarchy.

Mortgage and Other Notes Payable, Net

For mortgage and other notes payable, net, the Company primarily uses rates currently available with similar terms and remaining maturities to estimate fair value. These measurements are determined using comparable U.S. Treasury rates as of the end of the reporting period. These fair value measurements are based on observable inputs, and as such, are classified as Level 2 of the fair value hierarchy.

Master Repurchase Facilities

The Company has amounts outstanding under Master Repurchase Facilities. The Master Repurchase Facilities bear floating rates of interest. As of June 30, 2023, the Company believes the carrying value approximates fair value. These fair value measurements are based on observable inputs, and as such, are classified as Level 2 of the fair value hierarchy.

Other

The carrying values of cash and cash equivalents, restricted cash, receivables, and accrued and other liabilities approximate fair value due to their short term nature and credit risk, if any, are negligible.

Nonrecurring Fair Values

The Company measures fair value of certain assets on a nonrecurring basis when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Adjustments to fair value generally result from the application of lower of amortized cost or fair value accounting for assets held for sale or write-down of asset values due to impairment.

The following tables summarize assets carried at fair value on a nonrecurring basis as of June 30, 2023 and December 31, 2022 (dollars in thousands):

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Loans held for investment, net	$ —	$ —	$ 41,000	$ 41,000

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Loans held for investment, net	$ —	$ —	$ 79,596	$ 79,596

During the second quarter of 2023, the Company recorded a $10.9 million specific CECL reserve related to an Oakland, California office senior loan. The Company elected to apply the practical expedient, afforded to the Company under ASC 326, to use the fair value of the collateral to determine the specific CECL reserve. The estimated fair value of the collateral was determined by using a discounted cash flow model and Level 3 inputs, which included assuming a rent per square foot ranging from $30 to $45, a capitalization rate of 8.0% and a discount rate of 9.0%. These inputs are based on the location, type and nature of the property, current and prospective leasing data and anticipated market conditions. In July 2023, the Company acquired the office property through a deed-in-lieu of foreclosure.

During the first quarter of 2023, the Company recorded $55.0 million of specific CECL reserves, which included $29.9 million related to one Washington, D.C. office senior loan and $14.5 million related to the Development Mezzanine Loan. The Company elected to apply the practical expedient, afforded to the Company under ASC 326, to use the fair value of the collateral to determine the specific CECL reserve. The estimated fair value of the collateral was determined by using a discounted cash flow model and Level 3 inputs which included assuming a rent per square foot ranging from $44 to $48, a capitalization rate of 7.5% and a discount rate of 12.0%. These inputs are based on the location, type and nature of the property, current and prospective leasing data and anticipated market conditions. The specific CECL reserve for the Development Mezzanine Loan was recorded in connection with the amendment and restructuring of the loan in April 2023, which is collateralized by multifamily with a retail component. The specific CECL reserve for the Development Mezzanine Loan was based on the estimated proceeds the Company expects to receive upon the resolution of the asset in three years, using Level 3 inputs which included assuming a rent per square foot ranging from $42 to $60 and a capitalization rate ranging from 5.0% to 7.0%. These inputs are based on the location, type and nature of the property, current and prospective leasing data and anticipated market conditions.

During the third quarter of 2022, the Company recorded $57.2 million of specific CECL reserves related to two Long Island City, New York office senior loans. The Company elected to apply the practical expedient, afforded to the Company under ASC 326, to use the fair value of the collateral to determine the specific CECL reserve. The estimated fair value of the collateral was determined by using a discounted cash flow model and Level 3 inputs, which included assuming a rent per square foot ranging from $25 to $34, a capitalization rate ranging from 6.0% to 6.5% and a discount rate ranging from 9.5% to 12.2%. These inputs are based on the location, type and nature of the property, current and prospective leasing data and anticipated market conditions. During the second quarter of 2023, the Company acquired legal title of both assets through a deed-in-lieu foreclosure. Refer to Note, 5 “Real Estate, net” for further discussion.

14. Derivatives

The Company uses derivative instruments to manage the risk of changes in interest rates and foreign exchange rates, arising from both its business operations and economic conditions. Specifically, the Company enters into derivative instruments to manage differences in the amount, timing, and duration of the Company’s known or expected cash receipts and cash payments, the values of which are driven by interest rates, principally relating to the Company’s investments. Additionally, the Company’s foreign operations expose the Company to fluctuations in foreign exchange rates. The Company enters into derivative instruments to protect the value or fix certain of these foreign-denominated amounts in terms of its functional currency, the U.S. dollar. Derivative instruments used in the Company’s risk management activities may be designated as qualifying hedge accounting relationships, designated hedges, or non-designated hedges.

As of June 30, 2023 and December 31, 2022, fair value of derivative assets and derivative liabilities were as follows (dollars in thousands):

	Non-Designated Hedges	
	June 30, 2023	December 31, 2022
Derivative Assets		
Foreign exchange contracts	$ 2,355	$ 1,599
Interest rate contracts	—	2
Included in other assets	$ 2,355	$ 1,601

As of June 30, 2023, the Company’s counterparties do not hold any cash collateral.

The following table summarizes the Company’s FX forwards and interest rate contracts as of June 30, 2023 and December 31, 2022:

Type of Derivatives	Notional Currency	Notional Amount (in thousands) Non-Designated	Range of Maturity Dates
June 30, 2023			
FX Forward	NOK	91,603	August 2023 - May 2024
Interest Rate Swap	USD	$ 41	July 2023
December 31, 2022			
FX Forward	NOK	99,733	February 2023 - May 2024
Interest Rate Swap	USD	$ 285	July 2023

The table below represents the effect of the derivative financial instruments on the consolidated statements of operations for three and six months ended June 30, 2023 and 2022 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Other gain, net				
Non-designated foreign exchange contracts	$ 281	$ 2,116	$ 932	$ 1,895
Non-designated interest rate contracts	(1)	4	(2)	12
	$ 280	$ 2,120	$ 930	$ 1,907

Offsetting Assets and Liabilities

The Company enters into agreements subject to enforceable netting arrangements with its derivative counterparties that allow the Company to offset the settlement of derivative assets and liabilities in the same currency by derivative instrument type or, in the event of default by the counterparty, to offset all derivative assets and liabilities with the same counterparty. The Company has elected not to net derivative asset and liability positions, notwithstanding the conditions for right of offset may have been met. The Company presents derivative assets and liabilities with the same counterparty on a gross basis on the consolidated balance sheets.

The following table sets forth derivative positions where the Company has a right of offset under netting arrangements with the same counterparty as of June 30, 2023 and December 31, 2022 (dollars in thousands):

	Gross Amounts of Assets (Liabilities) Included on Consolidated Balance Sheets	Net Amounts of Assets (Liabilities)
June 30, 2023		
Derivative Assets		
Foreign exchange contracts	$ 2,355	$ 2,355
	$ 2,355	$ 2,355
December 31, 2022		
Derivative Assets		
Foreign exchange contracts	$ 1,599	$ 1,599
Interest rate contracts	2	2
	$ 1,601	$ 1,601

The Company did not offset any of its derivatives positions as of June 30, 2023 and December 31, 2022.

15. Commitments and Contingencies

Lending Commitments

The Company has lending commitments to borrowers pursuant to certain loan agreements in which the borrower may submit a request for funding contingent on achieving certain criteria, which must be approved by the Company as lender, such as leasing, performance of capital expenditures and construction in progress with an approved budget. At June 30, 2023, assuming the terms to qualify for future fundings, if any, had been met, total unfunded lending commitments for loans held for investment were $219.5 million for senior loans and $6.1 million for mezzanine loans. At December 31, 2022, total unfunded lending commitments for loans held for investment were $258.5 million for senior loans and $4.9 million for mezzanine loans.

Ground Lease Obligation

The Company's operating leases include ground leases acquired with real estate.

At June 30, 2023 and December 31, 2022, the weighted average remaining lease term was 14.2 years and 13.7 years for ground leases, respectively.

The following table presents ground lease expense, included in property operating expense, for the three and six months ended June 30, 2023 and 2022 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Operating lease expense:				
Minimum lease expense	$ 777	$ 768	$ 1,555	$ 1,536
Variable lease expense	—	—	—	—
	$ 777	$ 768	$ 1,555	$ 1,536

The operating lease liability for ground leases was determined using a weighted average discount rate of 5.3%. The following table presents future minimum rental payments, excluding contingent rents, on noncancellable ground leases on real estate as of June 30, 2023 (dollars in thousands):

Remainder of 2023	$ 1,555
2024	2,213
2025	2,148
2026	2,073
2027	1,755
2028 and thereafter	15,499
Total lease payments	25,243
Less: Present value discount	8,177
Operating lease liability (Note 7)	$ 17,066

For these ground leases, the Company has elected the practical expedient to combine lease and related nonlease components as a single lease component.

Office Lease

At June 30, 2023 and December 31, 2022, the weighted average remaining lease term was 5.4 years and 5.9 years for office leases, respectively. The office leases are located in New York, New York and Los Angeles, California.

For the three and six months ended June 30, 2023 and 2022, the following table summarizes lease expense, included in operating expense (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Corporate Offices				
Operating lease expense:				
Fixed lease expense	$ 315	$ 315	$ 629	$ 591
	$ 315	$ 315	$ 629	$ 591

The operating lease liability for the office leases were determined using a weighted average discount rate of 2.36%. As of June 30, 2023, the Company's future operating lease commitments for the corporate office leases were as follows (dollars in thousands):

	Corporate Offices[1]
Remainder of 2023	$ 642
2024	1,293
2025	1,308
2026	1,323
2027	1,339
2028 and thereafter	1,729
Total lease payments	7,634
Less: Present value discount	$ 509
Operating lease liability (Note 7)	$ 7,125

(1) The Company entered into a Los Angeles, California office lease in the first quarter of 2022, with rent payments beginning in 2023.

For these office leases, the Company has elected the practical expedient to combine lease and related nonlease components as a single lease component.

Litigation and Claims

The Company may be involved in litigation and claims in the ordinary course of the business. As of June 30, 2023, the Company was not involved in any legal proceedings that are expected to have a material adverse effect on the Company's results of operations, financial position, or liquidity.

16. Segment Reporting

The Company presents its business within the following business segments:

- Senior and Mezzanine Loans and Preferred Equity—CRE debt investments including senior loans, mezzanine loans, and preferred equity interests as well as participations in such loans.
- Net Leased and Other Real Estate—direct investments in CRE with long-term leases to tenants on a net lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance, capital expenditures and real estate taxes. It also includes other real estate, currently consisting of two investments with direct ownership in commercial real estate with an emphasis on properties with stable cash flow and two additional properties that the Company acquired through deeds-in-lieu of foreclosure.
- CRE Debt Securities—investments previously consisted of BBB and some BB rated CMBS (including Non-Investment Grade "B-pieces" of a CMBS securitization pool). It currently includes a sub-portfolio of private equity funds.
- Corporate—includes corporate-level asset management and other fees including operating expenses, compensation and benefits and restructuring charges.

BRIGHTSPIRE CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The Company primarily generates revenue from net interest income on the loan and preferred equity portfolio and rental and other income from its net leased and multi-tenant office assets. The Company's income is primarily derived through the difference between revenue and the cost at which the Company is able to finance its investments. The Company may also acquire investments which generate attractive returns without any leverage.

The following tables present segment reporting for the three and six months ended June 30, 2023 and 2022 (dollars in thousands):

	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased and Other Real Estate	Corporate	Total
Three Months Ended June 30, 2023					
Net interest income (expense)	$ 30,546	$ —	$ —	$ (302)	$ 30,244
Property and other income	—	—	21,727	3,248	24,975
Property operating expense	—	—	(5,443)	—	(5,443)
Transaction, investment and servicing expense	(578)	—	(29)	(213)	(820)
Interest expense on real estate	—	—	(6,773)	—	(6,773)
Depreciation and amortization	—	—	(7,887)	(54)	(7,941)
Increase of current expected credit loss reserve	(28,966)	—	—	—	(28,966)
Compensation and benefits	—	—	—	(9,368)	(9,368)
Operating expense	(4)	—	—	(3,269)	(3,273)
Other gain, net	—	—	177	—	177
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	998	—	1,772	(9,958)	(7,188)
Income tax benefit (expense)	(217)	5	(98)	—	(310)
Net income (loss)	$ 781	$ 5	$ 1,674	$ (9,958)	$ (7,498)

	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased and Other Real Estate	Corporate	Total
Three Months Ended June 30, 2022					
Net interest income (expense)	$ 32,064	$ 1,134	$ —	$ (435)	$ 32,763
Property and other income	78	219	21,806	465	22,568
Property operating expense	—	—	(5,266)	—	(5,266)
Transaction, investment and servicing expense	(961)	29	(52)	2	(982)
Interest expense on real estate	—	—	(7,117)	—	(7,117)
Depreciation and amortization	—	—	(8,664)	(56)	(8,720)
Increase of current expected credit loss reserve	(10,143)	—	—	—	(10,143)
Compensation and benefits	—	—	—	(8,269)	(8,269)
Operating expense	13	(245)	(56)	(3,782)	(4,070)
Other gain, net	21,484	—	2,093	755	24,332
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	42,535	1,137	2,744	(11,320)	35,096
Income tax expense	(416)	—	(49)	—	(465)
Net income (loss)	$ 42,119	$ 1,137	$ 2,695	$ (11,320)	$ 34,631

Six Months Ended June 30, 2023	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased and Other Real Estate	Corporate	Total
Net interest income (expense)	$ 63,789	$ —	$ —	$ (591)	$ 63,198
Property and other income	—	—	44,280	6,302	50,582
Property operating expense	—	—	(11,295)	—	(11,295)
Transaction, investment and servicing expense	(1,078)	—	(54)	(523)	(1,655)
Interest expense on real estate	—	—	(12,282)	—	(12,282)
Depreciation and amortization	—	—	(15,825)	(112)	(15,937)
Increase of current expected credit loss reserve	(68,579)	—	—	—	(68,579)
Compensation and benefits	—	—	—	(18,173)	(18,173)
Operating expense	(8)	—	—	(6,738)	(6,746)
Other gain, net	—	—	832	—	832
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(5,876)	—	5,656	(19,836)	(20,055)
Equity in earnings of unconsolidated ventures	9,055	—	—	—	9,055
Income tax expense	(257)	—	(443)	—	(700)
Net income (loss)	$ 2,922	$ —	$ 5,213	$ (19,836)	$ (11,700)

Six Months Ended June 30, 2022	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased and Other Real Estate	Corporate	Total
Net interest income (expense)	$ 61,428	$ 2,021	$ —	$ (1,301)	$ 62,148
Property and other income	199	352	45,974	486	47,011
Property operating expense	—	—	(11,990)	—	(11,990)
Transaction, investment and servicing expense	(2,011)	29	(152)	28	(2,106)
Interest expense on real estate	—	—	(14,673)	—	(14,673)
Depreciation and amortization	—	—	(17,215)	(99)	(17,314)
Increase of current expected credit loss reserve	(9,277)	—	—	—	(9,277)
Compensation and benefits	—	—	—	(16,494)	(16,494)
Operating expense	(139)	(285)	(88)	(7,907)	(8,419)
Other gain (loss), net	21,355	—	13,929	(664)	34,620
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	71,555	2,117	15,785	(25,951)	63,506
Equity in earnings of unconsolidated ventures	25	—	—	—	25
Income tax expense	(353)	—	(148)	—	(501)
Net income (loss)	$ 71,227	$ 2,117	$ 15,637	$ (25,951)	$ 63,030

The following table presents total assets by segment as of June 30, 2023 and December 31, 2022 (dollars in thousands):

Total Assets	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities(1)	Net Leased and Other Real Estate	Corporate(2)	Total
June 30, 2023	$ 3,227,666	$ 15,118	$ 903,882	$ 208,087	$ 4,354,753
December 31, 2022	3,580,912	15,459	864,856	289,162	4,750,389

(1) Includes PE Investments totaling $2.8 million and $3.0 million as of June 30, 2023 and December 31, 2022, respectively.
(2) Includes cash, unallocated receivables and deferred costs and other assets, net.

Geography

Geography is generally defined as the location in which the income producing assets reside or the location in which income generating services are performed. Geography information on total income includes equity in earnings of unconsolidated ventures. Geography information on total income and long-lived assets are presented as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Total income by geography:				
United States	$ 95,054	$ 80,758	$ 200,610	$ 154,202
Europe	4,260	4,614	8,982	9,583
Total[(1)]	$ 99,314	$ 85,372	$ 209,592	$ 163,785

	June 30, 2023	December 31, 2022
Long-lived assets by geography:		
United States	$ 600,825	$ 532,380
Europe	228,591	254,068
Total[(2)]	$ 829,416	$ 786,448

(1) Includes interest income, interest income on mortgage loans held in securitization trusts, property and other income and equity in earnings of unconsolidated ventures.
(2) Long-lived assets are comprised of real estate and real estate-related intangible assets, and excludes financial instruments and assets held for sale.

17. Earnings Per Share

The Company's net income (loss) and weighted average shares outstanding for the three and six months ended June 30, 2023 and 2022 consist of the following (dollars in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income (loss)	$ (7,498)	$ 34,631	$ (11,700)	$ 63,030
Net (income) loss attributable to noncontrolling interests:				
Investment Entities	12	15	87	(7)
Operating Partnership	—	(359)	—	(1,013)
Net income (loss) attributable to BrightSpire Capital, Inc. common stockholders	$ (7,486)	$ 34,287	$ (11,613)	$ 62,010
Numerator:				
Net (income) loss allocated to participating securities (non-vested shares)	$ —	$ (687)	$ —	$ (797)
Net income (loss) attributable to common stockholders	$ (7,486)	$ 33,600	$ (11,613)	$ 61,213
Denominator:				
Weighted average shares outstanding - basic[(1)]	127,173	127,756	126,920	128,052
Weighted average shares outstanding - diluted[(2)]	127,173	129,595	126,920	129,669
Net income (loss) per common share - basic and diluted	$ (0.06)	$ 0.26	$ (0.09)	$ 0.48
Net income (loss) per common share - diluted	$ (0.06)	$ 0.26	$ (0.09)	$ 0.47

(1) The outstanding shares used to calculate the weighted average basic shares outstanding exclude 2,842,169 and 2,401,154 of restricted stock awards as of June 30, 2023 and June 30, 2022, net of forfeitures, respectively, as those shares were issued but were not vested and therefore, not considered outstanding for purposes of computing basic income (loss) per common share.
(2) The calculation of diluted earnings per share excludes the effect of weighted average unvested non-participating restricted shares of 2,819,617 and 2,679,151 for the three and six months ended June 30, 2023, respectively, as the effect would be antidilutive.

18. Subsequent Events

Dividends

In July 2023, the Company paid a quarterly cash dividend of $0.20 per share of its Class A common stock for the quarter ended June 30, 2023, to stockholders of record on June 30, 2023.

Deed-in-lieu Acquisition

In July 2023, the Company acquired an Oakland, California office property through a deed-in-lieu of foreclosure. Prior to acquisition, the senior loan investment was on nonaccrual status and classified within “Loans and preferred equity held for investment, net” on the Company’s consolidated balance sheets.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our unaudited consolidated financial statements and the accompanying notes thereto, which are included in Item 1 of this Quarterly Report, as well as the information contained in our Form 10-K for the year ended December 31, 2022, which is accessible on the SEC's website at www.sec.gov.

Introduction

We are a commercial real estate ("CRE") credit real estate investment trust ("REIT") focused on originating, acquiring, financing and managing a diversified portfolio consisting primarily of CRE debt investments and net leased properties predominantly in the United States. CRE debt investments primarily consist of first mortgage loans, which is our primary investment strategy. Additionally, we may also selectively originate mezzanine loans and preferred equity investments, which may include profit participations. The mezzanine loans and preferred equity investments may be in conjunction with our origination of corresponding first mortgages on the same properties. Net leased properties consist of CRE properties with long-term leases to tenants on a net-lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance capital expenditures and real estate taxes. We continue to target net leased equity investments on a selective basis.

We were organized in the state of Maryland on August 23, 2017 and maintain key offices in New York, New York and Los Angeles, California. We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, beginning with our taxable year ended December 31, 2018. We conduct all our activities and hold substantially all our assets and liabilities through our operating subsidiary, BrightSpire Capital Operating Company, LLC (the "OP").

Our Target Assets

Our investment strategy is to originate and selectively acquire our target assets, which consist of the following:

- ***Senior Loans.*** Our primary focus is originating and selectively acquiring senior loans that are backed by CRE assets. These loans are secured by a first mortgage lien on a commercial property and provide mortgage financing to a commercial property developer or owner. The loans may vary in duration, bear interest at a fixed or floating rate and amortize, if at all, over varying periods, often with a balloon payment of principal at maturity. Senior loans may include junior participations in our originated senior loans for which we have syndicated the senior participations to other investors and retained the junior participations for our portfolio. We believe these junior participations are more like the senior loans we originate than other loan types given their credit quality and risk profile.

- ***Mezzanine Loans.*** We may originate or acquire mezzanine loans, which are structurally subordinate to senior loans, but senior to the borrower's equity position. Generally, we will originate or acquire these loans if we believe we have the ability to protect our position and fund the first mortgage, if necessary. Mezzanine loans may be structured such that our return accrues and is added to the principal amount rather than paid on a current basis. We may also pursue equity participation opportunities in instances when the risk-reward characteristics of the investment warrant additional upside participation in the possible appreciation in value of the underlying assets securing the investment.

- ***Preferred Equity.*** We may make investments that are subordinate to senior and mezzanine loans, but senior to the common equity in the mortgage borrower. Preferred equity investments may be structured such that our return accrues and is added to the principal amount rather than paid on a current basis. We also may pursue equity participation opportunities in preferred equity investments, like such participations in mezzanine loans.

- ***Net Leased and Other Real Estate.*** We may occasionally invest directly in well-located commercial real estate with long-term leases to tenants on a net lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance capital expenditures and real estate taxes. In addition, tenants of our properties typically pay rent increases based on: (1) increases in the consumer price index (typically subject to ceilings), (2) fixed increases, or (3) additional rent calculated as a percentage of the tenants' gross sales above a specified level. We believe that a portfolio of properties under long-term, net lease agreements generally produces a more predictable income stream than many other types of real estate portfolios, while continuing to offer the potential for growth in rental income.

Our operating segments include senior and mezzanine loans and preferred equity, net leased and other real estate, all of which are included in our target assets, and CRE debt securities and corporate.

The allocation of our capital among our target assets will depend on prevailing market conditions at the time we invest and may change over time in response to different prevailing market conditions. In addition, in the future, we may invest in assets other than our target assets or change our target assets. With respect to all our investments, we invest so as to maintain our qualification as a REIT for U.S. federal income tax purposes and our exclusion or exemption from regulation under the Investment Company Act of 1940, as amended (the "Investment Company Act").

We believe that events in the financial markets from time to time, including the ongoing impact of the COVID-19 pandemic, have created and will continue to create dislocation between price and intrinsic value in certain asset classes as well as a supply and demand imbalance of available credit to finance these assets. We believe that our in-depth understanding of CRE and real estate-related investments, in-house underwriting, asset management and resolution capabilities, provides an extensive platform to regularly evaluate our investments and determine primary, secondary or alternative disposition strategies. This includes intermediate servicing and negotiating, restructuring of non-performing investments, foreclosure considerations, management or development of owned real estate, in each case to reposition and achieve optimal value realization for us and our stockholders. Depending on the nature of the underlying investment, we may pursue repositioning strategies through judicious capital investment in order to extract maximum value from the investment or recognize unanticipated losses to reinvest resulting liquidity in higher-yielding performing investments.

Our Business Segments

We present our business as one portfolio. We conduct our operations through the following business segments:

- Senior and Mezzanine Loans and Preferred Equity—CRE debt investments including senior loans, mezzanine loans, and preferred equity interests as well as participations in such loans.
- Net Leased and Other Real Estate—direct investments in commercial real estate with long-term leases to tenants on a net lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance, capital expenditures and real estate taxes. It also includes other real estate, currently consisting of two investments with direct ownership in commercial real estate, with an emphasis on properties with stable cash flow and two additional properties that we acquired through deeds-in-lieu of foreclosure.
- CRE Debt Securities— securities investments previously consisting of BBB and some BB rated CMBS (including Non-Investment Grade "B-pieces" of a CMBS securitization pool). It currently only includes a sub-portfolio of private equity funds.
- Corporate—includes corporate-level asset management and other fees including expenses related to our secured revolving credit facility (the "Bank Credit Facility"), compensation and benefits and restructuring charges.

<u>Significant Developments</u>

During the three months ended June 30, 2023, and through August 1, 2023, significant developments affecting our business and results of operations of our portfolio included the following:

Capital Resources

- As of the date of this report, we have approximately $347.0 million of liquidity, consisting of $182.0 million cash on hand and $165.0 million available on our Bank Credit Facility; and
- Declared and paid a second quarter $0.20 per share dividend on July 14, 2023.

Our Portfolio

- Generated GAAP net loss of $7.5 million, or $(0.06) per basic and diluted share, Distributable Earnings of $21.1 million, or $0.16 per share and Adjusted Distributable Earnings of $32.0 million or $0.25 per share for the three months ended June 30, 2023;
- For the three months ended June 30, 2023, we:
    - Received loan repayment proceeds of $162.0 million from three loans;
    - Placed our Oakland, California office senior loan on nonaccrual status and recorded a specific CECL reserve of $10.9 million (refer to "Our Portfolio Asset Specific Loan Summaries" section for further discussion). Subsequent to June 30, 2023, we acquired the property through a deed-in-lieu of foreclosure; and
    - Acquired two Long Island City, New York office properties through a deed-in-lieu of foreclosure with an aggregate fair value of $73.1 million. Prior to acquisition, both senior loan investments were on nonaccrual status.

Trends Affecting Our Business

Global Markets

The current global markets are characterized by volatility, driven by a tightening of monetary policy and geopolitical uncertainty, coupled with the ongoing impacts of the COVID-19 pandemic. In response to heightened inflation, the Federal Reserve has continued to raise interest rates, which has tempered the loan financing market and created further uncertainty for the economy and for our borrowers and tenants. These current macroeconomic conditions may continue or intensify. This may cause the United States economy or other global economies to experience an economic slowdown or recession. While we monitor macroeconomic conditions closely, we believe there are too many uncertainties to predict and quantify the full impact that these factors may have on our business.

Office Property Market

The market for office properties was particularly negatively impacted by the COVID-19 pandemic and remains distressed, with increases in vacancy as newly developed or renovated properties become available for leasing and high overall vacancy rates due to the normalization of work from home and the hybrid attendance model. As a result of fewer employees commuting to their offices, businesses are re-evaluating their need for physical office space. To the extent certain borrowers are experiencing significant financial dislocation as a result of economic conditions, we have and may continue to use interest and other reserves and/or replenishment obligations of the borrower and/or guarantors to meet current interest payment obligations for a limited period. Given the uncertainty in the office market, there is risk of future valuation impairment or investment loss on our loans secured by office properties.

Factors Impacting Our Operating Results

Our results of operations are affected by a number of factors and depend primarily on, among other things, the ability of the borrowers of our assets to service our debt as it is due and payable, the ability of our tenants to pay rent and other amounts due under their leases, our ability to actively and effectively service any sub-performing and non-performing loans and other assets we may have from time to time in our portfolio, the market value of our assets and the supply of, and demand for, CRE senior loans, mezzanine loans, preferred equity, debt securities, net leased properties and our other assets, and the level of our net operating income ("NOI"). Our net interest income, which includes the amortization of purchase premiums and the accretion of purchase discounts, varies primarily as a result of changes in market interest rates, prepayment rates and frequency on our CRE loans and the ability of our borrowers to make scheduled interest payments. Interest rates and prepayment rates vary according to the type of investment, conditions in the financial markets, creditworthiness of our borrowers, competition and other factors, none of which can be predicted with any certainty. Our net property operating income depends on our ability to maintain the historical occupancy rates of our real estate equity investments, lease currently available space and continue to attract new tenants.

Changes in fair value of our assets

We consider and treat our assets as long-term investments. As a result, we do not expect that changes in market value will impact our operating results. However, at least on a quarterly basis, we assess both our ability and intent to hold such assets for the long-term. As part of this process, we monitor our assets for impairment. A change in our ability and/or intent to continue to hold any of our assets may result in our recognizing an impairment charge or realizing losses upon the sale of such investments.

Changes in market interest rates

With respect to our business operations, increases in interest rates, in general, may over time cause:

- the value of our fixed-rate investments to decrease;
- prepayments on certain assets in our portfolio to slow, thereby slowing the amortization of our purchase premiums and the accretion of our purchase discounts;
- coupons on our floating and adjustable-rate mortgage loans to reset, although on a delayed basis, to higher interest rates;
- interest rate caps required by our borrowers to increase in cost;
- to the extent we use leverage to finance our assets, the interest expense associated with our borrowings to increase; and
- to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to increase.

Conversely, decreases in interest rates, in general, may over time cause:

- the value of the fixed-rate assets in our portfolio to increase;
- prepayments on certain assets in our portfolio to increase, thereby accelerating the amortization of our purchase premiums and the accretion of our purchase discounts;
- to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to decrease;
- coupons on our floating and adjustable-rate mortgage loans to reset, although on a delayed basis, to lower interest rates; and
- to the extent we use leverage to finance our assets, the interest expense associated with our borrowings to decrease.

Credit risk

We are subject to varying degrees of credit risk in connection with our target assets. We seek to mitigate this risk by seeking to acquire high quality assets, at appropriate prices given anticipated and unanticipated losses and by employing a comprehensive review and asset selection process and by careful ongoing monitoring of acquired assets. Nevertheless, unanticipated credit losses could occur, which could adversely impact our operating results.

Size of investment portfolio

The size of our portfolio, as measured by the aggregate principal balance of our commercial mortgage loans, other commercial real estate-related debt investments and the other assets we own, is also a key revenue driver. Generally, as the size of our portfolio grows, the amount of interest income we earn increases. However, a larger portfolio may result in increased expenses to the extent that we incur additional interest expense to finance our assets.

Our Portfolio

As of June 30, 2023, our portfolio consisted of 109 investments representing approximately $4.0 billion in carrying value (based on our share of ownership and excluding cash, cash equivalents and certain other assets). Our senior and mezzanine loans and preferred equity consisted of 96 senior loans, mezzanine and preferred loans and had a weighted average cash coupon of 3.7% and a weighted average all-in unlevered yield of 9.1%. Our net leased and other real estate consisted of approximately 6.8 million total square feet of space and total second quarter 2023 NOI of that portfolio was approximately $15.8 million. Refer to “Non-GAAP Supplemental Financial Measures” below for further information on NOI.

As of June 30, 2023, our portfolio consisted of the following investments (dollars in thousands):

	Count[(1)]	Carrying value (Consolidated)	Carrying value (at BRSP share)[(2)]	Net carrying value (Consolidated)[(3)]	Net carrying value (at BRSP share)[(4)]
Our Portfolio					
Senior loans	89	$ 3,066,108	$ 3,066,108	$ 819,200	$ 819,200
Mezzanine loans	6	75,185	75,185	75,185	75,185
Preferred equity	1	23,079	23,079	23,079	23,079
Subtotal	96	3,164,372	3,164,372	917,464	917,464
Net leased real estate	8	577,218	577,218	137,547	137,547
Other real estate	4	247,327	234,030	74,987	74,512
Private equity interests	1	2,790	2,790	2,790	2,790
Total/Weighted average Our Portfolio	109	$ 3,991,707	$ 3,978,410	$ 1,132,788	$ 1,132,313

(1) Count for net leased real estate and other real estate represents number of investments.
(2) Carrying value at our share represents the proportionate carrying value based on ownership by asset as of June 30, 2023.
(3) Net carrying value represents carrying value less any associated financing as of June 30, 2023.
(4) Net carrying value at our share represents the proportionate carrying value based on asset ownership less any associated financing based on ownership as of June 30, 2023.

Underwriting Process

We use an investment and underwriting process that has been developed by our senior management team leveraging their extensive commercial real estate expertise over many years and real estate cycles. The underwriting process focuses on some or all of the following factors designed to ensure each investment is evaluated appropriately: (i) macroeconomic conditions that may influence operating performance; (ii) fundamental analysis of underlying real estate, including tenant rosters, lease terms, zoning, necessary licensing, operating costs and the asset's overall competitive position in its market; (iii) real estate market factors that may influence the economic performance of the investment, including leasing conditions and overall competition; (iv) the operating expertise and financial strength and reputation of a tenant, operator, partner or borrower; (v) the cash flow in place and projected to be in place over the term of the investment and potential return; (vi) the appropriateness of the business plan and estimated costs associated with tenant buildout, repositioning or capital improvements; (vii) an internal and third-party valuation of a property, investment basis relative to the competitive set and the ability to liquidate an investment through a sale or refinancing; (viii) review of third-party reports including appraisals, engineering and environmental reports; (ix) physical inspections of properties and markets; (x) the overall legal structure of the investment, contractual implications and the lenders' rights; and (xi) the tax and accounting impact.

Loan Risk Rankings

In addition to reviewing loans held for investment for impairment quarterly, we evaluate loans held for investment to determine if a current expected credit losses reserve should be established. In conjunction with this review, we assess the risk factors of each senior and mezzanine loans and preferred equity and assign a risk ranking based on a variety of factors, including, without limitation, underlying real estate performance and asset value, values of comparable properties, durability and quality of property cash flows, sponsor experience and financial wherewithal, and the existence of a risk-mitigating loan structure. Additional key considerations include loan-to-value ratios, debt service coverage ratios, loan structure, real estate and credit market dynamics, and risk of default or principal loss. Based on a five-point scale, our loans held for investment are rated "1" through "5," from less risk to greater risk. At the time of origination or purchase, loans held for investment are ranked as a "3" and will move accordingly going forward based on the ratings which are defined as follows:

1. *Very Low Risk*—The loan is performing as agreed. The underlying property performance has exceeded underwritten expectations with very strong NOI, debt service coverage ratio, debt yield and occupancy metrics. Sponsor is investment grade, very well capitalized, and employs a very experienced management team.

2. *Low Risk*—The loan is performing as agreed. The underlying property performance has met or exceeds underwritten expectations with high occupancy at market rents, resulting in consistent cash flow to service the debt. Strong sponsor that is well capitalized with an experienced management team.

3. *Average Risk*—The loan is performing as agreed. The underlying property performance is consistent with underwriting expectations. The property generates adequate cash flow to service the debt, and/or there is enough reserve or loan structure to provide time for sponsor to execute the business plan. Sponsor has routinely met its obligations and has experience owning/operating similar real estate.

4. *High Risk/Delinquent/Potential for Loss*—The loan is in excess of 30 days delinquent and/or has a risk of a principal loss. The underlying property performance is behind underwritten expectations. Loan covenants may require occasional waivers/modifications. Sponsor has been unable to execute its business plan and local market fundamentals have deteriorated. Operating cash flow is not sufficient to service the debt and debt service payments may be coming from sponsor equity/loan reserves.

5. *Impaired/Defaulted/Loss Likely*—The loan is in default, or a default is imminent, and has a high risk of a principal loss, or has incurred a principal loss. The underlying property performance is significantly worse than underwritten expectation and sponsor has failed to execute its business plan. The property has significant vacancy and current cash flow does not support debt service. Local market fundamentals have significantly deteriorated resulting in depressed comparable property valuations versus underwriting.

During the second quarter of 2023, three loans with a risk ranking of 3 were repaid and two loans with a risk ranking of 5 were acquired through a deed-in-lieu foreclosure and thus no longer classified as loans as of June 30, 2023. Additionally, four loans were upgraded to a risk ranking of 3 from a risk ranking of 4. One loan was downgraded to a risk ranking of 5 from a risk ranking of 4, four loans were downgraded to a risk ranking of 4 from a risk ranking of 3, and one loan was downgraded to a risk ranking of 3 from a risk ranking of 2. One mezzanine loan which was a risk ranking 5 as of March 31, 2023 was bifurcated into a mezzanine A note and mezzanine B note, which have risk rankings of 3 and 5, respectively as of June 30, 2023. As a result, our weighted average risk ranking at June 30, 2023 improved to 3.1 compared to March 31, 2023 when it was 3.2.

Senior and Mezzanine Loans and Preferred Equity

The following tables provides a summary of our senior loans, mezzanine loans and preferred equity based on our internal risk rankings, collateral property type and geographic distribution as of June 30, 2023 (dollars in thousands):

		Carrying Value (at BRSP share)[(1)]				
Risk Ranking	**Count**	**Senior loans**	**Mezzanine loans**	**Preferred Equity**	**Total**	**% of Total**
2	3	$ 76,857	$ —	$ —	$ 76,857	2.4 %
3	83	2,512,306	75,185	23,079	2,610,570	82.5 %
4	7	435,945	—	—	435,945	13.8 %
5	3	41,000	—	—	41,000	1.3 %
	96	$ 3,066,108	$ 75,185	$ 23,079	$ 3,164,372	100.0 %
Weighted average risk ranking						3.1

(1) Carrying value at our share represents the proportionate carrying value based on ownership by asset as of June 30, 2023.

		Carrying value (at BRSP share)				
Collateral property type	**Count**	**Senior loans**	**Mezzanine loans**	**Preferred Equity**	**Total**	**% of Total**
Multifamily	56	$ 1,573,829	$ 61,036	$ 23,079	$ 1,657,944	52.4 %
Office	31	1,021,333	1,699	—	1,023,032	32.3 %
Hotel	3	266,435	12,450	—	278,885	8.8 %
Other (Mixed-use)[(1)]	3	151,794	—	—	151,794	4.8 %
Industrial	3	52,717	—	—	52,717	1.7 %
Total	96	$ 3,066,108	$ 75,185	$ 23,079	$ 3,164,372	100.0 %

(1) Other includes commercial and residential development and predevelopment assets.

		Carrying value (at BRSP share)				
Region	**Count**	**Senior loans**	**Mezzanine loans**	**Preferred Equity**	**Total**	**% of Total**
US West	41	$ 1,335,053	$ 56,594	$ 23,079	$ 1,414,726	44.7 %
US Southwest	36	1,102,907	4,442	—	1,107,349	35.0 %
US Northeast	11	418,941	14,149	—	433,090	13.7 %
US Southeast	8	209,207	—	—	209,207	6.6 %
Total	96	$ 3,066,108	$ 75,185	$ 23,079	$ 3,164,372	100.0 %

The following table provides asset level detail for our senior loans, mezzanine loans and preferred equity as of June 30, 2023 (dollars in thousands):

	Loan Type	Origination Date	City, State	Carrying value[1]	Principal balance	Coupon type	Cash Coupon[2]	Unlevered all-in yield[3]	Extended maturity date	Loan-to-value[4]	Q2 Risk ranking[5]
Multifamily											
Loan 1[6]	Senior	6/18/2019	Santa Clara, CA	$ 57,040	$ 57,443	Floating	5.5%	10.6%	6/18/2024	69%	3
Loan 2	Senior	7/19/2021	Dallas, TX	50,293	50,199	Floating	3.4%	9.0%	8/9/2026	74%	3
Loan 3	Senior	3/8/2022	Austin, TX	50,035	50,103	Floating	3.3%	9.0%	3/9/2027	75%	3
Loan 4	Senior	5/17/2022	Las Vegas, NV	49,520	49,758	Floating	3.6%	9.2%	6/9/2027	74%	4
Loan 5	Senior	5/26/2021	Las Vegas, NV	46,152	46,101	Floating	3.5%	9.0%	6/9/2026	70%	3
Loan 6	Senior	11/30/2021	Phoenix, AZ	44,659	44,572	Floating	3.5%	9.2%	12/9/2026	74%	4
Loan 7	Senior	2/3/2021	Arlington, TX	43,717	43,580	Floating	3.7%	9.4%	2/9/2026	81%	4
Loan 8	Senior	3/1/2021	Richardson, TX	43,313	43,411	Floating	3.5%	8.9%	3/9/2026	75%	3
Loan 9	Senior	7/15/2021	Jersey City, NJ	42,954	43,000	Floating	3.1%	8.6%	8/9/2026	66%	3
Loan 10	Senior	12/21/2020	Austin, TX	42,780	42,850	Floating	3.8%	9.2%	1/9/2026	54%	3
Subtotal top 10 multifamily				$ 470,463	$ 471,017	15% of total loans					
Loan 11	Senior	3/22/2021	Fort Worth, TX	$ 41,281	$ 41,286	Floating	3.6%	9.1%	4/9/2026	83%	3
Loan 12	Senior	7/15/2021	Dallas, TX	39,855	39,873	Floating	3.2%	8.9%	8/9/2026	77%	3
Loan 13	Senior	3/31/2022	Louisville, KY	39,701	39,773	Floating	3.7%	9.4%	4/9/2027	72%	3
Loan 14	Senior	12/7/2021	Denver, CO	39,469	39,554	Floating	3.3%	8.8%	12/9/2026	74%	3
Loan 15	Senior	3/31/2022	Long Beach, CA	37,964	38,118	Floating	3.4%	9.0%	4/9/2027	74%	3
Loan 16	Senior	7/12/2022	Irving, TX	36,897	37,096	Floating	3.6%	9.2%	8/9/2027	73%	3
Loan 17	Senior	9/28/2021	Carrollton, TX	36,128	36,282	Floating	3.2%	8.7%	10/9/2025	73%	3
Loan 18	Senior	1/18/2022	Dallas, TX	35,594	35,575	Floating	3.5%	9.2%	2/9/2027	75%	3
Loan 19	Senior	1/12/2022	Los Angeles, CA	35,561	35,769	Floating	3.4%	8.8%	2/9/2027	65%	3
Loan 20	Senior	12/29/2020	Fullerton, CA	34,804	34,860	Floating	3.9%	9.3%	1/9/2026	70%	3
Subtotal top 20 multifamily				$ 847,717	$ 849,203	27% of total loans					
Loan 21	Senior	3/16/2021	Fremont, CA	$ 33,550	$ 33,550	Floating	3.5%	8.6%	4/9/2026	76%	3
Loan 22	Senior	7/29/2021	Phoenix, AZ	32,435	32,562	Floating	3.4%	8.8%	8/9/2026	74%	3
Loan 23	Senior	3/31/2021	Mesa, AZ	31,430	31,434	Floating	3.8%	9.4%	4/9/2026	83%	3
Loan 24[6]	Mezzanine	12/9/2019	Milpitas, CA	31,023	31,023	Fixed	n/a	10.5%	3/3/2026	58% - 85%	3
Loan 25	Senior	4/29/2021	Las Vegas, NV	29,722	29,736	Floating	3.2%	8.7%	5/9/2026	76%	2
Loan 26	Senior	4/15/2022	Mesa, AZ	29,169	29,354	Floating	3.4%	8.8%	5/9/2027	75%	3
Loan 27	Senior	7/13/2021	Plano, TX	28,959	28,994	Floating	3.2%	8.7%	2/9/2025	82%	3

	Loan Type	Origination Date	City, State	Carrying value[1]	Principal balance	Coupon type	Cash Coupon[2]	Unlevered all-in yield[3]	Extended maturity date	Loan-to-value[4]	Q2 Risk ranking[5]
Loan 28	Senior	5/19/2022	Denver, CO	28,455	28,589	Floating	3.5%	9.1%	6/9/2027	73%	3
Loan 29	Senior	2/17/2022	Long Beach, CA	28,231	28,348	Floating	3.4%	9.0%	3/9/2027	67%	3
Loan 30	Senior	5/27/2021	Houston, TX	28,000	28,000	Floating	3.1%	8.3%	6/9/2026	67%	3
Loan 31	Senior	8/31/2021	Glendale, AZ	27,982	28,099	Floating	3.3%	8.7%	9/9/2026	75%	4
Loan 32	Senior	12/16/2021	Fort Mill, SC	26,970	27,103	Floating	3.3%	8.7%	1/9/2027	71%	3
Loan 33[6]	Mezzanine	2/8/2022	Las Vegas, NV	25,572	25,648	Fixed	7.0%	12.3%	2/8/2027	56% - 79%	3
Loan 34	Senior	12/21/2021	Phoenix, AZ	24,741	24,876	Floating	3.6%	9.1%	1/9/2027	75%	3
Loan 35	Senior	7/12/2022	Irving, TX	24,538	24,674	Floating	3.6%	9.2%	8/9/2027	72%	3
Loan 36	Senior	7/1/2021	Aurora, CO	23,792	23,878	Floating	3.2%	8.7%	7/9/2026	73%	3
Loan 37	Senior	3/8/2022	Glendale, AZ	23,790	23,937	Floating	3.5%	8.9%	3/9/2027	73%	3
Loan 38	Senior	3/31/2022	Phoenix, AZ	23,119	23,265	Floating	3.7%	9.1%	4/9/2027	75%	3
Loan 39	Preferred	11/30/2022	Milpitas, CA	23,079	23,290	Fixed	6.0%	12.1%	12/1/2032	n/a	3
Loan 40	Senior	11/4/2021	Austin, TX	23,070	23,181	Floating	3.4%	8.8%	11/9/2026	71%	3
Loan 41	Senior	7/13/2021	Oregon City, OR	21,738	21,764	Floating	3.4%	8.8%	8/9/2026	73%	3
Loan 42	Senior	6/22/2021	Phoenix, AZ	21,182	21,262	Floating	3.3%	8.7%	7/9/2026	75%	2
Loan 43	Senior	1/12/2022	Austin, TX	19,877	19,937	Floating	3.4%	9.0%	2/9/2027	75%	3
Loan 44	Senior	9/22/2021	Denton, TX	19,725	19,761	Floating	3.3%	8.8%	10/9/2025	70%	3
Loan 45	Senior	8/6/2021	La Mesa, CA	19,652	19,666	Floating	3.0%	8.6%	8/9/2025	70%	3
Loan 46	Senior	12/21/2021	Gresham, OR	19,401	19,455	Floating	3.6%	9.3%	1/9/2027	74%	3
Loan 47	Senior	9/1/2021	Bellevue, WA	19,292	19,308	Floating	3.0%	8.7%	9/9/2025	64%	3
Loan 48	Senior	6/24/2021	Phoenix, AZ	19,071	19,071	Floating	3.5%	9.1%	7/9/2026	63%	3
Loan 49	Senior	5/5/2022	Charlotte, NC	18,422	18,500	Floating	3.5%	9.1%	5/9/2027	61%	3
Loan 50	Senior	7/14/2021	Salt Lake City, UT	18,294	18,315	Floating	3.4%	8.8%	8/9/2026	73%	3
Loan 51	Senior	4/29/2022	Tacoma, WA	17,861	17,944	Floating	3.3%	8.9%	5/9/2027	72%	3
Loan 52	Senior	6/25/2021	Phoenix, AZ	17,458	17,518	Floating	3.2%	8.7%	7/9/2026	75%	3
Loan 53	Senior	7/21/2021	Durham, NC	15,096	15,150	Floating	3.4%	8.8%	8/9/2026	58%	3
Loan 54	Senior	3/8/2022	Glendale, AZ	11,089	11,158	Floating	3.5%	8.9%	3/9/2027	73%	3
Loan 55	Mezzanine	7/30/2014	Various - TX	4,442	4,442	Fixed	9.5%	9.5%	8/11/2024	71% - 83%	3
Loan 56[7]	Mezzanine	12/9/2019	Milpitas, CA	—	14,477	n/a[7]	n/a[7]	n/a[7]	3/3/2026	n/a	5
Total/Weighted average multifamily loans				$ 1,657,944	$ 1,676,472	52% of total loans	3.5%	9.1%	3.2 years		3.1

	Loan Type	Origination Date	City, State	Carrying value[1]	Principal balance	Coupon type	Cash Coupon[2]	Unlevered all-in yield[3]	Extended maturity date	Loan-to-value[4]	Q2 Risk ranking[5]
Office											
Loan 57	Senior	2/17/2022	Boston, MA	$ 82,799	$ 83,127	Floating	3.8%	9.4%	3/9/2027	54%	3
Loan 58	Senior	12/7/2018	Carlsbad, CA	76,139	76,139	Floating	4.4%	9.5%	12/9/2024	73%	3
Loan 59	Senior	8/28/2018	San Jose, CA	74,071	74,071	Floating	2.6%	7.7%	8/28/2025	75%	3
Loan 60	Senior	1/19/2021	Phoenix, AZ	72,292	72,460	Floating	3.7%	9.1%	2/9/2026	70%	3
Loan 61	Senior	2/13/2019	Baltimore, MD	58,191	58,191	Floating	3.6%	8.8%	2/9/2025	74%	3
Loan 62	Senior	5/23/2022	Plano, TX	40,194	40,300	Floating	4.3%	9.8%	6/9/2027	64%	3
Loan 63	Senior	4/27/2022	Plano, TX	39,449	39,523	Floating	4.1%	9.6%	5/9/2027	70%	3
Loan 64	Senior	11/23/2021	Tualatin, OR	39,267	39,372	Floating	4.0%	9.4%	12/9/2026	66%	4
Loan 65	Senior	9/28/2021	Reston, VA	37,365	37,419	Floating	4.1%	9.8%	10/9/2026	71%	4
Loan 66	Senior	11/17/2021	Dallas, TX	36,462	36,548	Floating	4.0%	9.6%	12/9/2025	61%	3
Subtotal top 10 office loans				$ 556,229	$ 557,150	18% of total loans					
Loan 67	Senior	4/7/2022	San Jose, CA	$ 33,617	$ 33,750	Floating	4.2%	9.8%	4/9/2027	70%	3
Loan 68	Senior	6/2/2021	South Pasadena, CA	33,176	33,091	Floating	5.0%	10.2%	6/9/2026	69%	3
Loan 69	Senior	4/30/2021	San Diego, CA	31,625	31,724	Floating	3.6%	9.1%	5/9/2026	55%	3
Loan 70	Senior	6/16/2017	Miami, FL	30,348	30,008	Floating	5.8%	10.9%	12/8/2023	73%	3
Loan 71	Senior	11/19/2021	Gardena, CA	28,327	28,505	Floating	3.6%	9.1%	12/9/2026	69%	3
Loan 72	Senior	3/31/2022	Blue Bell, PA	28,275	28,275	Floating	4.2%	9.3%	4/9/2025	59%	3
Loan 73	Senior	10/21/2021	Blue Bell, PA	27,930	27,930	Floating	3.8%	9.3%	11/9/2023	67%	3
Loan 74[8]	Senior	7/12/2019	Washington, D.C.	27,000	56,935	n/a[8]	n/a[8]	n/a[8]	8/9/2024	68%	5
Loan 75	Senior	2/26/2019	Charlotte, NC	25,954	26,052	Floating	3.3%	8.5%	7/9/2025	51%	2
Loan 76	Senior	12/7/2021	Hillsboro, OR	24,681	24,746	Floating	4.0%	9.4%	12/9/2024	71%	3
Subtotal top 20 office loans				$ 847,162	$ 878,166	27% of total loans					
Loan 77	Senior	9/16/2019	San Francisco, CA	$ 23,465	$ 23,465	Floating	3.3%	8.4%	10/9/2024	82%	3
Loan 78	Senior	7/30/2021	Denver, CO	22,884	22,986	Floating	4.4%	9.9%	8/9/2026	66%	3
Loan 79	Senior	8/27/2019	San Francisco, CA	22,121	22,121	Floating	2.9%	8.1%	9/9/2024	79%	3
Loan 80	Senior	10/29/2020	Denver, CO	19,034	19,063	Floating	3.7%	9.2%	11/9/2025	64%	3
Loan 81	Senior	10/13/2021	Burbank, CA	16,075	16,161	Floating	4.0%	9.5%	11/9/2026	57%	3
Loan 82	Senior	11/16/2021	Charlotte, NC	15,353	15,441	Floating	4.5%	10.0%	12/9/2026	67%	3
Loan 83	Senior	8/31/2021	Los Angeles, CA	15,211	15,229	Floating	4.6%	10.3%	9/9/2026	58%	3
Loan 84[9]	Senior	11/23/2021	Oakland, CA	14,000	25,000	n/a[9]	n/a[9]	n/a[9]	12/9/2026	57%	5
Loan 85	Senior	11/10/2021	Richardson, TX	13,504	13,507	Floating	4.1%	9.6%	12/9/2026	71%	3
Loan 86	Senior	9/26/2019	Salt Lake City, UT	12,524	12,524	Floating	2.8%	8.0%	10/9/2024	72%	3
Loan 87	Mezzanine	2/13/2023	Baltimore, MD	1,699	1,699	Fixed	n/a [10]	13.0%	2/7/2025	74% - 75%	3
Total/Weighted average office loans				$ 1,023,032	$ 1,065,362	32% of total loans	3.7%	8.9%	2.5 years		3.1

	Loan Type	Origination Date	City, State	Carrying value(1)	Principal balance	Coupon type	Cash Coupon(2)	Unlevered all-in yield(3)	Extended maturity date	Loan-to-value(4)	Q2 Risk ranking(5)
Hotel											
Loan 88	Senior	1/2/2018	San Jose, CA	$ 193,435	$ 193,435	Floating	4.8%	9.9%	11/9/2026	73%	4
Loan 89	Senior	6/25/2018	Englewood, CO	73,000	73,000	Floating	3.5%	8.6%	2/9/2025	62%	3
Loan 90	Mezzanine	1/9/2017	New York, NY	12,450	12,330	Floating	11.0%	17.1%	12/15/2023	67% - 80%	3
Total/Weighted average hotel loans				$ 278,885	$ 278,765		4.7%	9.8%	2.8 years		3.7
Other (Mixed-use)											
Loan 91	Senior	10/24/2019	Brooklyn, NY	$ 77,669	$ 77,669	Floating	4.2%	9.3%	11/9/2024	70%	3
Loan 92	Senior	1/13/2022	New York, NY	45,573	45,705	Floating	3.5%	9.1%	2/9/2027	67%	3
Loan 93	Senior	5/3/2022	Brooklyn, NY	28,552	28,665	Floating	4.4%	10.0%	5/9/2027	68%	3
Total/Weighted average other (mixed-use) loans				$ 151,794	$ 152,039		4.0%	9.4%	2.5 years		3.0
Industrial											
Loan 94	Senior	7/13/2022	Ontario, CA	$ 23,374	$ 23,539	Floating	3.3%	8.8%	8/9/2027	66%	3
Loan 95	Senior	3/25/2022	City of Industry, CA	18,130	18,205	Floating	3.4%	9.0%	4/9/2027	67%	3
Loan 96	Senior	3/21/2022	Commerce, CA	11,213	11,256	Floating	3.3%	8.9%	4/9/2027	71%	3
Total/Weighted average industrial loans				$ 52,717	$ 53,000		3.3%	8.9%	3.9 years		3.0
Total/Weighted average senior and mezzanine loans and preferred equity - Our Portfolio				$ 3,164,372	$ 3,225,638		3.7%	9.1%	2.9 years		3.1

(1) Represents carrying values at our share as of June 30, 2023.
(2) Represents the stated coupon rate for loans; for floating rate loans, does not include Secured Overnight Financing Rate ("SOFR"), which was 5.14% as of June 30, 2023.
(3) In addition to the stated cash coupon rate, unlevered all-in yield includes non-cash payment-in-kind interest income and the accrual of origination and exit fees. Unlevered all-in yield for the loan portfolio assumes the applicable floating benchmark rate as of June 30, 2023, for weighted average calculations.
(4) Except for construction loans, senior loans reflect the initial loan amount divided by the as-is value as of the date the loan was originated, or the principal amount divided by the appraised value as of the date of the most recent as-is appraisal. Mezzanine loans include attachment loan-to-value and detachment loan-to-value, respectively. Attachment loan-to-value reflects initial funding of loans senior to our position divided by the as-is value as of the date the loan was originated, or the principal amount divided by the appraised value as of the date of the most recent appraisal. Detachment loan-to-value reflects the cumulative initial funding of our loan and the loans senior to our position divided by the as-is value as of the date the loan was originated, or the cumulative principal amount divided by the appraised value as of the date of the most recent appraisal.
(5) On a quarterly basis, the Company's senior and mezzanine loans are rated "1" through "5," from less risk to greater risk. Represents risk ranking as of June 30, 2023.
(6) Construction senior loans' loan-to-value reflect the total commitment amount of the loan divided by as-completed appraised value, or the total commitment amount of the loan divided by the projected total cost basis. Construction mezzanine loans include attachment loan-to-value and detachment loan-to-value. Attachment loan-to-value reflects the total commitment amount of loans senior to our position divided by as-completed appraised value, or the total commitment amount of loans senior to our position divided by projected total cost basis. Detachment loan-to-value reflect the cumulative commitment amount of our loan and the loans senior to our position divided by as-completed appraised value, or the cumulative commitment amount of our loan and loans senior to our position divided by projected total cost basis.
(7) Loan 56 was placed on nonaccrual status in April 2023; as such, no income is being recognized.
(8) Loan 74 was placed on nonaccrual status in February 2023; as such, no income is being recognized.
(9) Loan 84 was placed on nonaccrual status in May 2023; as such, no income is being recognized. Subsequent to June 30, 2023, we acquired the office property through a deed-in-lieu of foreclosure.
(10) Loan 87 has a payment-in-kind provision and accrues interest at 13.0%.

At June 30, 2023, our general CECL reserve for our outstanding loans and future loan funding commitments is $52.1 million, which is 1.56% of the aggregate commitment amount of our loan portfolio, excluding loans that were evaluated for specific CECL reserves. This represents an increase of $18.0 million from $34.1 million or 0.97% of the aggregate commitment amount of our loan portfolio at March 31, 2023. This increase was primarily driven by additional reserves recorded on our portfolio of office loans, which was largely driven by macroeconomic assumptions utilized in the general CECL model. During the second quarter of 2023, we charged off $67.8 million of specific CECL reserves related to two senior loans that were acquired through a deed-in-lieu of foreclosure. We also recorded a $10.9 million specific CECL reserve related to our Oakland, California office senior loan. For further discussion on the Oakland, California office senior loan see "Asset Specific Loan Summaries" below.

Asset Specific Loan Summaries

Washington, D.C Office Senior Loan

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value(1)	Q2 Risk ranking
Loan 74	Senior	Office	7/12/2019	$ 27,000	$ 56,935	n/a/(2)	n/a/(2)	n/a/(2)	8/9/2024	68%	5

(1) Loan-to-value is calculated using the as-is value on the date of loan origination.
(2) Loan 74 was placed on nonaccrual status in February 2023; as such, no income is being recognized.

We originated a $65.4 million senior mortgage loan in 2019 to finance the acquisition, capital improvements and leasing of a twelve story, 185,000 square foot, multi-tenant, Class-B office building located in the Dupont Circle neighborhood of Washington, D.C. (the "DC Office Loan"). Since acquisition, the sponsor has been converting a portion of the vacant office space into coworking space, which includes private offices, suites, and an amenity floor.

The Washington, D.C. ("DC") office market, like many markets, was hit hard by the COVID-19 pandemic and remains distressed, with high overall vacancy rates due to the normalization of work from home and the hybrid attendance model. As a result of fewer employees commuting to their offices, businesses are re-evaluating their need for physical office space. The federal government has adopted a telework work from home program for many employees who are not critical for office attendance, which further compounds the issue for the DC office market. The federal government has been reducing its office requirements which is especially impacting the DC market area. As of June 2023, the DC Office Loan property is 51% leased and in addition to vacancy issues, the property has tenant leases that expire at the end of 2023, creating uncertainty around the ability to re-lease vacant space should these tenants elect not to renew.

The DC Office Loan's second maturity was in August 2022, and it did not pass the extension tests. The sponsor requested that we waive the debt service coverage and debt yield hurdles required for their twelve-month extension option. We granted the sponsor a sixty-day extension so the sponsor could raise equity for a paydown to extend their loan for twelve months. At the end of the sixty-day extension, the sponsor requested an additional ninety-day extension, which we granted.

At the end of the ninety-day extension, we were unable to reach extension terms with the borrower and as a result, the DC Office Loan defaulted in January 2023 and was placed on nonaccrual status as of February 2023. We completed a foreclosure filing in March 2023 and expect to complete the foreclosure process and take possession of the underlying property by the end of the third quarter of 2023. We are examining all options to maximize value including a potential change of use of the property. Given market conditions surrounding D.C. metro offices, including the lack of leasing activity, the value maximizing use of this asset may be a conversion to multifamily. We utilized the estimated fair value of the collateral and therefore recorded a specific CECL reserve during the first quarter of 2023.

San Jose, California Hotel Senior Loan

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value(1)	Q2 Risk ranking
Loan 88	Senior	Hotel	1/2/2018	$ 193,435	$ 193,435	Floating	4.8%	9.9%	11/9/2026	73%	4

(1) Loan-to-value is calculated using the as-is value on the date of loan origination.

We originated a $173.5 million senior loan for the sponsor's purchase of the San Jose Hotel (the "San Jose Hotel Loan") in 2018. The San Jose Hotel Loan included an initial funding of $166.6 million with an additional $6.9 million of future advances. At closing, the borrower contributed approximately $90.0 million of equity toward the acquisition.

The onset of the COVID-19 pandemic in the spring of 2020 created challenges at the San Jose Hotel Loan's property, which included lower occupancy rates, weaker financial performance and borrower funding of approximately $18.6 million of shortfalls to maintain operations, which ultimately led the borrower to close the San Jose, California hotel and file for Chapter 11 bankruptcy in March 2021. We entered into a restructuring support agreement with the borrower with respect to the bankruptcy process, in our capacity as the sole secured creditor. The bankruptcy court authorized the rejection of the existing hotel management agreement and approved a restructuring plan for the borrower to exit bankruptcy with Signia by Hilton as the new brand and hotel manager, and a $25 million mezzanine loan to support the re-opening, property improvement plans, certain operating expenses and all expenses associated with the bankruptcy process.

In November 2021, the borrower emerged from bankruptcy and the court confirmed the amended and restated senior mortgage loan terms in the amount of $184.9 million, an upsize which reflected accrued interest and fees, collapsed the prior preferred equity investment into the restated senior mortgage loan, and included certain other costs and expenses associated with bankruptcy. The San Jose hotel reopened in April 2022.

The San Jose Hotel Loan's property performance continues to improve compared to 2022 performance, but not without its challenges. Office attendance in the city of San Jose is among the lowest among major cities in the nation. In February 2023 we upsized the $184.9 million loan by $7.0 million to fund renovations of all guest rooms and to fund debt service shortfalls. In June 2023 we upsized the loan by an additional $1.4 million to fund debt service. Subsequent to the second quarter of 2023, the mezzanine loan was upsized by $4.3 million to address anticipated debt service shortfalls through the sale of the annex tower.

The 805-room property consists of a main hotel tower and a second expansion annex tower. The borrower has entered into a purchase and sale agreement to sell the 264-room hotel annex tower in the second half of 2023. The prospective buyer is in the due diligence phase. If the sale closes, certain proceeds from the sale will be applied to pay down the San Jose Hotel Loan.

Oakland, California Office Senior Loan

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value[(1)]	Q2 Risk ranking
Loan 84	Senior	Office	11/23/2021	$ 14,000	$ 25,000	n/a[(2)]	n/a[(2)]	n/a[(2)]	12/9/2026	57%	5

(1) Loan-to-value is calculated using the as-is value on the date of loan origination.
(2) Loan 84 was placed on nonaccrual status in May 2023; as such, no income is being recognized. Subsequent to June 30, 2023, we acquired the office property through a deed-in-lieu of foreclosure.

We originated a $28.4 million senior loan to refinance the sponsor's existing loan on the Oakland office building (the "Oakland Office Loan") in 2021. The Oakland Office Loan included an initial funding of $25 million with an additional $3.4 million of future advances. The borrower contributed $1.9 million of additional equity to facilitate the loan closing.

The COVID-19 pandemic had adversely impacted occupancy rates of office buildings. Workers were starting to return to the office in the fall of 2021 and expectations were that occupancy would improve as the market stabilized. However, COVID-19 infection rates increased in the fall and winter of 2021 discouraging workers from returning to the office. The Oakland Office Loan was structured to finance additional tenant improvements for the anticipated new leasing activity. Prior to originating the Oakland Office Loan, the sponsor had upgraded the common areas, invested $1.5 million in preparing the top two stories for immediate occupancy, and signed a ten-year lease for the entire third floor to a new tenant.

While the Oakland office building generally maintained occupancy in 2023 through the date of this filing, no significant new leasing was completed, and that lack of new leasing combined with rising interest rates led to debt service exceeding monthly net operating income. With negative leasing projections for downtown Oakland, and indications that the market value of the Oakland office building was less than the Oakland Office Loan's principal balance, the sponsor approached us to surrender the collateral via a deed-in-lieu of foreclosure.

The borrower's reserves have been exhausted and the loan is in payment default and was placed on nonaccrual status as of May 2023. Given the continued negative market conditions surrounding Oakland, California office buildings, including the lack of leasing activity, we utilized the estimated fair value of the collateral to estimate a specific CECL reserve of $10.9 million during the second quarter of 2023. In July 2023, we executed a deed-in-lieu of foreclosure and took control of the Oakland office building.

Tualatin, Oregon Office Park Senior Loan

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value[(1)]	Q2 Risk ranking
Loan 64	Senior	Office	11/23/2021	$ 39,267	$ 39,372	Floating	4.0%	9.4%	12/9/2026	66%	4

(1) Loan-to-value is calculated using the as-is value on the date of loan origination.

We originated a $45.8 million senior loan to refinance the sponsor's existing loan on the Tualatin office complex (the "Tualatin Office Loan") in 2021. The Tualatin Office Loan included an initial funding of $38.6 million with an additional $7.2 million of future advances.

The COVID-19 pandemic had adversely impacted occupancy rates of office buildings. Workers were starting to return to the office in the fall of 2021 and expectations were that occupancy would improve as the market stabilized. However, COVID-19 infection rates increased in the fall and winter of 2021 discouraging workers from returning to the office. The Tualatin Office Loan was intended to take advantage of workers seeking to avoid commuting into Portland's central business district and looking to work closer to home. The Tualatin office properties consist of ten buildings averaging 34,000 square feet each, without enclosed common areas other than within the management offices, which was viewed as preferable for tenants during the COVID-19 pandemic. The Tualatin office buildings were 70% occupied when the Tualatin Office Loan was originated, and the loan was structured to finance additional tenant improvements for the anticipated new leasing activity. Prior to originating the Tualatin Office Loan, the sponsor had invested $6.0 million into an upgraded fitness center, new heating, ventilation, and cooling system, resurfaced parking lots, and installed signage.

The Tualatin office properties maintained occupancy through spring 2023, but only a minor amount of new leasing was completed. The lack of new leasing combined with rising interest rates has led to debt service exceeding monthly net operating income. The negative leasing projections for the Tualatin office properties, anticipated tenant vacancies later in 2023, and uncertainty in the office market, may result in a valuation impairment or investment loss.

Net Leased and Other Real Estate

Our net leased real estate investment strategy focuses on direct ownership in commercial real estate with an emphasis on properties with stable cash flow, which may be structurally senior to a third-party partner's equity. In addition, we may own net leased real estate investments through joint ventures with one or more partners. As part of our net leased real estate strategy, we explore a variety of real estate investments including multi-tenant office, multifamily, student housing and industrial. Additionally, we have two investments in direct ownership of commercial real estate and own these operating real estate investments through joint ventures with one or more partners. We also own two properties included in other real estate that were acquired through deeds-in-lieu of foreclosure. Our properties are typically well-located with strong operating partners.

As of June 30, 2023, $811.2 million or 20.4% of our assets were invested in net leased and other real estate properties and these properties were 90.0% occupied. The following table presents our net leased and other real estate investments as of June 30, 2023 (dollars in thousands):

	Count(1)	Carrying Value(2)	NOI three months ended June 30, 2023(3)
Net leased real estate	8	$ 577,218	$ 12,213
Other real estate	4	234,030	3,585
Total/Weighted average net leased and other real estate	12	$ 811,248	$ 15,798

(1) Count represents the number of investments.
(2) Represents carrying values at our share as of June 30, 2023; includes real estate tangible assets, deferred leasing costs and other intangible assets less intangible liabilities.
(3) Refer to "Non-GAAP Supplemental Financial Measures" for further information on NOI.

The following table provides asset-level detail of our net leased and other real estate as of June 30, 2023:

	Collateral type	City, State	Number of Properties	Rentable square feet ("RSF") / units/keys[(1)]	Weighted average % leased[(2)]	Weighted average lease term (yrs)[(3)]
Net leased real estate						
Net lease 1	Industrial	Various - U.S.	2	2,787,343 RSF	100%	15.1
Net lease 2	Office	Stavanger, Norway	1	1,290,926 RSF	100%	6.9
Net lease 3	Office	Aurora, CO	1	183,529 RSF	100%	4.4
Net lease 4	Office	Indianapolis, IN	1	338,000 RSF	100%	7.5
Net lease 5	Retail	Various - U.S.	7	319,600 RSF	100%	4.5
Net lease 6	Retail	Keene, NH	1	45,471 RSF	100%	5.6
Net lease 7	Retail	South Portland, ME	1	52,900 RSF	100%	8.6
Net lease 8	Retail	Fort Wayne, IN	1	50,000 RSF	100%	1.2
Total/Weighted average net leased real estate			15	5,067,769 RSF	100%	10.2
Other real estate						
Other real estate 1[(4)]	Office	Creve Coeur, MO	7	847,604 RSF	87%	3.9
Other real estate 2[(4)]	Office	Warrendale, PA	5	496,604 RSF	84%	5.9
Other real estate 3	Office	Long Island City, NY	1	220,872 RSF	30%	3.8
Other real estate 4	Office	Long Island City, NY	1	128,195 RSF	9%	7.2
Total/Weighted average other real estate			14	1,693,085 RSF	65%	5.0
Total net leased and other real estate			29			

(1) Rentable square feet based on carrying value at our share as of June 30, 2023.
(2) Represents the percent leased as of June 30, 2023. Weighted average calculation based on carrying value at our share as of June 30, 2023.
(3) Based on in-place leases (defined as occupied and paying leases) as of June 30, 2023, and assumes that no renewal options are exercised. Weighted average calculation based on carrying value at our share as of June 30, 2023.
(4) The current maturity of the debt on Other real estate 1 is October 2024 and the debt on Other real estate 2 is January 2025.

Asset Specific Net Leased Summaries

Warehouse Distribution Portfolio Net Lease

	Collateral type	City, State	Number of Properties	Rentable square feet ("RSF") / units/keys	Weighted average % leased	Weighted average lease term (yrs)
Net lease 1	Industrial	Various - U.S.	2	2,787,343 RSF	100%	15.1

In August 2018 we acquired two warehouse distribution facilities located in Tracy, California and Tolleson, Arizona (the "Warehouse Distribution Portfolio") for $292 million. These two properties are 100% occupied by a single tenant that is rated investment grade Ba1 from Moody's. The tenant is a national grocer and these properties form a part of its national distribution network. The Warehouse Distribution Portfolio lease (the "Warehouse Distribution Portfolio Lease") requires the tenant to pay for all real estate-related expenses, including operational expenditures, capital expenditures and taxes. The tenant has invested a significant amount of capital expenditures into each property over the past few years and has plans for additional capital expenditures in 2023. The Warehouse Distribution Portfolio Lease has a remaining lease term of 15.1 years ending in 2038. The tenant has the option to extend the lease for nine five-year periods at the same terms with rent adjusted to market rent. The Warehouse Distribution Portfolio Lease also has annual rent increases of 1.5%. Financing on the Warehouse Distribution Portfolio consists of mortgage and mezzanine debt for a total combined amount payable of $200 million. The debt is interest only at a blended fixed rate of 4.8% and matures in September 2028. The debt has a defeasance provision for any early loan prepayment. The tenant has made all rent payments and is current on all its financial obligations under the Warehouse Distribution Portfolio Lease. The tenant has recently announced a merger with another national grocer, which is pending regulatory approval. If the merger is approved, it is not expected to impact our lease agreement.

The Warehouse Distribution Portfolio has generated net operating income for the six months ended June 30, 2023, of $10.1 million and the asset value on our consolidated balance sheet is $249.4 million as of June 30, 2023.

Stavanger, Norway Office Net Lease

	Collateral type	City, State	Number of Properties	Rentable square feet ("RSF") / units/keys	Weighted average % leased	Weighted average lease term (yrs)
Net lease 2	Office	Stavanger, Norway	1	1,290,926 RSF	100%	6.9

In July 2018, we acquired a class A office campus in Stavanger, Norway (the "Norway Net Lease") for $320 million (NOK 2.6 billion). This property is 100% occupied by a single tenant that is rated investment grade AA-/Aa2 from S&P and Moody's, respectively. The property serves as their global headquarters. The Norway Net Lease requires the tenant to pay for all real estate-related expenses, including operational expenditures, capital expenditures and municipality taxes. The Norway Net Lease has a weighted average remaining lease term of seven years and the tenant has the option to extend for two five-year periods at the same terms with rent adjusted to market rent, and there is a risk that the rent can decrease at that time. The Norway Net Lease also has annual rent increases based on the Norwegian CPI Index through 2030. The rent increase in 2023 was 6.1%. Our tenant has injected a significant amount of capital into improvements of the property over the past 10 years.

Financing on the Norway Net Lease consists of a mortgage payable of $148.8 million (NOK 1.6 billion) with a fixed rate of 3.9%, which matures in June 2025, at which time there will be five years remaining on the initial lease term. The financing includes a provision for annual appraisal valuation each May with loan-to-value ("LTV") tests declining from 75% LTV beginning in year five, to 70% LTV after year eight and 65% LTV after year nine. The most recent valuation in May 2023 resulted in an LTV above the current 70% threshold. As a result, we contributed $3.5 million of cash to our entity thereby putting us in compliance with the LTV test. The $3.5 million is included in cash and cash equivalents on our consolidated balance sheet and remains available for our use. Market conditions could impact property valuations and continuing compliance with these annual tests, resulting in a cash trap subject to LTV rebalancing.

This five-year remaining lease term along with risk of a downward rent adjustment at the 2030 renewal, and the increase in interest rates, could adversely impact the refinancing or sale of the asset. Furthermore, we have no assurances that the tenant will remain at the property beyond 2030. The tenant has made all rent payments and is current on all its financial obligations under the lease. Both the lease payments and mortgage debt service are NOK denominated currency. We maintain a series of USD-NOK forward swaps in order to minimize our foreign currency cash flow risk. These forward swaps occur quarterly through May 2024, where we have agreed to sell NOK and buy USD at a locked in forward curve rate. However, only the lease payments are hedged through May 2024. The net equity and lease payments beyond May 2024 are not hedged at this time. Therefore, the Norway Net Lease net book value may be subject to fluctuations based on the USD-NOK impact on unhedged values.

Results of Operations

The following table summarizes our portfolio results of operations for the three months ended June 30, 2023, and March 31, 2023, (dollars in thousands):

	Three Months Ended June 30,	Three Months Ended March 31,	Increase (Decrease)	
	2023	2023	Amount	%
Net interest income				
Interest income	$ 74,339	$ 75,616	$ (1,277)	(1.7)%
Interest expense	(44,095)	(42,662)	(1,433)	3.4 %
Net interest income	30,244	32,954	(2,710)	(8.2)%
Property and other income				
Property operating income	21,727	22,551	(824)	(3.7)%
Other income	3,248	3,056	192	6.3 %
Total property and other income	24,975	25,607	(632)	(2.5)%
Expenses				
Property operating expense	5,443	5,852	(409)	(7.0)%
Transaction, investment and servicing expense	820	835	(15)	(1.8)%
Interest expense on real estate	6,773	5,509	1,264	22.9 %
Depreciation and amortization	7,941	7,996	(55)	(0.7)%
Increase of current expected credit loss reserve	28,966	39,613	(10,647)	(26.9)%
Compensation and benefits	9,368	8,805	563	6.4 %
Operating expense	3,273	3,473	(200)	(5.8)%
Total expenses	62,584	72,083	(9,499)	(13.2)%
Other income				
Other gain, net	177	655	(478)	(73.0)%
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(7,188)	(12,867)	5,679	44.1 %
Equity in earnings of unconsolidated ventures	—	9,055	(9,055)	(100.0)%
Income tax expense	(310)	(390)	80	(20.5)%
Net income (loss)	$ (7,498)	$ (4,202)	$ (3,296)	(78.4)%

Comparison of Three Months Ended June 30, 2023 and March 31, 2023

Net Interest Income

Interest income

Interest income decreased by $1.3 million to $74.3 million for the three months ended June 30, 2023 as compared to the three months ended March 31, 2023. The decrease was primarily due to $2.8 million related to loan repayments, $1.2 million related to two loans acquired as real estate through deeds-in-lieu of foreclosure, lower income of $0.9 million generated from one-time items and $0.8 million due to loans placed on nonaccrual. This was partially offset by higher interest rates of $3.7 million.

Interest expense

Interest expense increased by $1.4 million to $44.1 million for the three months ended June 30, 2023 as compared to the three months ended March 31, 2023. The increase was driven by $2.7 million related to higher interest rates offset by $1.2 million related to payoffs of financings in connection with loan repayments.

Property and other income

Property operating income

Property operating income decreased by $0.8 million to $21.7 million for the three months ended June 30, 2023, as compared to the three months ended March 31, 2023, primarily due to a decrease in rental income related to an office property.

Other income

Other income increased by $0.2 million to $3.2 million during the three months ended June 30, 2023, as compared to the three months ended March 31, 2023, primarily due to higher interest rates on money market investments.

Expenses

Property operating expense

Property operating expense decreased by $0.4 million to $5.4 million for the three months ended June 30, 2023, as compared to the three months ended March 31, 2023, primarily due to decreased expenses related to an office property.

Transaction, investment and servicing expense

Transaction, investment and servicing expense decreased by a de minimis amount to $0.8 million for the three months ended June 30, 2023 as compared to the three months ended March 31, 2023.

Interest expense on real estate

Interest expense on real estate increased by $1.3 million to $6.8 million for the three months ended June 30, 2023, as compared to the three months ended March 31, 2023. The increase was primarily due to amortization income recorded on above-market debt in the first quarter of 2023.

Depreciation and amortization

Depreciation and amortization expense decreased by a de minimis amount to $7.9 million for the three months ended June 30, 2023, as compared to the three months ended March 31, 2023. The decrease was primarily due to the impact of foreign currency translation.

Increase of current expected credit loss reserve

We recorded CECL reserves of $29.0 million for the three months ended June 30, 2023, as compared to reserves of $39.6 million for three months ended March 31, 2023. The variance was primarily driven by specific CECL reserves related to two office senior loans and the Development Mezzanine Loan that were recorded during the three months ended March 31, 2023.

Compensation and benefits

Compensation and benefits increased by $0.6 million to $9.4 million for the three months ended June 30, 2023, as compared to the three months ended March 31, 2023, primarily due to a full quarter of employee stock grants issued in March 2023.

Operating expense

Operating expense decreased by $0.2 million to $3.3 million for the three months ended June 30, 2023, as compared to the three months ended March 31, 2023. The decrease was primarily due to lower third-party costs incurred during the second quarter of 2023.

Other income (loss)

Other gain, net

Other gain, net decreased by $0.5 million to $0.2 million for the three months ended June 30, 2023, as compared to the three months ended March 31, 2023. The decrease was primarily due to lower gains on foreign currency hedges.

Equity in earnings of unconsolidated ventures

We realized a one-time gain from our ratable share of dispute resolution proceeds of approximately $9.0 million from the senior mezzanine lender of the Development Mezzanine Loan in connection with our prior Los Angeles, California mixed-use project and retained B-participation investment. In connection with the settlement, effective January 26, 2023, we have no further interest in the loan or investment. We did not record equity in earnings of unconsolidated ventures during the three months ended June 30, 2023.

Income tax benefit (expense)

Income tax expense decreased by a de minimis amount to $0.3 million for the three months ended June 30, 2023, as compared to the three months ended March 31, 2023.

The following table summarizes our portfolio results of operations for the six months ended June 30, 2023, and June 30, 2022, (dollars in thousands):

	Six Months Ended June 30,		Increase (Decrease)	
	2023	2022	Amount	%
Net interest income				
Interest income	$ 149,955	$ 97,654	$ 52,301	53.6 %
Interest expense	(86,757)	(37,527)	(49,230)	131.2 %
Interest income on mortgage loans held in securitization trusts	—	19,095	(19,095)	(100.0)%
Interest expense on mortgage obligations issued by securitization trusts	—	(17,074)	17,074	(100.0)%
Net interest income	63,198	62,148	1,050	1.7 %
Property and other income				
Property operating income	44,278	45,948	(1,670)	(3.6)%
Other income	6,304	1,063	5,241	493.0 %
Total property and other income	50,582	47,011	3,571	7.6 %
Expenses				
Property operating expense	11,295	11,990	(695)	(5.8)%
Transaction, investment and servicing expense	1,655	2,106	(451)	(21.4)%
Interest expense on real estate	12,282	14,673	(2,391)	(16.3)%
Depreciation and amortization	15,937	17,314	(1,377)	(8.0)%
Increase of current expected credit loss reserve	68,579	9,277	59,302	639.2 %
Compensation and benefits	18,173	16,494	1,679	10.2 %
Operating expense	6,746	8,419	(1,673)	(19.9)%
Total expenses	134,667	80,273	54,394	67.8 %
Other income				
Other gain, net	832	34,620	(33,788)	(97.6)%
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(20,055)	63,506	(83,561)	(131.6)%
Equity in earnings of unconsolidated ventures	9,055	25	9,030	36120.0 %
Income tax expense	(700)	(501)	(199)	39.7 %
Net income (loss)	$ (11,700)	$ 63,030	$ (74,730)	(118.6)%

Comparison of Six Months Ended June 30, 2023 and June 30, 2022

Net Interest Income

Interest income

Interest income increased by $52.3 million to $150.0 million for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022. The increase was primarily due to $51.5 million related to higher interest rates and $21.3 million related to loan originations, which was offset by $14.2 million following loan repayments and $3.3 million relating to nonaccrual loans.

Interest expense

Interest expense increased by $49.2 million to $86.8 million for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022. The increase was primarily due to $39.1 million from higher interest rates and $12.5 million from financings on new loan originations. This was partially offset by $3.9 million from paydowns on financings.

Net interest income on mortgage loans and obligations held in securitization trusts, net

We did not hold any retained interests of securitization trusts, net during the six months ended June 30, 2023 following the sale of the retained interests of a securitization trust during the fourth quarter of 2022. We recorded $2.0 million of net interest income on mortgage loans and obligations held in securitization trusts, net during the six months ended June 30, 2022.

Property and other income

Property operating income

Property operating income decreased by $1.7 million to $44.3 million for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The decrease was primarily due to real estate properties sold in the first quarter of 2022.

Other income

Other income increased by $5.2 million to $6.3 million for the six months ended June 30, 2023, primarily due to higher interest rates on money market investments.

Expenses

Property operating expense

Property operating expense decreased by $0.7 million to $11.3 million for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The decrease was primarily due to real estate properties sold in the first quarter of 2022 partially offset by higher utilities expense incurred during the six months ended June 30, 2023.

Transaction, investment and servicing expense

Transaction, investment and servicing expense decreased by $0.5 million to $1.7 million for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022 primarily due to lower tax-related costs incurred in the first quarter of 2023.

Interest expense on real estate

Interest expense on real estate decreased by $2.4 million to $12.3 million for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The decrease was primarily due to amortization income recorded on above-market debt during the six months ended June 30, 2023.

Depreciation and amortization

Depreciation and amortization expense decreased by $1.4 million to $15.9 million for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The decrease was primarily due to fully depreciating and amortizing assets associated with a retail property and the impact of foreign currency translation.

Increase of current expected credit loss reserve

During the six months ended June 30, 2023, we recorded CECL reserves of $68.6 million as compared to reserves of $9.3 million for the six months ended June 30, 2022. This was driven by an increase in our specific reserves related to three office senior loans and the Development Mezzanine Loan.

Compensation and benefits

Compensation and benefits increased by $1.7 million to $18.2 million for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022, primarily due to an increase in employee stock compensation expense and payroll taxes related to stock vesting events.

Operating expense

Operating expense decreased by $1.7 million to $6.7 million for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The decrease was primarily due to lower third party fees.

Other income (loss)

Other gain, net

Other gain, net decreased by $33.8 million to $0.8 million during the six months ended June 30, 2023 as compared to the six months ended June 30, 2022 primarily due to realized gains associated with asset sales in 2022.

Equity in earnings of unconsolidated ventures

We realized a one-time gain from our ratable share of dispute resolution proceeds of approximately $9.0 million from the senior mezzanine lender at our prior Los Angeles, California mixed-use project construction mezzanine loan and retained B-participation investment. In connection with the settlement, effective January 26, 2023, we have no further interest in the loan or investment. We recorded de minimis equity in earnings of unconsolidated ventures during the six months ended June 30, 2022.

Income tax benefit (expense)

Income tax expense increased by $0.2 million to $0.7 million for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022, primarily due to an increase in taxable income.

Book Value Per Share

The following table calculates our GAAP book value per share and undepreciated book value per share ($ in thousands, except per share data):

	June 30, 2023	December 31, 2022
Stockholders' Equity excluding noncontrolling interests in investment entities	$ 1,321,429	$ 1,387,768
Shares		
Class A common stock	130,039	128,872
Total outstanding	130,039	128,872
GAAP book value per share	$ 10.16	$ 10.77
Accumulated depreciation and amortization per share	$ 1.37	$ 1.29
Undepreciated book value per share[1]	$ 11.53	$ 12.06

(1) Excludes the impact of our pro rata share of accumulated depreciation and amortization on real estate investments (including related intangible assets and liabilities).

Non-GAAP Supplemental Financial Measures

Distributable Earnings

We present Distributable Earnings, which is a non-GAAP supplemental financial measure of our performance. We believe that Distributable Earnings provides meaningful information to consider in addition to our net income and cash flow from operating activities determined in accordance with GAAP, and this metric is a useful indicator for investors in evaluating and comparing our operating performance to our peers and our ability to pay dividends. We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, beginning with our taxable year ended December 31, 2018. As a REIT, we are required to distribute substantially all of our taxable income and we believe that dividends are one of the principal reasons investors invest in credit or commercial mortgage REITs such as our company. Over time, Distributable Earnings has been a useful indicator of our dividends per share and we consider that measure in determining the dividend, if any, to be paid. This supplemental financial measure also helps us to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current portfolio and operations.

We define Distributable Earnings as GAAP net income (loss) attributable to our common stockholders (or, without duplication, the owners of the common equity of our direct subsidiaries, such as our OP) and excluding (i) non-cash equity compensation expense, (ii) the expenses incurred in connection with our formation or other strategic transactions, (iii) the incentive fee, (iv) acquisition costs from successful acquisitions, (v) gains or losses from sales of real estate property and impairment write-downs of depreciable real estate, including unconsolidated joint ventures and preferred equity investments, (vi) general CECL reserves determined by probability of default/loss given default ("PD/LGD") model, (vii) depreciation and amortization, (viii) any unrealized gains or losses or other similar non-cash items that are included in net income for the current quarter, regardless of whether such items are included in other comprehensive income or loss, or in net income, (ix) one-time events pursuant to changes in GAAP and (x) certain material non-cash income or expense items that in the judgment of management should not be included in Distributable Earnings. For clauses (ix) and (x), such exclusions shall only be applied after approval by a majority of our independent directors. Distributable Earnings include specific CECL reserves when realized. Loan losses are realized when such amounts are deemed nonrecoverable at the time the loan is repaid, or if the underlying asset is sold following foreclosure, or if we determine that it is probable that all amounts due will not be collected; realized loan losses to be included in Distributable Earnings is the difference between the cash received, or expected to be received, and the book value of the asset.

Additionally, we define Adjusted Distributable Earnings as Distributable Earnings excluding (i) realized gains and losses on asset sales, (ii) fair value adjustments, which represent mark-to-market adjustments to investments in unconsolidated ventures based on an exit price, defined as the estimated price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants, (iii) unrealized gains or losses, (iv) realized specific CECL reserves and (v) one-time gains or losses that in the judgement of management should not be included in Adjusted Distributable Earnings. We believe Adjusted Distributable Earnings is a useful indicator for investors to further evaluate and compare our operating performance to our peers and our ability to pay dividends, net of the impact of any gains or losses on assets sales or fair value adjustments, as described above.

Distributable Earnings and Adjusted Distributable Earnings do not represent net income or cash generated from operating activities and should not be considered as an alternative to GAAP net income or an indication of our cash flows from operating activities determined in accordance with GAAP, a measure of our liquidity, or an indication of funds available to fund our cash needs. In addition, our methodology for calculating Distributable Earnings and Adjusted Distributable Earnings may differ from methodologies employed by other companies to calculate the same or similar non-GAAP supplemental financial measures, and accordingly, our reported Distributable Earnings and Adjusted Distributable Earnings may not be comparable to the Distributable Earnings and Adjusted Distributable Earnings reported by other companies.

The following table summarizes our quarterly Distributable Earnings and Adjusted Distributable Earnings per weighted average share of Class A common stock and OP units for the three months ended June 30, 2023 and 2022 and March 31, 2023 and 2022:

	Distributable Earnings For the Three Months Ended	
	June 30,	**March 31,**
2023	$ 0.16	$ (0.09)
2022	0.24	0.22

	Adjusted Distributable Earnings For the Three Months Ended	
	June 30,	**March 31,**
2023	$ 0.25	$ 0.27
2022	0.24	0.22

Distributable Earnings per weighted average share of Class A common stock and OP units for the three months ended June 30, 2023 and 2022 and March 31, 2023 and 2022 does not equal the sum of the individual quarters due to rounding and other computational factors.

The following tables present a reconciliation of net income (loss) attributable to our common stockholders to Distributable Earnings and Adjusted Distributable Earnings attributable to our common stockholders and noncontrolling interest of the Operating Partnership (dollars and share amounts in thousands, except per share data) for the three months ended June 30, 2023 and 2022 and three months ended March 31, 2023 and 2022:

	Three Months Ended June 30,	
	2023	2022
Net income (loss) attributable to BrightSpire Capital, Inc. common stockholders	$ (7,486)	$ 34,287
Adjustments:		
Net income attributable to noncontrolling interest of the Operating Partnership	—	359
Non-cash equity compensation expense	3,102	2,286
Depreciation and amortization	7,728	8,711
Net unrealized loss (gain):		
Other unrealized gain on investments	(89)	(1,940)
General CECL reserves	18,048	10,143
Gain on sales of real estate, preferred equity and investments in unconsolidated joint ventures	—	(22,210)
Adjustments related to noncontrolling interests	(185)	(191)
Distributable Earnings attributable to BrightSpire Capital, Inc. common stockholders and noncontrolling interest of the Operating Partnership	$ 21,118	$ 31,445
Distributable Earnings per share[(1)]	$ 0.16	$ 0.24
Adjustments:		
Specific CECL reserves	$ 10,918	$ —
Fair value adjustments	—	—
Adjusted Distributable Earnings attributable to BrightSpire Capital, Inc. common stockholders and noncontrolling interest of the Operating Partnership	$ 32,036	$ 31,445
Adjusted Distributable Earnings per share[(1)]	$ 0.25	$ 0.24
Weighted average number of shares of Class A common stock and OP units[(1)]	129,992	131,522

(1) We calculate Distributable Earnings per share, and Adjusted Distributable Earnings per share, non-GAAP financial measures, based on a weighted-average number of shares of Class A common stock and OP units (held by members other than us or our subsidiaries). For the three months ended June 30, 2022 included 3.1 million OP units until their redemption in May 2022.

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	Three Months Ended March 31, 2023		2022	
Net income (loss) attributable to BrightSpire Capital, Inc. common stockholders	$	(4,127)	$	27,724
Adjustments:				
Net income (loss) attributable to noncontrolling interest of the Operating Partnership		—		654
Non-cash equity compensation expense		2,295		1,880
Depreciation and amortization		6,556		8,603
Net unrealized loss (gain):				
Other unrealized (gain) loss on investments		(550)		1,448
General CECL reserves		(15,394)		(866)
Gain on sales of real estate, preferred equity and investments in unconsolidated joint ventures		—		(10,503)
Adjustments related to noncontrolling interests		(258)		(165)
Distributable Earnings (Loss) attributable to BrightSpire Capital, Inc. common stockholders and noncontrolling interest of the Operating Partnership	$	(11,478)	$	28,775
Distributable Earnings (Loss) per share[(1)]	$	(0.09)	$	—
Adjustments:				
Specific CECL reserves	$	55,007	$	—
Fair value adjustments		(9,055)		—
Adjusted Distributable Earnings attributable to BrightSpire Capital, Inc. common stockholders and noncontrolling interest of the Operating Partnership	$	34,474	$	28,775
Adjusted Distributable Earnings per share[(1)]	$	0.27	$	0.22
Weighted average number of common shares and OP units[(1)]		129,202		132,821

(1) We calculate Distributable Earnings (Loss) per share, and Adjusted Distributable Earnings per share, non-GAAP financial measures, based on a weighted-average number of common shares and OP units (held by members other than us or our subsidiaries). For the three months ended March 31, 2022 included 3.1 million OP units.

NOI

We believe NOI to be a useful measure of operating performance of our net leased and other real estate portfolios as they are more closely linked to the direct results of operations at the property level. NOI excludes historical cost depreciation and amortization, which are based on different useful life estimates depending on the age of the properties, as well as adjustments for the effects of real estate impairment and gains or losses on sales of depreciated properties, which eliminate differences arising from investment and disposition decisions. Additionally, by excluding corporate level expenses or benefits such as interest expense, any gain or loss on early extinguishment of debt and income taxes, which are incurred by the parent entity and are not directly linked to the operating performance of the Company's properties, NOI provides a measure of operating performance independent of the Company's capital structure and indebtedness. However, the exclusion of these items as well as others, such as capital expenditures and leasing costs, which are necessary to maintain the operating performance of the Company's properties, and transaction costs and administrative costs, may limit the usefulness of NOI. NOI may fail to capture significant trends in these components of GAAP net income (loss) which further limits its usefulness.

NOI should not be considered as an alternative to net income (loss), determined in accordance with GAAP, as an indicator of operating performance. In addition, our methodology for calculating NOI involves subjective judgment and discretion and may differ from the methodologies used by other companies, when calculating the same or similar supplemental financial measures and may not be comparable with other companies.

The following tables present a reconciliation of net income (loss) on our net leased and other real estate portfolios attributable to our common stockholders to NOI attributable to our common stockholders (dollars in thousands) for the six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,	
	2023	2022
Net income (loss) attributable to BrightSpire Capital, Inc. common stockholders	$ (7,486)	$ 34,287
Adjustments:		
Net (income) loss attributable to non-net leased and other real estate portfolios[(1)]	9,115	(31,577)
Net loss attributable to noncontrolling interests in investment entities	(12)	(15)
Amortization of above- and below-market lease intangibles	(200)	(59)
Interest expense on real estate	6,773	7,117
Other income	—	(17)
Transaction, investment and servicing expense	12	52
Depreciation and amortization	7,886	8,664
Operating expense	1	56
Other gain on investments, net	(103)	(2,101)
Income tax expense	98	49
NOI attributable to noncontrolling interest in investment entities	(286)	(297)
Total NOI, at share	$ 15,798	$ 16,159

(1) Net income (loss) attributable to non-net leased and other real estate portfolios includes net (income) loss on our senior and mezzanine loans and preferred equity, CRE debt securities and corporate business segments.

	Six Months Ended June 30,	
	2023	2022
Net income (loss) attributable to BrightSpire Capital, Inc. common stockholders	$ (11,613)	$ 62,010
Adjustments:		
Net (income) loss attributable to non-net leased and other real estate portfolios[(1)]	16,772	(47,505)
Net income (loss) attributable to noncontrolling interests in investment entities	(87)	7
Amortization of above- and below-market lease intangibles	(339)	(101)
Interest expense on real estate	12,282	14,673
Other income	—	(17)
Transaction, investment and servicing expense	35	407
Depreciation and amortization	15,824	17,215
Operating expense	2	247
Other gain on investments, net	(656)	(13,196)
Income tax expense	433	118
NOI attributable to noncontrolling interest in investment entities	(583)	(606)
Total NOI, at share	$ 32,070	$ 33,252

(1) Net (income) loss attributable to non-net leased and other real estate portfolio includes net (income) loss on our senior and mezzanine loans and preferred equity, CRE debt securities and corporate business segments.

Liquidity and Capital Resources

Overview

Our material cash commitments include commitments to repay borrowings, finance our assets and operations, meet future funding obligations, make distributions to our stockholders and fund other general business needs. We use significant cash to make investments, meet commitments to existing investments, repay the principal of and interest on our borrowings and pay other financing costs, make distributions to our stockholders and fund our operations.

Our primary sources of liquidity include cash on hand, cash generated from our operating activities and cash generated from asset sales and investment maturities. However, subject to maintaining our qualification as a REIT and our Investment Company Act exclusion, we may use several sources to finance our business, including bank credit facilities (including term loans and revolving facilities), master repurchase facilities and securitizations, as described below. In addition to our current sources of liquidity, there may be opportunities from time to time to access liquidity through public offerings of debt and equity securities. We have sufficient sources of liquidity to meet our material cash commitments for the next 12 months and foreseeable future.

Financing Strategy

We have a multi-pronged financing strategy that includes an up to $165.0 million secured revolving credit facility as of June 30, 2023, up to approximately $2.0 billion in secured revolving repurchase facilities, $1.0 billion in non-recourse securitization financing, $612.0 million in commercial mortgages and $34.5 million in other asset-level financing structures (refer to “Bank Credit Facility” section below for further discussion). In addition, we may use other forms of financing, including additional warehouse facilities, public and private secured and unsecured debt issuances and equity or equity-related securities issuances by us or our subsidiaries. We may also finance a portion of our investments through the syndication of one or more interests in a whole loan. We will seek to match the nature and duration of the financing with the underlying asset’s cash flow, including using hedges, as appropriate.

Debt-to-Equity Ratio

The following table presents our debt-to-equity ratio:

	June 30, 2023	December 31, 2022
Debt-to-equity ratio(1)	2.0x	2.0x

(1) Represents (i) total outstanding secured debt less cash and cash equivalents of $218.2 million and $306.3 million at June 30, 2023 and December 31, 2022, respectively to (ii) total equity, in each case, at period end.

Potential Sources of Liquidity

As discussed in greater detail above under “Trends Affecting our Business,” and “Factors Impacting Our Operating Results” overall market uncertainty coupled with rising inflation and interest rates have tempered the loan financing markets recently. A rising interest rate environment will result in increased interest expense on our variable rate debt that is not hedged and may result in disruptions to our borrowers’ and tenants’ ability to finance their activities, which would similarly adversely impact their ability to make their monthly mortgage payments and meet their loan obligations. Additionally, due to the current market conditions, warehouse lenders may take a more conservative stance by increasing funding costs, which may lead to margin calls.

Our primary sources of liquidity include borrowings available under our credit facilities, master repurchase facilities and monthly mortgage payments from our borrowers.

Bank Credit Facilities

We use bank credit facilities (including term loans and revolving facilities) to finance our business. These financings may be collateralized or non-collateralized and may involve one or more lenders. Credit facilities typically have maturities ranging from two to five years and may accrue interest at either fixed or floating rates.

On January 28, 2022, the OP (together with certain subsidiaries of the OP from time to time party thereto as borrowers, collectively, the “Borrowers”) entered into an Amended and Restated Credit Agreement (the “Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent (the “Administrative Agent”), and the several lenders from time to time party thereto (the “Lenders”), pursuant to which the Lenders agreed to provide a revolving credit facility in the aggregate principal amount of up to $165.0 million, of which up to $25.0 million is available as letters of credit. Loans under the Credit Agreement may be advanced in U.S. dollars and certain foreign currencies, including euros, pounds sterling and Swiss francs. The Credit Agreement amended and restated the OP’s prior $300.0 million revolving credit facility that would have matured on February 1, 2022.

The Credit Agreement also includes an option for the Borrowers to increase the maximum available principal amount of up to $300.0 million, subject to one or more new or existing Lenders agreeing to provide such additional loan commitments and satisfaction of other customary conditions.

Advances under the Credit Agreement accrue interest at a per annum rate equal to, at the applicable Borrower’s election, either (x) an adjusted SOFR rate plus a margin of 2.25%, or (y) a base rate equal to the highest of (i) the Wall Street Journal’s prime rate, (ii) the federal funds rate plus 0.50% and (iii) the adjusted SOFR rate plus 1.00%, plus a margin of 1.25%. An unused commitment fee at a rate of 0.25% or 0.35%, per annum, depending on the amount of facility utilization, applies to un-utilized borrowing capacity under the Credit Agreement. Amounts owed under the Credit Agreement may be prepaid at any time without premium or penalty, subject to customary breakage costs in the case of borrowings with respect to which a SOFR rate election is in effect.

The maximum amount available for borrowing at any time under the Credit Agreement is limited to a borrowing base valuation of certain investment assets, with the valuation of such investment assets generally determined according to a percentage of adjusted net book value. As of date hereof, the borrowing base valuation is sufficient to permit borrowings of up to $165.0 million. If any borrowing is outstanding for more than 180 days after its initial draw, the borrowing base valuation will be reduced by 50% until all outstanding borrowings are repaid in full. The ability to borrow new amounts under the Credit Agreement terminates on January 31, 2026, at which time the OP may, at its election and by written notice to the Administrative Agent, extend the termination date for two (2) additional terms of six (6) months each, subject to the terms and conditions in the Credit Agreement, resulting in a latest termination date of January 31, 2027.

The obligations of the Borrowers under the Credit Agreement are guaranteed pursuant to a Guarantee and Collateral Agreement by substantially all material wholly owned subsidiaries of the OP (the “Guarantors”) in favor of the Administrative Agent (the “Guarantee and Collateral Agreement”) and, subject to certain exceptions, secured by a pledge of substantially all equity interests owned by the Borrowers and the Guarantors, as well as by a security interest in deposit accounts of the Borrowers and the Guarantors in which the proceeds of investment asset distributions are maintained.

The Credit Agreement contains various affirmative and negative covenants, including, among other things, the obligation of the Company to maintain REIT status and be listed on the New York Stock Exchange, and limitations on debt, liens and restricted payments. In addition, the Credit Agreement includes the following financial covenants applicable to the OP and its consolidated subsidiaries: (a) minimum consolidated tangible net worth of the OP to be greater than or equal to the sum of (i) $1,112,000,000 and (ii) 70% of the net cash proceeds received by the OP from any offering of its common equity after September 30, 2021 and of the net cash proceeds from any offering by the Company of its common equity to the extent such proceeds are contributed to the OP, excluding any such proceeds that are contributed to the OP within ninety (90) days of receipt and applied to acquire capital stock of the OP; (b) the OP’s ratio of EBITDA plus lease expenses to fixed charges for any period of four consecutive fiscal quarters to be not less than 1.50 to 1.00; (c) the OP’s minimum interest coverage ratio to be not less than 3.00 to 1.00; and (d) the OP’s ratio of consolidated total debt to consolidated total assets to be not more than 0.80 to 1.00. The Credit Agreement also includes customary events of default, including, among other things, failure to make payments when due, breach of covenants or representations, cross default to material indebtedness, material judgment defaults, bankruptcy matters involving any Borrower or any Guarantor and certain change of control events. The occurrence of an event of default will limit the ability of the OP and its subsidiaries to make distributions and may result in the termination of the credit facility, acceleration of repayment obligations and the exercise of remedies by the Lenders with respect to the collateral.

As of June 30, 2023, we were in compliance with all of our financial covenants under the Credit Agreement.

Master Repurchase Facilities

Currently, our primary source of financing is our Master Repurchase Facilities, which we use to finance the origination of senior loans. Repurchase agreements effectively allow us to borrow against loans that we own in an amount generally equal to (i) the market value of such loans multiplied by (ii) the applicable advance rate. Under these agreements, we sell our loans to a counterparty and agree to repurchase the same loans from the counterparty at a price equal to the original sales price plus an interest factor. During the term of a repurchase agreement, we receive the principal and interest on the related loans and pay interest to the lender under the master repurchase agreement. We intend to maintain formal relationships with multiple counterparties to obtain master repurchase financing of favorable terms.

The following table presents a summary of our Master Repurchase and Bank Credit Facilities as of June 30, 2023 (dollars in thousands):

	Maximum Facility Size	Current Borrowings	Weighted Average Final Maturity (Years)	Weighted Average Interest Rate(1)
Master Repurchase Facilities				
Bank 1	$ 600,000	$ 512,430	3.8	SOFR + 2.17%
Bank 2	600,000	280,798	2.8	SOFR + 1.88%
Bank 3	400,000	234,374	3.9	SOFR + 1.74%
Bank 4	400,000	189,649	4.0	SOFR + 1.79%
Total Master Repurchase Facilities	2,000,000	1,217,251		
Bank Credit Facility	—	—	—	SOFR + 2.25%
Total Facilities	$ 2,000,000	$ 1,217,251		

(1) All deals utilize Term SOFR at June 30, 2023.

The following table presents the quarterly average unpaid principal balance ("UPB"), end of period UPB and the maximum UPB at any month-end related to our Master Repurchase Facilities, Bank Credit Facility and CMBS Credit Facilities dollars in thousands):

Quarter Ended	Quarterly Average UPB	End of Period UPB	Maximum UPB at Any Month-End
June 30, 2023	$ 1,254,714	$ 1,217,251	$ 1,281,899
March 31, 2023	1,778,135	1,292,176	1,320,246
December 31, 2022	1,436,829	1,339,993	1,434,901
September 30, 2022	1,510,616	1,533,664	1,537,511
June 30, 2022	1,343,678	1,487,567	1,503,297
March 31, 2022	1,052,455	1,199,789	1,199,789

The decrease in our end of period UPB from March 31, 2023 to June 30, 2023 was driven by payoffs of loans during the period.

Securitizations

We may seek to utilize non-recourse long-term securitizations of our investments in mortgage loans, especially loan originations, to the extent consistent with the maintenance of our REIT qualification and exclusion from the Investment Company Act in order to generate cash for funding new investments. This would involve conveying a pool of assets to a special purpose vehicle (or the issuing entity), which would issue one or more classes of non-recourse notes pursuant to the terms of an indenture. The notes would be secured by the pool of assets. In exchange for the transfer of assets to the issuing entity, we would receive the cash proceeds on the sale of non-recourse notes and a 100% interest in the equity of the issuing entity. The securitization of our portfolio investments might magnify our exposure to losses on those portfolio investments because any equity interest we retain in the issuing entity would be subordinate to the notes issued to investors and we would, therefore, absorb all of the losses sustained with respect to a securitized pool of assets before the owners of the notes experience any losses.

In October 2019, we executed a securitization transaction through our wholly-owned subsidiaries, CLNC 2019-FL1, Ltd. and CLNC 2019-FL1, LLC, which resulted in the sale of $840.4 million of investment grade notes.

On March 5, 2021, the Financial Conduct Authority of the U.K. (the "FCA") announced that LIBOR tenors relevant to CLNC 2019-FL1 would cease to be published or no longer be representative after June 30, 2023. The ARRC interpreted this announcement to constitute a benchmark transition event. As of June 17, 2021, the benchmark index interest rate was converted from LIBOR to SOFR, plus a benchmark adjustment of 11.448 basis points with a lookback period equal to the number of calendar days in the applicable Interest Accrual Period plus two SOFR business days, conforming with the indenture agreement and recommendations from the ARRC. Compounded SOFR for any interest accrual period shall be the "30-Day Average SOFR" as published by the Federal Reserve Bank of New York on each benchmark determination date.

As of February 19, 2022, the benchmark index interest rate was converted from Compounded SOFR to Term SOFR, plus a benchmark adjustment of 11.448 basis points, pursuant to the indenture agreement. Term SOFR for any interest accrual period shall be the one-month CME Term SOFR reference rate as published by the CME Group benchmark administration on each benchmark determination date.

CLNC 2019-FL1 included a two-year reinvestment feature that allowed us to contribute existing or newly originated loan investments in exchange for proceeds from repayments or repurchases of loans held in CLNC 2019-FL1, subject to the satisfaction of certain conditions set forth in the indenture. The reinvestment period for CLNC 2019-FL1 expired on October 19, 2021. During the six months ended June 30, 2023 and through August 1, 2023, two loans held in CLNC 2019-FL1 were fully repaid and one loan was partially repaid totaling $136.3 million. Two loans held in CLNC 2019-FL1 were removed as a result of the loans becoming defaulted collateral interests, totaling $97.7 million. We exchanged/purchased the two defaulted collateral interests for substitute loan investments and cash equal to the par purchase price of the defaulted collateral interests. The proceeds from the repayments were used to amortize the securitization bonds in accordance with the securitization priority of repayments. As of August 1, 2023, the securitization advance rate was 66.2% at a weighted average cost of funds of Adjusted Term SOFR plus 2.14% (before transaction costs). At June 30, 2023, we had $491.3 million of unpaid principal balance of CRE debt investments financed with CLNC 2019-FL1.

Additionally, CLNC 2019-FL1 contains note protection tests that can be triggered as a result of contributed loan defaults, losses, and certain other events outlined in the indenture, beyond established thresholds. A note protection test failure that is not remedied can result in the redirection of interest proceeds from the below investment grade tranches to amortize the most senior outstanding tranche. While we continue to closely monitor all loan investments contributed to CLNC 2019-FL1, a deterioration in the performance of an underlying loan could negatively impact our liquidity position.

As of June 30, 2023, we had transitioned the CLNC 2019-FL1 mortgage assets to SOFR, eliminating the basis difference between CLNC 2019-FL1 assets and liabilities. The transition to SOFR is not expected to have a material impact to CLNC 2019-FL1's assets and liabilities and related interest expense.

In July 2021, we executed a securitization transaction through our subsidiaries BRSP 2021-FL1 Ltd. and BRSP 2021-FL1, LLC, which resulted in the sale of $670 million of investment grade notes. The securitization reflects an advance rate of 83.75% at a weighted cost of funds of Term SOFR plus 1.49% (before transaction expenses) and is collateralized by a pool of 28 senior loan investments.

As of May 26, 2023, the benchmark index interest rate was converted from LIBOR to Term SOFR, plus a benchmark adjustment of 11.448 basis points, pursuant to the indenture agreement. Term SOFR for any interest accrual period shall be the one-month CME Term SOFR reference rate as published by the CME Group benchmark administration on each benchmark determination date.

BRSP 2021-FL1 includes a two-year reinvestment feature that allows us to contribute existing or newly originated loan investments in exchange for proceeds from repayments or repurchases of loans held in BRSP 2021-FL1, subject to the satisfaction of certain conditions set forth in the indenture. In addition to existing eligible loans available for reinvestment, the continued origination of securitization eligible loans is required to ensure that we reinvest the available proceeds within BRSP 2021-FL1. During the six months ended June 30, 2023 and through August 1, 2023, three loans held in BRSP 2021-FL1 were fully repaid, totaling $62.1 million. We replaced the repaid loans by contributing existing loan investments of equal value. At June 30, 2023, we had $800.0 million of unpaid principal balance of CRE debt investments financed with BRSP 2021-FL1.

Additionally, BRSP 2021-FL1 contains note protection tests that can be triggered as a result of contributed loan defaults, losses, and certain other events outlined in the indenture, beyond established thresholds. A note protection test failure that is not remedied can result in the redirection of interest proceeds from the below investment grade tranches to amortize the most senior outstanding tranche. We will continue to closely monitor all loan investments contributed to BRSP 2021-FL1, a deterioration in the performance of an underlying loan could negatively impact our liquidity position.

Other potential sources of financing

In the future, we may also use other sources of financing to fund the acquisition of our target assets, including secured and unsecured forms of borrowing and selective wind-down and dispositions of assets. We may also seek to raise equity capital or issue debt securities in order to fund our future investments.

Liquidity Needs

In addition to our loan origination activity and general operating expenses, our primary liquidity needs include interest and principal payments under our Bank Credit Facility, securitization bonds, and secured debt. Information concerning our contractual obligations and commitments to make future payments, including our commitments to repay borrowings, is included in the following table as of June 30, 2023. This table excludes our obligations that are not fixed and determinable (dollars in thousands):

	Payments Due by Period				
	Total	Less than a Year	1-3 Years	3-5 Years	More than 5 Years
Bank credit facility[(1)]	$ 1,450	$ 413	$ 825	$ 212	$ —
Secured debt[(2)]	2,284,877	1,030,727	885,438	118,526	250,186
Securitization bonds payable[(3)]	1,017,075	743,592	273,483	—	—
Ground lease obligations[(4)]	25,243	2,702	4,250	3,655	14,636
Office leases	7,632	1,286	2,615	2,677	1,054
	$ 3,336,277	$ 1,778,720	$ 1,166,611	$ 125,070	$ 265,876
Lending commitments[(5)]	225,629				
Total	$ 3,561,906				

(1) Future interest payments were estimated based on the applicable index at June 30, 2023 and unused commitment fee of 0.25% per annum, assuming principal is repaid on the current maturity date of January 2027.
(2) Amounts include minimum principal and interest obligations through the initial maturity date of the collateral assets. Interest on floating rate debt was determined based on the applicable index at June 30, 2023.
(3) The timing of future principal payments was estimated based on expected future cash flows of underlying collateral loans. Repayments are estimated to be earlier than contractual maturity only if proceeds from underlying loans are repaid by the borrowers.
(4) The amounts represent minimum future base rent commitments through initial expiration dates of the respective noncancellable operating ground leases, excluding any contingent rent payments. Rents paid under ground leases are recoverable from tenants.
(5) Future lending commitments may be subject to certain conditions that borrowers must meet to qualify for such fundings. Commitment amount assumes future fundings meet the terms to qualify for such fundings.

Share Repurchases

In April 2023, our board of directors authorized a stock repurchase program (“Stock Repurchase Program”) under which we may repurchase up to $50.0 million of our outstanding Class A common stock until April 30, 2024. The Stock Repurchase Program replaces the prior stock repurchase program authorization which expired on April 30, 2023. Under the Stock Repurchase Program, we may repurchase shares in open market purchases, in privately negotiated transactions or otherwise. We have a written trading plan as part of the Share Repurchase Program that provides for share repurchases in open market transactions that is intended to comply with Rule 10b-18 under the “Exchange Act”. The Stock Repurchase Program will be utilized at our discretion and in accordance with the requirements of the SEC. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate requirements and other conditions.

During the six months ended June 30, 2023, we did not make any share repurchases, and as of June 30, 2023, there was $50.0 million remaining available to make repurchases under the prior stock repurchase program.

Cash Flows

The following presents a summary of our consolidated statements of cash flows for the six months ended June 30, 2023 and 2022 (dollars in thousands):

	Six Months Ended June 30,		
<u>Cash flow provided by (used in):</u>	2023	2022	Change
Operating activities	$ 62,753	$ 54,614	$ 8,139
Investing activities	197,876	(234,920)	432,796
Financing activities	(356,394)	243,885	(600,279)

Operating Activities

Cash inflows from operating activities are generated primarily through interest received from loans and preferred equity held for investment, and property operating income from our real estate portfolio. This is partially offset by payment of interest expenses for credit facilities and mortgages payable, and operating expenses supporting our various lines of business, including property management and operations, loan servicing and workout of loans in default, investment transaction costs, as well as general administrative costs.

Our operating activities provided net cash inflows of $62.8 million and $54.6 million for the six months ended June 30, 2023 and 2022, respectively. Net cash provided by operating activities increased for the six months ended June 30, 2023 compared to the six months ended June 30, 2022 primarily due to higher income earned as a result of higher interest rates.

We believe cash flows from operations, available cash balances and our ability to generate cash through short and long-term borrowings are sufficient to fund our operating liquidity needs.

Investing Activities

Investing activities include cash outlays for acquisition of real estate and disbursements on new and/or existing loans, which are partially offset by repayments and sales of loans and preferred equity held for investment, proceeds from sale of real estate, as well as proceeds from maturity or sale of securities.

Investing activities generated net cash inflows of $197.9 million for the six months ended June 30, 2023. Net cash provided by investing activities in 2023 resulted primarily from repayments on loans and preferred equity held for investment, net of $249.5 million, partially offset by future advances on our loans and preferred equity held for investment, net of $35.9 million.

Investing activities used net cash outflows of $234.9 million for the six months ended June 30, 2022. Net cash used in investing activities in 2022 resulted primarily from originations and future advances on our loans and preferred equity held for investment, net of $815.5 million partially offset by repayments on loans and preferred equity held for investment, net of $470.4 million, proceeds from sales of real estate of $55.6 million, proceeds from sales of investments in unconsolidated ventures of $38.1 million and repayments of principal in mortgage loans held in securitization trusts of $15.9 million.

Financing Activities

We finance our investing activities largely through borrowings secured by our investments along with capital from third party or affiliated co-investors. We also have the ability to raise capital in the public markets through issuances of common stock, as well as draw upon our corporate credit facility, to finance our investing and operating activities. Accordingly, we incur cash outlays for payments on third party debt, dividends to our common stockholders and through May 27, 2022, on distributions to our noncontrolling interests.

Financing activities used net cash of $356.4 million for the six months ended June 30, 2023, which resulted primarily from repayment of credit facilities of $233.1 million, repayment of securitization bonds of $177.5 million, and distributions paid on common stock of $52.0 million partially offset by borrowings from credit facilities of $110.3 million.

Financing activities provided net cash of $243.9 million for the six months ended June 30, 2022, which resulted primarily from borrowings from credit facilities of $698.7 million partially offset by repayment of securitization bonds of $138.4 million, repayment of credit facilities of $116.3 million, repayment of mortgage notes of $82.1 million, distributions paid on common stock of $49.2 million, redemption of OP units of $25.4 million, repurchase of common stock of $18.3 million and repayment of mortgage obligations issued by securitization trusts of $15.9 million.

Our Investment Strategy

Our objective is to generate consistent and attractive risk-adjusted returns to our stockholders. We seek to achieve this objective primarily through cash distributions and the preservation of invested capital. We believe our investment strategy provides flexibility through economic cycles to achieve attractive risk-adjusted returns. This approach is driven by a disciplined investment strategy, focused on:

- leveraging long standing relationships, our organization structure and the experience of the team;
- the underlying real estate and market dynamics to identify investments with attractive risk-return profiles;
- primarily originating and structuring CRE senior loans and selective investments in mezzanine loans and preferred equity with attractive return profiles relative to the underlying value and financial operating performance of the real estate collateral, given the strength and quality of the sponsorship;
- structuring transactions with a prudent amount of leverage, if any, given the risk of the underlying asset's cash flows, attempting to match the structure and duration of the financing with the underlying asset's cash flows, including through the use of hedges, as appropriate; and
- operating our net leased real estate investments and selectively pursuing new investments based on property location and purpose, tenant credit quality, market lease rates and potential appreciation of, and alternative uses for, the real estate.

The period for which we intend to hold our investments will vary depending on the type of asset, interest rates, investment performance, micro and macro real estate environment, capital markets and credit availability, among other factors. We generally expect to hold debt investments until the stated maturity and equity investments in accordance with each investment's proposed business plan. We may sell all or a partial ownership interest in an investment before the end of the expected holding period if we believe that market conditions have maximized its value to us, or the sale of the asset would otherwise be in the best interests of our stockholders.

Our investment strategy is flexible, enabling us to adapt to shifts in economic, real estate and capital market conditions and to exploit market inefficiencies. We may expand or change our investment strategy or target assets over time in response to opportunities available in different economic and capital market conditions. This flexibility in our investment strategy allows us to employ a customized, solutions-oriented approach, which we believe is attractive to borrowers and tenants. We believe that our diverse portfolio, our ability to originate, acquire and manage our target assets and the flexibility of our investment strategy positions us to capitalize on market inefficiencies and generate attractive long-term risk-adjusted returns for our stockholders through a variety of market conditions and economic cycles.

Underwriting, Asset and Risk Management

We closely monitor our portfolio and actively manage risks associated with, among other things, our assets and interest rates. Prior to investing in any particular asset, the underwriting team, in conjunction with third party providers, undertakes a rigorous asset-level due diligence process, involving intensive data collection and analysis, to ensure that we understand fully the state of the market and the risk-reward profile of the asset. Beginning in 2021, our investment and portfolio management and risk assessment practices diligence the environmental, social and governance (“ESG”) standards of our business counterparties, including borrowers, sponsors and that of our investment assets and underlying collateral, which may include sustainability initiatives, recycling, energy efficiency and water management, volunteer and charitable efforts, anti-money laundering and know-your-client policies, and diversity, equity and inclusion practices in workforce leadership, composition and hiring practices. Prior to making a final investment decision, we focus on portfolio diversification to determine whether a target asset will cause our portfolio to be too heavily concentrated with, or cause too much risk exposure to, any one borrower, real estate sector, geographic region, source of cash flow for payment or other geopolitical issues. If we determine that a proposed acquisition presents excessive concentration risk, it may determine not to acquire an otherwise attractive asset.

For each asset that we acquire, our asset management team engages in active management of the asset, the intensity of which depends on the attendant risks. The asset manager works collaboratively with the underwriting team to formulate a strategic plan for the particular asset, which includes evaluating the underlying collateral and updating valuation assumptions to reflect changes in the real estate market and the general economy. This plan also generally outlines several strategies for the asset to extract the maximum amount of value from each asset under a variety of market conditions. Such strategies may vary depending on the type of asset, the availability of refinancing options, recourse and maturity, but may include, among others, the restructuring of non-performing or sub-performing loans, the negotiation of discounted pay-offs or other modification of the terms governing a loan, and the foreclosure and management of assets underlying non-performing loans in order to reposition them for profitable disposition. We continuously track the progress of an asset against the original business plan to ensure that the attendant risks of continuing to own the asset do not outweigh the associated rewards. Under these circumstances, certain assets will require intensified asset management in order to achieve optimal value realization.

Our asset management team engages in a proactive and comprehensive on-going review of the credit quality of each asset it manages. In particular, for debt investments on at least an annual basis, the asset management team will evaluate the financial wherewithal of individual borrowers to meet contractual obligations as well as review the financial stability of the assets securing such debt investments. Further, there is ongoing review of borrower covenant compliance including the ability of borrowers to meet certain negotiated debt service coverage ratios and debt yield tests. For equity investments, the asset management team, with the assistance of third-party property managers, monitors and reviews key metrics such as occupancy, same store sales, tenant payment rates, property budgets and capital expenditures. If through this analysis of credit quality, the asset management team encounters declines in credit quality not in accord with the original business plan, the team evaluates the risks and determine what changes, if any, are required to the business plan to ensure that the attendant risks of continuing to hold the investment do not outweigh the associated rewards.

In addition, the audit committee of our Board of Directors, in consultation with management, periodically reviews our policies with respect to risk assessment and risk management, including key risks to which we are subject, including credit risk, liquidity risk and market risk, and the steps that management has taken to monitor and control such risks.

Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance significantly more than inflation does. A change in interest rates may correlate with the inflation rate. Substantially all of the leases at our multifamily properties allow for monthly or annual rent increases which provide us with the opportunity to achieve increases, where justified by the market, as each lease matures. Such types of leases generally minimize the risks of inflation on our multifamily properties.

Refer to Item 3, “Quantitative and Qualitative Disclosures About Market Risk” for additional details.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. There have been no material changes to our critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Recent Accounting Updates

For recent accounting updates, refer to Note 2, “Summary of Significant Accounting Policies” in our accompanying consolidated financial statements included in Part I, Item 1, “Financial Statements.”

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risks are interest rate risk, prepayment risk, extension risk, credit risk, real estate market risk, capital market risk and foreign currency risk, either directly through the assets held or indirectly through investments in unconsolidated ventures.

Interest Rate Risk

Interest rate risk relates to the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, international conflicts, inflation and other factors beyond our control. Credit curve spread risk is highly sensitive to the dynamics of the markets for loans and securities we hold. Excessive supply of these assets combined with reduced demand will cause the market to require a higher yield. This demand for higher yield will cause the market to use a higher spread over the U.S. Treasury securities yield curve, or other benchmark interest rates, to value these assets.

As U.S. Treasury securities are priced to a higher yield and/or the spread to U.S. Treasuries used to price the assets increases, the price at which we could sell some of our fixed rate financial assets may decline. Conversely, as U.S. Treasury securities are priced to a lower yield and/or the spread to U.S. Treasuries used to price the assets decreases, the value of our fixed rate financial assets may increase. Fluctuations in SOFR may affect the amount of interest income we earn on our floating rate borrowings and interest expense we incur on borrowings indexed to SOFR, including under credit facilities and investment-level financing.

We utilize a variety of financial instruments on some of our investments, including interest rate swaps, caps, floors and other interest rate exchange contracts, in order to limit the effects of fluctuations in interest rates on their operations. The use of these types of derivatives to hedge interest-earning assets and/or interest-bearing liabilities carries certain risks, including the risk that losses on a hedge position will reduce the funds available for distribution and that such losses may exceed the amount invested in such instruments. A hedge may not perform its intended purpose of offsetting losses of rising interest rates. Moreover, with respect to certain of the instruments used as hedges, there is exposure to the risk that the counterparties may cease making markets and quoting prices in such instruments, which may inhibit the ability to enter into an offsetting transaction with respect to an open position. Our profitability may be adversely affected during any period as a result of changing interest rates.

As of June 30, 2023, a hypothetical 100 basis point increase or decrease in the applicable interest rate benchmark on our loan portfolio would increase or decrease interest income by $8.0 million annually, net of interest expense.

See the “Factors Impacting Our Operating Results” section in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for further discussion on interest rates.

Prepayment risk

Prepayment risk is the risk that principal will be repaid at a different rate than anticipated, resulting in a less than expected return on an investment. As prepayments of principal are received, any premiums paid on such assets are amortized against interest income, while any discounts on such assets are accreted into interest income. Therefore, an increase in prepayment rates has the following impact: (i) accelerates amortization of purchase premiums, which reduces interest income earned on the assets; and conversely, (ii) accelerates accretion of purchase discounts, which increases interest income earned on the assets.

Extension risk

The weighted average life of assets is projected based on assumptions regarding the rate at which borrowers will prepay or extend their mortgages. If prepayment rates decrease or extension options are exercised by borrowers at a rate that deviates significantly from projections, the life of fixed rate assets could extend beyond the term of the secured debt agreements. This in turn could negatively impact liquidity to the extent that assets may have to be sold and losses may be incurred as a result.

Credit risk

Investment in loans held for investment is subject to a high degree of credit risk through exposure to loss from loan defaults. Default rates are subject to a wide variety of factors, including, but not limited to, borrower financial condition, property performance, property management, supply/demand factors, construction trends, consumer behavior, regional economics, interest rates, the strength of the U.S. economy and other factors beyond our control, all of which have and may continue to be detrimentally impacted by the COVID-19 pandemic. All loans are subject to a certain probability of default. We manage credit risk through the underwriting process, acquiring investments at the appropriate discount to face value, if any, and establishing loss assumptions. Performance of the loans is carefully monitored, including those held through joint venture investments, as well as external factors that may affect their value.

We are also subject to the credit risk of the tenants in our properties, including business closures, occupancy levels, meeting rent or other expense obligations, lease concessions, and ESG standards and practices among other factors, all of which have and may continue to be detrimentally impacted by the COVID-19 pandemic. We seek to undertake a rigorous credit evaluation of the tenants prior to acquiring properties. This analysis includes an extensive due diligence investigation of the tenants’ businesses, as well as an assessment of the strategic importance of the underlying real estate to the respective tenants’ core business operations. Where appropriate, we may seek to augment the tenants’ commitment to the properties by structuring various credit enhancement mechanisms into the underlying leases. These mechanisms could include security deposit requirements or guarantees from entities that are deemed credit worthy.

We are working closely with our borrowers and tenants to address any impact of COVID-19 on their businesses. Our in-depth understanding of CRE and real estate-related investments, and in-house underwriting, asset management and resolution capabilities, provides us and management with a sophisticated full-service platform to regularly evaluate our investments and determine primary, secondary or alternative strategies to manage the credit risks described above. This includes intermediate servicing and complex and creative negotiating, restructuring of non-performing investments, foreclosure considerations, intense management or development of owned real estate, in each case to manage the risks faced to achieve value realization events in our interests and our stockholders. Solutions considered may include defensive loan or lease modifications, temporary interest or rent deferrals or forbearances, converting current interest payment obligations to payment-in-kind, repurposing reserves and/or covenant waivers. Depending on the nature of the underlying investment and credit risk, we may pursue repositioning strategies through judicious capital investment in order to extract value from the investment or limit losses.

There can be no assurance that the measures taken will be sufficient to address the negative impact the ongoing effects of COVID-19 may have on our future operating results, liquidity and financial condition.

Real estate market risk

We are exposed to the risks generally associated with the commercial real estate market. The market values of commercial real estate are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional, and local economic conditions, as well as changes or weakness in specific industry segments, and other macroeconomic factors beyond our control, including the COVID-19 pandemic, which have and may continue to affect occupancy rates, capitalization rates and absorption rates. This in turn could impact the performance of tenants and borrowers. We seek to manage these risks through our underwriting due diligence and asset management processes and the solutions-oriented process described above.

Capital markets risk

We are exposed to risks related to the debt capital markets, specifically the ability to finance our business through borrowings under secured revolving repurchase facilities, secured and unsecured warehouse facilities or other debt instruments. We seek to mitigate these risks by monitoring the debt capital markets to inform our decisions on the amount, timing and terms of our borrowings.

The COVID-19 pandemic has had a direct and volatile impact on the global markets, including the commercial real estate equity and debt capital markets. The continued disruption caused by COVID-19 has led to a negative impact on asset valuations and significant constraints on liquidity in the capital markets, which have led to restrictions on lending activity, downward pressure on covenant compliance and requirements to post margin or repayments under master repurchase financing arrangements. Our Master Repurchase Facilities are partial recourse, and margin call provisions do not permit valuation adjustments based on capital markets events; rather they are limited to collateral-specific credit marks generally determined on a commercially reasonable basis. For the six months ended June 30, 2023, and through August 1, 2023, we have not received any margin calls under our Master Repurchase Facilities.

We have amended our Bank Credit Facility and Master Repurchase Facilities to adjust certain covenants (such as the tangible net worth covenant), reduce advance rates on certain financed assets, obtain margin call holidays and permitted modification flexibilities, in an effort to mitigate the risk of future compliance issues, including margin calls, under our financing arrangements.

Foreign Currency Risk

We have foreign currency rate exposures related to our foreign currency-denominated investments held by our foreign subsidiaries. Changes in foreign currency rates can adversely affect the fair values and earning of our non-U.S. holdings. We generally mitigate this foreign currency risk by utilizing currency instruments to hedge our net investments in our foreign subsidiaries. The type of hedging instruments that we employ on our foreign subsidiary investments are put options.

At June 30, 2023, we had approximately NOK 657.8 million or a total of $61.2 million, in net investments in our European subsidiaries. A 1.0% change in the foreign currency rate would result in a $0.6 million increase or decrease in translation gain or loss included in other comprehensive income in connection with our European subsidiary.

A summary of the foreign exchange contracts in place at June 30, 2023, including notional amount and key terms, is included in Note 14, “Derivatives,” to Part I, Item 1, “Financial Statements.” The maturity dates of these instruments approximate the projected dates of related cash flows for specific investments. Termination or maturity of currency hedging instruments may result in an obligation for payment to or from the counterparty to the hedging agreement. We are exposed to credit loss in the event of non-performance by counterparties for these contracts. To manage this risk, we select major international banks and financial institutions as counterparties and perform a quarterly review of the financial health and stability of our trading counterparties. Based on our review at June 30, 2023, we do not expect any counterparty to default on its obligations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2023, our disclosure controls and procedures were effective at providing reasonable assurance regarding the reliability of the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—Other Information

Item 1. Legal Proceedings

The Company is not currently subject to any material legal proceedings. We anticipate that we may from time to time be involved in legal actions arising in the ordinary course of business, the outcome of which we would not expect to have a material adverse effect on our financial position, results of operations or cash flow.

Item 1A. Risk Factors

In addition to the other information in this Quarterly Report on Form 10-Q, you should carefully consider the risks described in our Annual Report on Form 10-K for the year ended December 31, 2022, in Part I, Item 1A, Risk Factors, and in our other filings with the SEC. These factors may materially affect our business, financial condition and operating results. There have been no material changes to the risk factors relating to the Company disclosed in our Form 10-K for the year ended December 31, 2022.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered securities of our Company during the six months ended June 30, 2023.

Purchases of Equity Securities by Issuer

The Company did not repurchase any of its Class A common stock during the three months ended June 30, 2023.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the period ended June 30, 2023, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement” (in each case, as defined in Item 408 of Regulation S-K).

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Articles of Amendment and Restatement of BrightSpire Capital, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) for the quarter ended June 30, 2021 filed on August 5, 2021)
3.2	Fifth Amended and Restated Bylaws of BrightSpire Capital, Inc., as amended (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) for the quarter ended March 31, 2023 filed on May 3, 2023)
31.1*	Certification by the Chief Executive Officer pursuant to 17 CFR 240.13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by the Chief Financial Officer pursuant to 17 CFR 240.13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by the Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification by the Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 2, 2023

BRIGHTSPIRE CAPITAL, INC.

By: /s/ Michael J. Mazzei
Michael J. Mazzei
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Frank V. Saracino
Frank V. Saracino
Chief Financial Officer
(Principal Accounting Officer)

Exhibit 31.1

**CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO
17 CFR 240.13a-14(a)/15(d)-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. Mazzei, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BrightSpire Capital, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Michael J. Mazzei
Michael J. Mazzei
Chief Executive Officer
Date: August 2, 2023

Exhibit 31.2

**CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO
17 CFR 240.13a-14(a)/15(d)-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Frank V. Saracino, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BrightSpire Capital, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Frank V. Saracino
Frank V. Saracino
Chief Financial Officer
Date: August 2, 2023

Exhibit 32.1

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of BrightSpire Capital, Inc. (the "Company") for the three months ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Mazzei, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section §1350, as adopted pursuant to Section §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By:	/s/ Michael J. Mazzei
	Michael J. Mazzei
	Chief Executive Officer
Date:	August 2, 2023

The foregoing certification is being furnished solely pursuant to 18 U.S.C §1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of BrightSpire Capital, Inc. (the “Company”) for the three months ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Frank V. Saracino, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section §1350, as adopted pursuant to Section §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Frank V. Saracino
Frank V. Saracino
Chief Financial Officer
Date: August 2, 2023

The foregoing certification is being furnished solely pursuant to 18 U.S.C §1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.