Colony Credit
REAL ESTATE

2020 Annual Report

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2020

OR

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

For the transition period from __________ to __________

Commission File Number: 001-38377

COLONY CREDIT REAL ESTATE, 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.)**

515 S. Flower Street, 44th Floor
Los Angeles, CA 90071
(Address of Principal Executive Offices, Including Zip Code)

(310) 282-8820
(Registrant's Telephone Number, Including Area Code)

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	**CLNC**	**New York Stock Exchange**

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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:

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2020, was approximately $587.2 million. As of February 24, 2021, Colony Credit Real Estate, Inc. had 129,976,057 shares of Class A common stock, par value $0.01 per share, outstanding

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement with respect to its 2021 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the Company's fiscal year ended December 31, 2020 are incorporated by reference into Part III of this Annual Report on Form 10-K.

EXPLANATORY NOTE

This Annual Report on Form 10-K of Colony Credit Real Estate, Inc., a Maryland corporation (the "Company"), includes the financial statements and other financial information of (i) the Company and (ii) the Company's accounting predecessor, which are investment entities in which Colony Capital Operating Company, LLC ("CLNY OP") or its subsidiaries owned interests ranging from approximately 38% to 100% and that were contributed to the Company on January 31, 2018 in connection with the closing of the Combination (as defined below) and certain intercompany balances between those entities and CLNY OP or its subsidiaries (the "CLNY Investment Entities").

On January 31, 2018, the Company completed the transactions contemplated by that certain Master Combination Agreement, dated as of August 25, 2017, as amended and restated on November 20, 2017 (the "Combination Agreement"), by and among (i) the Company, (ii) Credit RE Operating Company, LLC, a Delaware limited liability company and wholly-owned subsidiary of the Company (the "OP"), (iii) CLNY OP, a Delaware limited liability company and the operating company of Colony Capital, Inc., formerly Colony NorthStar, Inc. ("Colony Capital"), a Maryland corporation, (iv) NRF RED REIT Corp., a Maryland corporation and indirect subsidiary of CLNY OP ("RED REIT"), (v) NorthStar Real Estate Income Trust, Inc., a Maryland corporation ("NorthStar I"), (vi) NorthStar Real Estate Income Trust Operating Partnership, LP, a Delaware limited partnership and the operating partnership of NorthStar I ("NorthStar I OP"), (vii) NorthStar Real Estate Income II, Inc., a Maryland corporation ("NorthStar II"), and (viii) NorthStar Real Estate Income Operating Partnership II, LP, a Delaware limited partnership and the operating partnership of NorthStar II ("NorthStar II OP").

Pursuant to the Combination Agreement, (i) CLNY OP contributed and conveyed to the Company a select portfolio of assets and liabilities (the "CLNY Contributed Portfolio") of CLNY OP (the "CLNY OP Contribution"), (ii) RED REIT contributed and conveyed to the OP a select portfolio of assets and liabilities of RED REIT (the "RED REIT Contribution" and, together with the CLNY OP Contribution, the "CLNY Contributions"), (iii) NorthStar I merged with and into the Company, with the Company surviving the merger (the "NorthStar I Merger"), (iv) NorthStar II merged with and into the Company, with the Company surviving the merger (the "NorthStar II Merger" and, together with the NorthStar I Merger, the "Mergers"), and (v) immediately following the Mergers, the Company contributed and conveyed to the OP the CLNY Contributed Portfolio and the equity interests of each of NorthStar I OP and NorthStar II OP then-owned by the Company in exchange for units of membership interest in the OP (the "Company Contribution" and, collectively with the Mergers and the CLNY Contributions, the "Combination"). To satisfy the condition to completion of the Combination that the Company's Class A common stock, par value $0.01 per share (the "Class A common stock"), be approved for listing on a national securities exchange in connection with either an initial public offering or a listing, the Class A common stock was approved for listing by the New York Stock Exchange and began trading under the ticker "CLNC" on February 1, 2018.

The CLNY Contributions were accounted for as a reorganization of entities under common control, since both the Company and CLNY Investment Entities were under common control of Colony Capital at the time the contributions were made. Accordingly, the Company's financial statements for prior periods were recast to reflect the consolidation of the CLNY Investment Entities as if the contribution had occurred on the date of the earliest period presented.

As used throughout this document, the terms the "Company," "we," "our" and "us" mean:

- Colony Credit Real Estate, Inc. and the consolidated CLNY Investment Entities for periods on or prior to the closing of the Combination on January 31, 2018; and
- The combined operations of Colony Credit Real Estate, Inc., NorthStar I and NorthStar II beginning February 1, 2018, following the closing of the Combination.

Accordingly, comparisons of the period to period financial information of the Company as set forth herein may not be meaningful because the CLNY Investment Entities represents only a portion of the assets and liabilities Colony Credit Real Estate, Inc. acquired in the Combination and does not reflect any potential benefits that may result from realization of future cost savings from operating efficiencies, or other incremental synergies expected to result from the Combination.

COLONY CREDIT REAL ESTATE, INC.

FORM 10-K

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Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K 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 adverse effect of the current pandemic of the novel coronavirus, or COVID-19, 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. The extent to which the COVID-19 pandemic impacts us, our borrowers and our tenants will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, the availability of effective vaccines, and the direct and indirect economic effects of the pandemic and containment measures, among others.

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 novel coronavirus pandemic, measures intended to prevent its spread and government actions to mitigate its economic impact have had and may continue to have a material adverse effect on our business, results of operations and financial condition;
- 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;
- 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) that may cause deterioration in the performance of our investments and, potentially, principal losses to us (including, but not limited to, the Los Angeles mixed-use development loan, other hospitality loans and Dublin development financings);
- the fair value of our investments may be subject to uncertainties or decrease;
- our ability to achieve our investment objectives and to pay distributions depends in substantial part upon the performance of our Manager and third-party servicers. Any adverse changes in our Manager and its affiliates' financial health, the public perception of our Manager, or our relationship with our Manager or its affiliates could hinder our operating performance and the return on stockholders' investment;
- the ability to realize substantial efficiencies as well as anticipated strategic and financial benefits, including, but not limited to 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 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, 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;
- we have not established a 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 stock;
- we are subject to 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;
- whether Colony Capital will continue to serve as our external manager or whether we will pursue a strategic transaction related thereto;
- the impact of legislative, regulatory and competitive changes and the actions of governmental authorities, and in particular those affecting the commercial real estate finance and mortgage industry or our business.

The foregoing list of factors is not exhaustive. We urge you to carefully review the disclosures we make concerning risks in the sections entitled "Risk Factors" 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 Annual Report on Form 10-K. The Company is under no duty to update any of these forward-looking statements after the date of this Annual Report on Form 10-K, nor to conform prior statements to actual results or revised expectations, and the Company does not intend to do so.

Risk Factor Summary

Our business is subject to a number of risks, including risks that may prevent us from achieving our business objectives or may adversely affect our business, financial condition, liquidity, results of operations and prospects. These risks are discussed more fully in Item 1A. Risk Factors. These risks include, but are not limited to, the following:

Risks Related to COVID-19

- The novel coronavirus pandemic, measures intended to prevent its spread and government actions to mitigate its economic impact have had and may continue to have a material adverse effect on our business, results of operations and financial condition.
- Our inability to access funding or the terms on which such funding is available could have a material adverse effect on our financial condition, particularly in light of ongoing market dislocations resulting from the COVID-19 pandemic.

Risks Related to Our Manager and Conflicts of Interests

- We depend upon our Manager, Colony Capital and their key personnel for our success.
- If the management agreement is terminated and we are not able to successfully internalize the management of the Company or find a suitable replacement for our Manager, our business, results of operations and financial condition could be adversely affected.
- There are various conflicts of interest in our relationship with our Manager, Colony Capital and their affiliates, which could result in decisions which are not in the best interest of our stockholders.
- Our ability to achieve our investment objectives and to pay distributions depends in substantial part upon the performance of our Manager and third-party servicers. Any adverse changes in our Manager and its affiliates' financial health, the public perception of our Manager, or our relationship with our Manager or its affiliates could hinder our operating performance and the return on stockholders' investment.

Risks Related to Our Company and Our Structure

- We have not established a minimum distribution payment level, and we cannot assure you of our ability to pay distributions in the future.
- Certain provisions of Maryland law may limit the ability of a third party to acquire control of us.
- Ownership limitations may delay, defer or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.
- Our umbrella partnership real estate investment trust, or UPREIT, structure may result in potential conflicts of interest with members of our operating company whose interests may not be aligned with those of stockholders.

Risks Related to Our Business and Our Investments

- The B-Notes that we have acquired and may acquire in the future may be subject to additional risks related to the privately negotiated structure and terms of the transaction, which may result in significant operating losses to us and may limit our ability to make distributions to our stockholders.
- The mezzanine loan assets that we have acquired and may acquire in the future will involve greater risks of loss than senior loans secured by income-producing properties.
- Any distressed loans or investments we make, or loans and investments that later become distressed, may subject us to losses and other risks relating to bankruptcy proceedings.

- We invest in preferred equity interests, which involve a greater risk than conventional senior, junior or mezzanine debt financing.
- We invest in commercial properties subject to net leases, which could subject us to losses.
- We have investments in private equity real estate (“PE”) funds, and there is no assurance these investments will achieve the returns expected upon initial execution of the respective investments.
- We invest in CRE securities, including CMBS and collateralized debt obligations (“CDOs”), which entail certain heightened risks and are subject to losses.
- Most of the commercial mortgage loans that we originate or acquire are non-recourse loans.
- We may be subject to risks associated with future advance or capital expenditure obligations, such as declining real estate values and operating performance.
- We have invested in, and may continue to invest in, certain assets with lower credit quality, which will increase our risk of losses and may reduce distributions to stockholders and may adversely affect the value of our common stock.
- Because real estate investments are relatively illiquid, 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.
- Our operations in Europe and elsewhere expose our business to risks inherent in conducting business in foreign markets.

Risks Related to Our Financing Strategy

- Our master repurchase agreements impose, and additional lending facilities may impose, restrictive covenants, which would restrict our flexibility to determine our operating policies and investment strategy and to conduct our business.
- Interest rate fluctuations could reduce our ability to generate income on our investments and may cause losses.
- Hedging against interest rate and currency exposure may adversely affect our earnings, limit our gains or result in losses, which could adversely affect cash available for distribution to our stockholders.

Risks Related to Regulatory Matters

- The loss of our Investment Company Act exclusion could require us to register as an investment company or substantially change the way we conduct our business, either of which may have an adverse effect on us and the value of our common stock.
- Our Manager is subject to extensive regulation, including as an investment adviser in the United States, which could adversely affect its ability to manage our business.

Risks Related to Taxation

- We may pay taxable dividends in our common stock and cash, in which case stockholders may sell shares of our common stock to pay tax on such dividends, placing downward pressure on the market price of our common stock.
- Our qualification as a REIT involves complying with highly technical and complex provisions of the Code.
- We may incur adverse tax consequences if NorthStar I or NorthStar II were to have failed to qualify as a REIT for U.S. federal income tax purposes prior to the Mergers.
- Dividends payable by REITs do not qualify for the preferential tax rates available for some dividends.
- REIT distribution requirements could adversely affect our ability to execute our business plan.
- Even if we continue to qualify as a REIT, we may face other tax liabilities that reduce our cash available for distribution to stockholders.
- Complying with REIT requirements may force us to forgo and/or liquidate otherwise attractive investment opportunities.
- The “taxable mortgage pool” rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.
- Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.
- There is a risk of changes in the tax law applicable to REITs.
- Our ownership of assets and conduct of operations through our TRSs is limited and involves certain risks for us.

PART I

Item 1. Business

Our Company

References to "we," "us," "our," or the "Company" refer to Colony Credit Real Estate, Inc., a Maryland corporation, together with its consolidated subsidiaries, unless the context specifically requires otherwise. References to the "OP" refer to Credit RE Operating Company, LLC, a Delaware limited liability company, the operating company of the Company. References to "Colony Capital" refers to Colony Capital, Inc. a Maryland corporation, and its subsidiaries.

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 we expect to be our primary investment strategy. Additionally, we may also 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 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 will continue to target net leased equity investments on a selective basis. We also currently have investments in CRE debt securities primarily consisting of commercial mortgage-backed securities ("CMBS") (including "B pieces" of a CMBS securitization pool) or CRE collateralized loan obligations ("CLOs") (including the junior tranches collateralized by pools of CRE debt investments). However, we have continued to reduce our CMBS holdings since the second quarter of 2020, and in doing so, we have also fully repaid any remaining exposure to CMBS securities repurchase financing. Any future investments in more highly rated investment grade CRE debt securities would be selective and opportunistic.

We were organized in the state of Maryland on August 23, 2017. On January 31, 2018, we completed the Combination among the CLNY Contributed Portfolio, the RED REIT Contributed Entities. NorthStar I and NorthStar II, and the other related transactions, in an all-stock exchange. 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, Credit RE Operating Company, LLC (the "OP"). At December 31, 2020, we owned 97.7% of the OP, as its sole managing member. The remaining 2.3% is owned primarily by our affiliate as noncontrolling interests.

We are externally managed by a subsidiary of Colony Capital, a New York Stock Exchange ("NYSE") listed global real estate and investment management firm. As of December 31, 2020, Colony Capital owned approximately 36.5% of our common equity on a fully diluted basis.

Our operating segments include the senior and mezzanine loans and preferred equity, CRE debt securities, net lease real estate and corporate, all of which are included in our Core Portfolio and include our target assets, non-strategic portfolio segments. Our target assets are included in different operating segments.

<u>Impact of the COVID-19 Pandemic on Our Business</u>

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, the United States declared a national emergency. The pandemic, measures intended to prevent its spread and government actions to mitigate its economic impact have had a material adverse effect on our business in 2020, and is expected to have an ongoing effect in 2021. Market dislocations resulting from COVID-19 have required us to reassess our investment and hedging strategies. During 2020 we focused on existing investments and commitments, instead of pursuing new investments. We also determined that certain of our interest rate hedges were no longer effective in hedging asset market values and incurred realized losses in terminating or closing out a portion of such hedges. COVID-19 also created substantial uncertainty regarding the availability of liquidity. During 2020, we executed on certain liquidity generating measures that included the sale of select Core Portfolio assets and Legacy, Non-Strategic assets, amended our Bank and Credit Facilities, and in April 2020, our Board of Directors suspended our monthly distribution due to the volatility and unprecedented market conditions caused by the COVID-19 pandemic. While these initiatives have preserved and generated liquidity and reduced financing exposures, Core Portfolio asset sales have resulted in a material impact to earnings and certain downward adjustments to stockholders' equity. Looking toward to 2021, we expect to commence quarterly dividends and will selectively pursue new investments, as COVID-19 related uncertainties dissipate and market conditions improve.

Our Manager

We are externally managed by our manager, CLNC Manager, LLC (our "Manager"). Our Manager is a subsidiary of Colony Capital. Over the past 29 years, Colony Capital and its predecessors have made over $100 billion of investments. Colony Capital's senior management team has a long track record and extensive experience managing and investing in our target assets and other real estate-related investments through a variety of credit cycles and market conditions. Colony Capital's global footprint and corresponding network provides its investment and asset management teams with proprietary market knowledge, sourcing capabilities and the local presence required to identify, execute and manage complex transactions. Colony Capital's history of external management includes its previous management of Colony Financial, Inc. ("Colony Financial"), an externally managed commercial mortgage REIT listed on the NYSE and focused on secondary loan acquisitions, high-yielding originations and real estate equity, and its management of various non-traded REITs (previously including NorthStar I and NorthStar II) and registered investment companies.

Colony Capital is headquartered in Boca Raton, with key offices in Los Angeles, New York, Paris and London. Its operations are broad and diverse and include the management of real estate, both owned and on behalf of a diverse set of institutional and individual investors. Colony Capital's management team has diverse backgrounds. The CLNC management team includes Michael J. Mazzei, Chief Executive Officer and President, Andrew E. Witt, Chief Operating Officer, and Frank V. Saracino, Chief Financial Officer, Chief Accounting Officer and Treasurer. In addition, supporting our business is David A. Palamé, General Counsel and Secretary.

We draw on Colony Capital's substantial real estate investment platform and relationships to source, underwrite, structure and manage investment opportunities as well as to access debt and equity capital to fund our operations. We also benefit from Colony Capital's portfolio management, finance and administration functions, which provide us with legal, compliance, investor relations, asset valuation, risk management and information technology services. Colony Capital also has a captive, fully functional, separate asset management company that engages primarily in loan servicing for performing, sub-performing and non-performing commercial loans, including senior secured loans, revolving lines of credit, loan participations, subordinated loans, unsecured loans and mezzanine debt. Colony Capital's asset management company is a commercial special servicer rated by both Standard & Poor's and Fitch's rating services.

As previously disclosed, the Company's Board of Directors formed a special committee consisting exclusively of independent and disinterested directors (the "Special Committee") to explore an internalization proposal made by Colony Capital as well as other strategic alternatives. Due to ongoing uncertainty surrounding the duration and magnitude of the COVID-19 pandemic and its impact on the global economy, on April 1, 2020, Colony Capital reported in Amendment No. 3 to Schedule 13D (filed with the U.S. Securities and Exchange Commission) that it has postponed any decision regarding a disposition of its management agreement with us until market conditions improve. The Special Committee has continued to explore alternatives but has been unable to negotiate mutually acceptable terms with Colony Capital. The Special Committee will continue to consider value-enhancing alternatives as opportunities arise.

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 diversified investment strategy across the CRE capital stack provides flexibility through economic cycles to achieve attractive risk-adjusted returns. This approach is driven by a disciplined investment strategy, focused on:

- capitalizing on asset level underwriting experience and market analytics to identify investments with attractive risk-return profiles;
- primarily originating and structuring CRE senior mortgage 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.
- identifying net leased real estate investments based on property location and purpose, tenant credit quality, market lease rates and potential appreciation of, and alternative uses for, the real estate; and
- selectively identifying appropriate CRE debt securities investments based on the performance of the underlying real estate assets, the impact of such performance on the credit return profile of the investments and our expected return on the investments;

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 dynamic and 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.

Our Target Assets

Since the onset of the COVID-19 pandemic, we have been primarily focused on existing investments and commitments. As we entered the fourth quarter of 2020 and started to see some COVID-19 related uncertainties dissipate and market conditions improve, we have selectively pursued new investments. These new investments are first mortgage loans eligible for collateralized loan obligation securitizations. However, our ability to seek, pursue and close on future investments may be negatively affected by a resurgence of COVID-19 or responses intended to counter its impact.

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

- ***CRE Debt Investments:***
  - ***Senior Mortgage Loans.*** Our primary focus is originating and selectively acquiring senior mortgage 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. Going forward, we expect to increase our exposure to senior mortgage loans as a percentage of our overall portfolio. 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 mortgage 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 mortgage loans we originate than other loan types given their credit quality and risk profile.
- ***Mezzanine Loans and Preferred Equity:***
  - ***Mezzanine Loans.*** We may originate or acquire mezzanine loans, which are structurally subordinate to senior loans, but senior to the borrower's equity position. 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 Real Estate.*** We may also 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.

- ***CRE Debt Securities.*** Our investments consist of bonds comprising certain tranches of CRE securitization pools, such as CMBS (including Non-Investment Grade "B-pieces" of a CMBS securitization pool). These bonds have been investment grade or below investment grade and are collateralized by CRE debt, typically secured by senior mortgage loans and may be fixed rate or floating rate securities. Due to their first-loss position, CMBS B-pieces are typically offered at a discount to par. These investments typically carry a 10-year weighted average life due to prepayment restrictions. We will continue to manage and monitor our remaining CMBS investments and since the second quarter we have substantially reduced the number of CMBS investments. In addition, we have also fully paid down amounts under our CMBS repurchase agreements. Any future investments in more highly rated investment grade CRE Debt Securities would be selective and opportunistic.

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 current and potential impacts of the COVID-19 pandemic, have created and will create significant 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 Manager's in-depth understanding of CRE and real estate-related investments, in-house underwriting, asset management and resolution capabilities, provides the Company and management with a full-service value-add 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 the Company and its 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 Competitive Strengths

We believe that we distinguish ourselves from other CRE finance and investment companies in a number of ways, including the following:

Large diversified portfolio.

We are a large publicly traded CRE credit/mortgage REIT. Our portfolio is composed of a diverse set of CRE assets across the capital stack, including senior mortgage loans as well as select mezzanine loans and preferred equity. We will also occasionally invest in single tenant net leased properties. We believe that the scale of our portfolio gives us a competitive advantage by providing us with significant portfolio diversification, economies of scale and advantageous access to capital.

Nimble and differentiated investment strategy.

We focus on originating, acquiring, financing and managing CRE senior mortgage loans, mezzanine loans, preferred equity, debt securities and net leased properties. Our investment strategy is dynamic and flexible, enabling us to adapt to shifts in economic, real estate and capital market conditions and to exploit market inefficiencies. This flexible investment strategy will allow us to employ a customized, solutions-oriented approach to investment, which we believe is attractive to our borrowers and tenants and which will allow us to deploy capital across a broader opportunity set.

Our Financing Strategy

We have a multi-pronged financing strategy that includes an up to $450 million secured revolving credit facility, up to approximately $2.1 billion in secured revolving repurchase facilities, $840 million in non-recourse securitization financing, $1.0 billion in commercial mortgages and $75 million in other asset-level financing structures. 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.

Leverage Policies

While we limit our use of leverage and believe we can achieve attractive yields on an unleveraged basis, we may use prudent amounts of leverage to increase potential returns to our stockholders and/or to finance future investments. Given current market conditions, to the extent that we use borrowings to finance our assets, we currently expect that such leverage would not exceed on a debt-to-equity basis, a 3-to-1 ratio for us as a whole. We consider these leverage ratios to be prudent for our target asset classes. Our decision to use leverage currently or in the future to finance our assets will be based on our Manager's assessment of a variety of factors, including, among others, the anticipated credit quality, liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the ability to raise additional equity to reduce leverage and create liquidity for future investments, the availability of credit at favorable prices or at all, the credit quality of our assets and our outlook for borrowing costs relative to the interest income earned on our assets. Our decision to use leverage in the future to finance our assets will be at the discretion of our Manager and will not be subject to the approval of our stockholders, and we are not restricted by our governing documents or otherwise in the amount of leverage that we may use. To the extent that we use leverage in the future, we may mitigate interest rate risk through utilization of hedging instruments, primarily interest rate swap and cap agreements, to serve as a hedge against future interest rate increases on our borrowings.

Investment Guidelines

We have no prescribed limitation on any particular investment type. However, the Company's board of directors ("Board of Directors") has adopted the following investment guidelines:

- no investment shall be made that would cause the Company to fail to qualify as a REIT for U.S. federal income tax purposes;
- no investment shall be made that would cause the Company or any subsidiary to be required to be registered as an investment company under the Investment Company Act;
- until appropriate investments can be identified, our Manager may invest the proceeds of any future offerings of the Company in interest-bearing, short-term investments, including money market accounts and/or U.S. treasury securities, that are consistent with the Company's intention to qualify as a REIT and maintain its exemption from registration under the Investment Company Act;
- no investment shall require prior approval of the Board of Directors or a majority of the independent directors solely because such investment constitutes (1) a co-investment made by and between the Company or any subsidiary, on the one hand, and one or more investment vehicles formed, sponsored and managed by Colony Capital or any of its subsidiaries, on the other hand, regardless of when such co-investment is made, or (2) a transaction related to any such co-investment;
- any investment with a total net commitment by the OP of greater than 5% of the OP's net equity (computed using the most recently available publicly filed balance sheet) shall require the approval of the Board of Directors or a duly constituted committee of the Board of Directors (with total net commitment by the OP being the aggregate amount of funds directly or indirectly committed by the OP to such investment net of any upfront fees received by the Company or any subsidiary in connection with such investment); and
- any investment with a total net commitment by the OP of between 3% and 5% of the OP's net equity (computed using the most recently available publicly filed balance sheet) shall require the approval of the Board of Directors or a duly constituted committee of the Board of Directors (with total net commitment by the OP being the aggregate amount of funds directly or indirectly committed by the OP to such investment net of any upfront fees received by the Company or any subsidiary in connection with such investment), unless the investment falls within specific parameters approved by the Board of Directors and in effect at the time such commitment is made.

The investment guidelines can be amended or waived with the approval of the Board of Directors (which must include a majority of the independent directors) and our Manager.

Operating and Regulatory Structure

REIT Qualification

We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2018. As a REIT, we generally will not be subject to U.S. federal income tax on the "REIT taxable income" that we distribute annually to our stockholders.

Investment Company Act Matters

We and our subsidiaries conduct our operations so that we are not required to register as an investment company under the Investment Company Act.

We believe we are not an investment company under Section 3(a)(1)(A) of the Investment Company Act because we do not engage primarily, or hold ourselves out as being engaged primarily, in the business of investing, reinvesting or trading in securities. Rather, we, through our subsidiaries, are primarily engaged in non-investment company businesses related to real estate. In addition, we intend to conduct our operations so that we do not come within the definition of an investment company under Section 3(a)(1)(C) of the Investment Company Act because less than 40% of our total assets on an unconsolidated basis will consist of "investment securities." Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and that owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. government securities and cash items). Excluded from the term "investment securities" (as that term is defined in the Investment Company Act) are securities issued by majority-owned subsidiaries that are themselves not investment companies and are not relying on the exclusion from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. Under the Investment Company Act, a subsidiary is majority-owned if a company owns 50% or more of its outstanding voting securities. To avoid the need to register as an investment company, the securities issued to us by any wholly-owned or majority-owned subsidiaries that we may form in the future that are excluded from the definition of investment company under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, together with any other investment securities we may own, may not have a value in excess of 40% of the value of our total assets on an unconsolidated basis. We monitor our holdings to ensure ongoing compliance with this test.

We hold our assets primarily through direct or indirect wholly-owned or majority-owned subsidiaries, certain of which are excluded from the definition of investment company pursuant to Section 3(c)(5)(C) of the Investment Company Act. To qualify for the exclusion pursuant to Section 3(c)(5)(C), based on positions set forth by the staff of U.S. Securities and Exchange Commission (the "SEC"), each such subsidiary generally is required to hold at least (i) 55% of its assets in "qualifying" real estate assets and (ii) at least 80% of its assets in "qualifying" real estate assets and real estate-related assets. For our subsidiaries that maintain this exclusion or another exclusion or exception under the Investment Company Act (other than Section 3(c)(1) or Section 3(c)(7) thereof), our interests in these subsidiaries do not and will not constitute "investment securities." "Qualifying" real estate assets for this purpose include senior mortgage loans, certain B-notes and certain mezzanine loans that satisfy various conditions as set forth in SEC staff no-action letters and other guidance, and other assets that the SEC staff in various no-action letters and other guidance has determined are the functional equivalent of senior loans for the purposes of the Investment Company Act. We treat as real estate-related assets B-pieces and mezzanine loans that do not satisfy the conditions set forth in the relevant SEC staff no-action letters and other guidance, and debt and equity securities of companies primarily engaged in real estate businesses. Unless a relevant SEC no-action letter or other guidance applies, we expect to treat preferred equity interests as real estate-related assets. The SEC has not published guidance with respect to the treatment of CMBS for purposes of the Section 3(c)(5)(C) exclusion. Unless the SEC or its staff issues guidance with respect to CMBS, we intend to treat CMBS as a real estate-related asset. To the extent that the SEC staff publishes new or different guidance with respect to these matters, we may be required to adjust our strategy accordingly. For our subsidiaries that maintain this exclusion or another exclusion or exception under the Investment Company Act (other than Section 3(c)(1) or Section 3(c)(7) thereof), our interests in these subsidiaries do not and will not constitute "investment securities."

If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration, and other matters.

As a consequence of our seeking to avoid the need to register under the Investment Company Act on an ongoing basis, we and/or our subsidiaries may be restricted from making certain investments or may structure investments in a manner that would be less advantageous to us than would be the case in the absence of such requirements. In particular, a change in the value of any of our assets could negatively affect our ability to avoid the need to register under the Investment Company Act and cause the need for a restructuring of our investment portfolio. For example, these restrictions may limit our and our subsidiaries' ability to invest directly in mortgage-backed securities ("MBSs") that represent less than the entire ownership in a pool of senior loans, debt and equity tranches of securitizations and certain asset-backed securities, noncontrolling equity interests in real estate companies or in assets not related to real estate. In addition, seeking to avoid the need to register under the Investment Company Act may cause us and/or our subsidiaries to acquire or hold additional assets that we might not otherwise have acquired or held or dispose of investments that we and/or our subsidiaries might not have otherwise disposed of, which could result in higher costs or lower proceeds to us than we would have paid or received if we were not seeking to comply with such requirements. Thus, avoiding registration under the Investment Company Act may hinder our ability to operate solely on the basis of maximizing profits.

There can be no assurance that we and our subsidiaries will be able to successfully avoid operating as an unregistered investment company. If it were established that we were an unregistered investment company, there would be a risk that we would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that we would be unable to enforce contracts with third parties, that third parties could seek to obtain rescission of transactions undertaken during the period it was established that we were an unregistered investment company, and that we would be subject to limitations on corporate leverage that would have an adverse impact on our investment returns.

Government Regulation Relating to the Environment

Our properties are subject to various federal, state and local environmental laws, statutes, ordinances and regulations. Such laws and other regulations relate to a variety of environmental hazards, including asbestos-containing materials ("ACM"), toxins or irritants, mold, regulated substances, emissions to the environment, fire codes and other hazardous or toxic substances, materials or wastes. These laws are subject to change and may be more stringent in the future. Under current laws, a current or previous owner or operator of real estate (including, in certain circumstances, a secured lender if it participates in management or succeeds to ownership or control of a property) may become liable for costs and liabilities related to contamination or other environmental issues at or with respect to the property, including in connection with the activities of a tenant. Such cleanup laws typically impose cleanup responsibility and liability without regard to whether the owner or operator party knew of or was responsible for the release or presence of such hazardous or toxic substances. In addition, parties may be liable for costs of remediating contamination at an off-site disposal or treatment facilities where they arrange for disposal or treatment of hazardous substances. These liabilities and costs, including for investigation, remediation or removal of those substances or natural resource damages, third party tort claims resulting from personal injury or property damage, restrictions on the manner in which the property is used, liens in favor of the government for damages and costs the government incurs related to cleanup of contamination, and costs to properly manage or abate asbestos or mold may be substantial. Absent participating in management or succeeding to ownership, operation or other control of real property, a secured lender is not likely to be directly subject to any of these forms of environmental liability, although a borrower could be subject to these liabilities impacting its ability to make loan payments.

Prior to closing any property acquisition, we obtain environmental assessments in a manner we believe prudent in order to attempt to identify potential environmental concerns with respect to such properties. These assessments are carried out in accordance with an appropriate level of due diligence and generally include a physical site inspection, a review of relevant federal, state and local environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property's chain of title and review of historic aerial photographs and other information on past uses of the property. We may also conduct limited subsurface investigations and test for substances of concern where the result of the first phase of the environmental assessments or other information indicates possible contamination or where our consultants recommend such procedures.

We are not currently aware of any environmental liabilities that could materially affect the Company. Refer to the risk factor "Environmental compliance costs and other potential environmental liabilities associated with our current or former properties or our CRE debt or real estate-related investments could materially impair the value of our investments and expose us to material liability" in the section entitled "Risk Factors—Risks Related to Our Business and Our Investments" for more details regarding potential environmental liabilities and risk related to the Company.

Other Regulation

Our operations are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things: (1) regulate credit granting activities; (2) establish maximum interest rates, finance charges and other charges; (3) require disclosures to customers; (4) govern secured transactions; (5) set collection, foreclosure, repossession and claims handling procedures and other trade practices; and (6) regulate affordable housing rental activities. Although most states do not regulate commercial finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies, and require licensing of lenders and financiers and adequate disclosure of certain contract terms. We are also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans and the Fair Housing Act. We intend to conduct our business so that we comply with such laws and regulations.

Competition

We are engaged in a competitive business. In our lending and investing activities, we compete for opportunities with a variety of institutional lenders and investors, including other REITs, specialty finance companies, public and private funds (including funds that Colony Capital or its affiliates may in the future sponsor, advise and/or manage), commercial and investment banks, commercial finance and insurance companies and other financial institutions. Several other REITs have raised, or are expected to raise, significant amounts of capital, and may have similar acquisition objectives that overlap with ours. These other REITs will increase competition for the available supply of mortgage assets suitable for purchase and origination. Furthermore, this competition in our target asset classes may lead to the yields of such assets decreasing, which may further limit our ability to generate satisfactory returns.

Some of our competitors may have a lower cost of funds and access to funding sources that are not available to us, such as the U.S. Government. Many of our competitors are not subject to the operating constraints associated with REIT rule compliance or maintenance of an exclusion from registration under the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of loans and investments, offer more attractive pricing or other terms and establish more relationships than us.

Federal regulators have modified restrictions on the activity of banks and other deposit-taking institutions that previously prohibited such entities from competing for certain investment opportunities. The changes to this regulatory scheme, commonly referred to as the Volcker Rule, became effective on October 1, 2020 and may allow these financial institutions to compete with us for investment opportunities that were not previously available to them, thus increasing competition with our business. In the face of this competition, we believe access to our Manager's and Colony Capital's professionals and their industry expertise and relationships provide us with competitive advantages in assessing risks and determining appropriate pricing for potential investments. We believe these relationships enable us to compete more effectively for attractive investment opportunities.

Human Capital Management and Employees

We do not have any employees. We are externally managed by our Manager pursuant to the Management Agreement between our Manager and us (the "Management Agreement"). Our executive officers are employees of our Manager or one or more of its affiliates. Colony Capital provides a positive work environment, and is focused on fostering a diverse workforce with different perspectives, experiences, and backgrounds to encourage innovative and creative ideas. To further its diversity initiatives, Colony Capital has established a Diversity, Equity and Inclusion steering committee, which establishes and monitors progress on its diversity hiring and retention goals. Colony Capital offers a competitive compensation and benefits package, and aims to give back to the communities where its employees live and work by participating in local, national and global causes.

Corporate Information

The Company was formed as a Maryland corporation on August 23, 2017. Our principal executive offices are located at 515 S. Flower Street, 44th Floor, Los Angeles, CA 90071, and our telephone number is (310) 282-8820. Our website is www.clncredit.com. We make available, free of charge, on our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after these forms are filed with, or furnished to, the SEC. Our website address is included in this Annual Report on Form 10-K as a textual reference only and the information on the website is not incorporated by reference into this Annual Report on Form 10-K. All of our reports, proxy and information statements filed with the SEC can also be obtained at the SEC's website at www.sec.gov.

The Company emphasizes the importance of professional business conduct and ethics through our corporate governance initiatives. Our Board of Directors consists of a majority of independent directors; the audit, compensation, and nominating and corporate governance committees of the Board of Directors are composed exclusively of independent directors. Additionally, the following documents relating to corporate governance are available on our website under "Shareholders—Corporate Governance":

- Corporate Governance Guidelines
- Code of Business Conduct and Ethics
- Code of Ethics for Principal Executive Officer and Senior Financial Officers
- Complaint Procedures for Accounting and Auditing Matters
- Audit Committee Charter
- Compensation Committee Charter
- Nominating and Corporate Governance Committee Charter

These corporate governance documents are also available in print free of charge to any security holder who requests them in writing to: Colony Credit Real Estate, Inc., Attention: Investor Relations, 515 South Flower Street, 44th Floor, Los Angeles, California, 90071. Within the time period required by the rules of the SEC and the NYSE, we will post on our website any amendment to such corporate governance documents.

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below before deciding to purchase shares of our common stock. If any of the events, contingencies, circumstances or conditions described in the risks below actually occurs, they could have a material adverse effect in our business, results of operations and financial conditions or cause our stock price to decline.

Risks Related to COVID-19

The novel coronavirus pandemic, measures intended to prevent its spread and government actions to mitigate its economic impact have had and may continue to have a material adverse effect on our business, results of operations and financial condition.

The COVID-19 pandemic is causing significant disruptions to the U.S. and global economies and has contributed to volatility and negative pressure in financial markets. The outbreak has led governments and other authorities around the world to impose measures intended to control its spread, including restrictions on freedom of movement and business operations such as travel bans, border closings, business closures, quarantines and shelter-in-place orders. The significance, extent and duration of the impact of COVID-19 or another pandemic on our business remains largely uncertain and dependent on near-term and future developments that cannot be accurately predicted at this time, such as the continued severity, duration, transmission rate and geographic spread of COVID-19 in the United States, the roll-out, effectiveness and willingness of people to take COVID-19 vaccines, the extent and effectiveness of the containment measures taken, and the response of the overall economy, the financial markets and the population, particularly in areas in which we operate, once the current containment measures are lifted. The impact of the pandemic and measures to prevent its spread have negatively impacted us and could further negatively impact our business. To the extent current conditions persist or worsen, we expect there to be a materially negative effect on the value of our assets and our results of operations, and, in turn, cash available for distribution to our stockholders. Moreover, many risk factors set forth in this Annual Report should be interpreted as heightened risks as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic.

Difficulty accessing debt and equity capital on attractive terms, or at all, and severe disruption or instability in the global financial markets or deteriorations in credit and financing conditions may affect our ability to access capital necessary to fund business operations or replace liabilities on a timely basis. This may also adversely affect the valuation of financial assets and liabilities, any of which could result in the inability to make payments under our credit and other borrowing facilities, affect our ability to meet liquidity, net worth, and leverage covenants under such facilities or have a material adverse effect on the value of investments we hold. In addition, the insolvency of one or more of our counterparties could reduce the amount of financing available to us, which would make it more difficult for us to leverage the value of our assets and obtain substitute financing on attractive terms or at all. Recently, we have experienced declines in the value of our target assets, as well as adverse developments with respect to the terms and cost of financing available to us, and have received margin calls, default notices and deficiency letters from certain of our financing counterparties. Any or all of these impacts could result in reduced net investment income and cash flow, as well as an impairment of our investments, which reductions and impairments could be material. Declines in asset values, specifically retail, office and multifamily residential assets, may also impact our ability to liquidate our legacy, non-strategic assets within the projected timeframe or at the projected values.

Additionally, we expect the economic impacts of the pandemic will impact the financial stability of the mortgage loans and mortgage loan borrowers underlying the residential and commercial securities and loans that we own. As a result, we have experienced and anticipate a further increase in the number of borrowers who become delinquent or default on their loans, or who will seek concessions or forbearance. Elevated levels of delinquency or default would have an adverse impact on our income and the value of our assets and may require us to repay amounts under our master repurchase facilities and we can provide no assurance that we will have funds available to make such payments. Any forced sales of loans, securities or other assets that secure our repurchase and other financing arrangements in the current environment would likely be on terms less favorable to us than might otherwise be available in a regularly functioning market and could result in deficiency judgments and other claims against us.

Our loans collateralized by hotels, retail properties and mezzanine loans and preferred equity interests are disproportionately impacted by the effects of COVID-19. In particular, we continue to hold a ratable interest in a mezzanine loan participation on a development project in Los Angeles County (which includes a hospitality and retail renovation and a new condominium tower construction). While cost overruns have been addressed through a mezzanine recapitalization, if there are further overruns or delays in opening or decreased demand for the hospitality or retail space or condominium sales, we may not be able to fund any other deficiencies, which could result in a default under the senior mortgage loan and a foreclosure on all interests subordinate to the senior mortgage loan, including our participation interest in the mezzanine loan. In addition, our retail borrowers have been materially impacted by shelter-in-place orders, when applicable, and rent payment delinquencies in future periods may increase.

In response to the pandemic, the U.S. government has taken various actions to support the economy and the continued functioning of the financial markets. The Federal Reserve has announced its commitment to purchase unlimited amounts of U.S. Treasuries, mortgage-backed securities, municipal bonds and other assets. In addition, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which is providing billions of dollars of relief to individuals, businesses, state and local governments, and the health care system suffering the impact of the pandemic, including mortgage loan forbearance and modification programs to qualifying borrowers who have difficulty making their loan payments. There can be no assurance as to how, in the long term, these and other actions by the U.S. government will affect the efficiency, liquidity and stability of the financial and mortgage markets. To the extent the financial or mortgage markets do not respond favorably to any of these actions, or such actions do not function as intended, our business, results of operations and financial condition may continue to be materially adversely affected. Moreover, certain actions taken by U.S. or other governmental authorities, including the Federal Reserve, that are intended to ameliorate the macroeconomic effects of COVID-19 may harm our business. Decreases in short-term interest rates, such as those announced by the Federal Reserve late in our 2019 fiscal year and during the first fiscal quarter of 2020, may have a negative impact on our results, as we have certain assets and liabilities which are sensitive to changes in interest rates. These market interest rate declines may negatively affect our results of operations. In addition, as interest rates continue to decline as a result of demand for U.S. Treasury securities and the activities of the Federal Reserve, prepayments on our assets are likely to increase due to refinancing activity, which could have a material adverse effect on our result of operations.

The rapid development and fluidity of the circumstances resulting from this pandemic preclude any prediction as to the ultimate adverse impact of COVID-19 on our business. Nevertheless, COVID-19 and the current financial, economic and capital markets environment, and future developments in these and other areas present material uncertainty and risk with respect to our performance, financial condition, results of operations and cash flows.

Our inability to access funding or the terms on which such funding is available could have a material adverse effect on our financial condition, particularly in light of ongoing market dislocations resulting from the COVID-19 pandemic.

Our ability to fund our operations, meet financial obligations and finance target asset acquisitions may be impacted by our ability to secure and maintain our master repurchase agreements with our counterparties. Because repurchase agreements are short-term commitments of capital, lenders may respond to market conditions making it more difficult for us to renew or replace on a continuous basis our maturing short-term borrowings and have and may continue to impose more onerous conditions when rolling such financings. If we are not able to renew our existing facilities or arrange for new financing on terms acceptable to us, or if we default on our covenants or are otherwise unable to access funds under our financing facilities or if we are required to post more collateral or face larger haircuts, we may have to curtail our asset acquisition activities and/or dispose of assets.

Issues related to financing are exacerbated in times of significant dislocation in the financial markets, such as those being experienced now related to the COVID-19 pandemic. It is possible our lenders will become unwilling or unable to provide us with financing and we could be forced to sell our assets at an inopportune time when prices are depressed. In addition, if the regulatory capital requirements imposed on our lenders change, they may be required to significantly increase the cost of the financing that they provide to us. Our lenders also have revised and may continue to revise their eligibility requirements for the types of assets they are willing to finance or the terms of such financings, including haircuts and requiring additional collateral in the form of cash, based on, among other factors, the regulatory environment and their management of actual and perceived risk, particularly with respect to assignee liability. Moreover, the amount of financing we receive under our repurchase agreements will be directly related to our lenders’ valuation of our target assets that cover the outstanding borrowings. Typically, repurchase agreements grant the lender the absolute right to reevaluate the fair market value of the assets that cover outstanding borrowings at any time. If a lender determines in its sole discretion that the value of the assets has decreased, it has the right to initiate a margin call. These valuations may be different than the values that we ascribe to these assets and may be influenced by recent asset sales and distressed levels by forced sellers. A margin call requires us to transfer additional assets to a lender without any advance of funds from the lender for such transfer or to repay a portion of the outstanding borrowings.

During the first and second quarter of 2020, we observed a mark-down of a portion of our mortgage assets by the counterparties to our financing arrangements, resulting in us having to pay cash or securities to satisfy higher than historical levels of margin calls. Significant margin calls could have a material adverse effect on our results of operations, financial condition, business, liquidity and ability to make distributions to our stockholders, and could cause the value of our common stock to decline. In addition, we have also experienced an increase in haircuts on financings we have rolled. As haircuts are increased, we will be required to post additional collateral. We may also be forced to sell assets at significantly depressed prices to meet such margin calls and to maintain adequate liquidity. As a result of the ongoing COVID-19 pandemic, we have experienced margins calls well beyond historical norms. These trends, if continued, will have a negative adverse impact on our liquidity.

In connection with the market disruptions resulting from the COVID-19 pandemic, we changed our interest rate hedging strategy and closed out of, or terminated a portion of our interest rate hedges, incurring realized losses. As a result, interest rate risk exposure that is associated with certain of our assets and liabilities is no longer being hedged in the manner that we previously used to address interest rate risk and our revised strategy to address interest rate risk may not be effective and could result in the incurrence of future realized losses.

In response to the recent market dislocations resulting from the global pandemic of COVID-19, we made the determination that certain of our interest rate hedges were no longer effective in hedging asset market values and, as of March 27, 2020, had terminated or closed out a portion of our outstanding interest rate hedges and, overall, incurred realized losses. While we are monitoring market conditions and determining when we believe it would be appropriate and effective to re-implement interest rate hedging strategies, including by taking into account our future business activities and assets and liabilities, we will be exposed to the impact that changes in benchmark interest rates may have on the value of the loans, securities and other assets we own that are sensitive to interest rate changes, as well as long-term debt obligations that are sensitive to interest rate changes. Moreover, to the extent the value of loans and securities we own fluctuate as a result of changes in benchmark interest rates, we may be exposed to margin calls under lending facilities that we use to finance these assets. In the past, our interest rate hedging strategy was intended to be a source of liquidity in meeting margin calls that resulted from asset valuation changes attributable to changes in benchmark interest rates; however, because we have terminated or closed out a portion of our outstanding interest rate hedges, we will not be able to rely on these hedges as such a source of liquidity. Operating our business and maintaining a portfolio of interest rate sensitive loans, securities and other assets without an interest rate risk hedging program in place could expose us to losses and liquidity risks, which could be material and which could negatively impact our results of operations and financial condition. There can be no assurance that future market conditions and our financial condition in the future will enable us to re-establish an effective interest rate risk hedging program, even if in the future we believe it would otherwise be appropriate or desirable to do so.

Risks Related to Our Manager and Conflicts of Interests

We depend upon our Manager, Colony Capital and their key personnel for our success. The loss of or the inability to obtain key investment professionals at our Manager, Colony Capital or their affiliates, or limits on or the loss of Colony Capital's support to us or our Manager, could delay or hinder implementation of our investment strategy.

Our ability to achieve our investment objectives depends in substantial part upon the performance of our Manager in the origination, acquisition and management of our investments, including the determination of any financing arrangements, as well as the performance of the third-party servicers (including any affiliated Colony Capital servicer) of our real estate debt investments. Subject to investment, leverage and other guidelines or policies adopted by the Board of Directors, our Manager has discretion regarding the implementation of our investment and operating policies and strategies. Accordingly, we believe that our success will depend significantly upon the experience, skill, resources, relationships and contacts of the executive officers and key personnel of our Manager, Colony Capital and their affiliates. Executive officers and key personnel of our Manager and Colony Capital will evaluate, negotiate, close and monitor our investments; therefore, our success will depend on their continued service. We cannot assure stockholders that such key personnel will continue to be associated with our Manager, Colony Capital or their affiliates in the future. The departure of any of these persons could have a material adverse effect on our performance and we can provide no assurance that our Manager, Colony Capital or their affiliates could attract other highly skilled professionals.

Neither our Manager nor Colony Capital is obligated to dedicate any specific personnel exclusively to us, nor are they or their personnel obligated to dedicate any specific portion of their time to the management of our business. As a result, we cannot provide any assurances regarding the amount of time our Manager or Colony Capital will dedicate to the management of our business. Moreover, each of our officers and non-independent directors, except for our Non-Executive Chairman of the Board, is also an employee of our Manager, Colony Capital or one of their affiliates, has significant responsibilities for other investment vehicles currently managed by Colony Capital or its affiliates, and may not always be able to devote sufficient time to the management of our business. Consequently, we may not receive the level of support and assistance that we otherwise might receive if we were internally managed.

Uncertainty regarding business events and operations at our Manager, Colony Capital and their affiliates may have an adverse effect on us. These uncertainties could disrupt our business, and cause clients and others that deal with us or our Manager to seek to change existing business relationships, cease doing business with us or our Manager or cause potential new clients to delay doing or elect not to do business with us.

If the management agreement is terminated, we may not be able to successfully internalize the management of the Company or find a suitable replacement for our Manager and our business, results of operations and financial condition could be adversely affected.

We can offer no assurance that our Manager will remain our investment manager or that we will continue to have access to our Manager's and Colony Capital's officers and key personnel. The initial term of the Management Agreement ended January 31, 2021, the third anniversary of the completion of the Combination, and will continue to be automatically renewed for a one-year term each anniversary thereafter; provided, however, that the Manager may terminate the Management Agreement upon 180 days' notice prior to the expiration of any renewal term and we may terminate the Management Agreement subject to a termination fee, upon 180 days' notice prior to the expiration of any renewal term under limited circumstances set forth in the Management Agreement (with the affirmative vote of at least two-thirds of the independent directors of our Board of Directors). The Management Agreement also provides that the Company or the Manager may terminate the agreement for cause.

On November 6, 2019, Colony Capital sent a letter to our independent directors proposing to explore with us the possible internalization of the management of the Company and a transfer of Colony Capital's credit management business to us. In response, the Board of Directors formed a Special Committee consisting exclusively of independent and disinterested directors to explore this internalization proposal as well as other strategic alternatives.

However, due to the uncertainty surrounding the duration and magnitude of the COVID-19 pandemic and its impact on the global economy, on April 1, 2020, Colony Capital reported in Amendment No. 3 to Schedule 13D (filed with the U.S. Securities and Exchange Commission) that it had postponed any decision regarding a disposition of its management agreement with the Company until market conditions improve. We can give no assurance as to whether we and Colony Capital will enter into an agreement to internalize the management of the Company, the terms or scope of such agreement and the timing of closing, or whether we may pursue other strategic alternatives.

The internalization of the management of our company, including the review of any proposal for such internalization and exploring other strategic alternatives, would be a time-consuming and costly process. We may not be able to identify and retain key investment professionals or realize the anticipated benefits of the transaction. The negotiation and internalization could result in the distraction of our and Colony Capital's management and the disruption of our ongoing business. Therefore, if we are unable to successfully plan and manage an internalization or a different strategic transaction, we may not be able to execute our business plan, which could have a material adverse effect on our business, financial condition and results of operations.

There are various conflicts of interest in our relationship with our Manager, Colony Capital and their affiliates, which could result in decisions which are not in the best interest of our stockholders.

We are subject to conflicts of interest arising out of our relationship with our Manager, Colony Capital and their affiliates. We rely on our Manager's or its affiliates' executive officers and investment professionals to identify suitable investment opportunities for our Company. These executive officers and investment professionals may also be executive officers, directors and managers of Colony Capital and its affiliates, including closed-end or open-end investment funds, vehicles (including public non-traded real estate investment trusts, registered investment companies and externally managed public companies), accounts, products and/or other similar arrangements sponsored, branded, advised and/or managed by Colony Capital or any of its affiliates, in existence or subsequently established (including any related successor funds, alternative vehicles, supplemental capital vehicles, co-investment vehicles and other entities formed and managed in connection with Colony Capital's investment management activities) (collectively, the "Managed Companies"). As a result, those executive officers and investment professionals owe duties to each of these entities, their members and limited partners and investors, which duties may from time-to-time conflict with the duties that they owe to us and our stockholders.

Our Manager and its affiliates, including Colony Capital, and their respective officers, directors, employees and personnel may engage in business opportunities that are the same or similar to our activities and provide investment advisory services to others with investment objectives or policies that are similar to ours, including advising Managed Companies. Therefore, many investment opportunities sourced by our Manager or its affiliates that are suitable for us may also be suitable for Colony Capital and/or other Managed Companies. In addition, the activities of other Managed Companies of Colony Capital or its affiliates could restrict our ability to pursue certain asset acquisitions or take other actions related to our business.

As of December 31, 2020, there were no other Managed Companies with investment objectives or guidelines that overlapped in part with ours.

Furthermore, our Manager's associated persons who are responsible for allocating investment opportunities among clients must ensure that allocations comply with the requirements of the investment allocation policy, the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and other applicable laws and regulations, any exemptive relief provided to our Manager or its affiliates or clients, and the terms of each relevant client operating agreement or constituent documents, offering materials and/or advisory agreements. A dedicated mandate may cause certain Managed Companies to have priority over other Managed Companies (including us) with respect to specific investment opportunities. A preference for such a dedicated mandate may result in fewer of such investment opportunities being made available to us to the extent they are within our investment strategy.

If it is determined that an investment is most suitable for a particular client, the investment will be allocated to such client. If it is determined that an investment is equally suitable for two or more clients, then our Manager may allocate the investment among such clients on a rotational basis. In general, a rotational allocation methodology means that if a client has been previously allocated an investment as a result of the rotational process, it may be skipped in the rotation until all other clients for which a particular investment is equally suitable have been allocated an investment. However, there is no guarantee that additional investment opportunities will become available in the future. Subject to regulatory restrictions, SEC guidance and any exemptive orders obtained by one or more Managed Companies (as applicable), our Manager may deem it appropriate for us and one or more other Managed Companies to co-invest in an investment opportunity (based on available capital, among other relevant factors, to the extent required). To the extent that a Managed Company has significant available capital, the likelihood that we may co-invest in a particular asset with such fund could increase significantly. In addition, because affiliates of Colony Capital also manage the Managed Companies, and fees payable to such affiliates by the Managed Companies may be more advantageous than fees payable to our Manager, our interests in such investments may conflict with the interests of the Managed Companies, and our Manager or its affiliates may take actions that may not be most favorable to us, including in the event of a default or restructuring of assets subject to co-investment rights.

The decision of how any potential investment should be allocated among clients in many cases may be a matter of highly subjective judgment, which will be made by our Manager in its sole discretion. Stockholders may not agree with the determination, and such determination could have an adverse effect on our investment strategy. Our right to participate in the investment allocation process described above will terminate once we are no longer advised by our Manager or its affiliates.

In addition, subject to compliance with the Advisers Act, and the rules promulgated thereunder, we may enter into principal transactions with our Manager or its affiliates or cross-transactions with other Managed Companies. For certain cross-transactions, our Manager may receive a fee from us or another Managed Company and conflicts may exist. There is no guarantee that any such transactions will be favorable to us. Because our interests and the interests of Colony Capital and our Manager may not be aligned, we may face conflicts of interest that result in action or inaction that is detrimental to us.

Further, there are conflicts of interest that arise when our Manager makes expense allocation determinations, as well as in connection with any fees payable between us and our Manager. These fees and allocation determinations are sometimes based on estimates or judgments, which may not be correct and could result in our Manager's failure to allocate certain fees and costs to us appropriately.

In addition, as certain Managed Companies are, and other co-investment funds managed by Colony Capital and its affiliates in the future likely will be, closed-end funds with finite lives, such funds are expected to dispose of substantially all of the assets in their respective portfolios prior to dissolution. As a result, prior to such dissolutions, we may need to sell our interests in the co-investment assets before we otherwise would in order to avoid a potential conflict. Our decision to sell such interests will depend, among other things, on our ability to sell the interests at favorable prices or at all. It is also possible that our Manager or its affiliates, who also manage such funds, may sell such co-investment assets at times or prices that are not in the best interests of us or our stockholders. In addition, to the extent that such funds dispose of co-investment assets that are qualifying assets, we may be required to purchase additional qualifying assets (subject to the availability of capital at favorable prices or at all) or sell non-qualifying assets at inopportune times or prices in order to maintain our qualification as a REIT and our exemption from registration under the Investment Company Act. Even if our interests are not in conflict with those of funds with co-investment rights, we will not realize the full economic benefits of the investment. If any of the foregoing were to occur, our Manager's ability to operate our business in a manner consistent with our business strategy could be hindered materially, which could have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

Our Manager and its affiliates receive fees in connection with the management of our investments regardless of their quality or performance. As a result, our Manager may be incentivized to allocate investments that have a greater cost to increase the amount of fees payable to them.

Our Manager and its affiliates receive fees in connection with the management of our investments regardless of their quality or performance or the services provided. Our Manager's entitlement to base management fees, which are not based upon performance metrics or goals, could reduce its incentive to devote its time and effort to seeking loans and investments that provide attractive risk-adjusted returns for our portfolio. Consequently, we are required to pay our Manager base management fees in a particular period despite experiencing a net loss or a decline in the value of our portfolio during that period.

These management fees could influence the advice given to us by the key personnel of our Manager and its affiliates, including our Manager's investment committee. Among other matters, these compensation arrangements could affect their judgment with respect to:

- the continuation, renewal or enforcement of our agreements with our Manager and its affiliates, including the Management Agreement; and
- whether we seek approval to internalize our management, which may entail acquiring assets from Colony Capital (such as office space, furnishings and technology costs) and employing our Manager or its affiliates' professionals performing services for us for consideration that would be negotiated at that time and may result in these investment professionals receiving more compensation from us than they currently receive from our Manager or its affiliates.

In addition, our Manager has the ability to earn incentive fees each quarter based on our earnings, which may create an incentive for our Manager to invest in assets with higher yield potential, which are generally riskier or more speculative, or sell an asset prematurely for a gain, in an effort to increase our short-term net income and thereby increase the incentive fees to which it is entitled. If our interests and those of our Manager are not aligned, the execution of our business plan and our results of operations could be adversely affected, which could materially and adversely affect our results of operations and financial condition. Payment of these fees may also result in the immediate dilution of the value of stockholders' investment and reduces the amount of cash available for investment or distribution to stockholders.

Our ability to achieve our investment objectives and to pay distributions depends in substantial part upon the performance of our Manager and third-party servicers. Any adverse changes in our Manager and its affiliates' financial health, the public perception of our Manager, or our relationship with our Manager or its affiliates could hinder our operating performance and the return on stockholders' investment.

We depend on our Manager for the identification and origination or acquisition of investments and the management of our assets and operation of our day-to-day activities. If our Manager performs poorly and as a result is unable to originate and/or acquire our investments successfully, we may be unable to achieve our investment objectives or to pay distributions to stockholders at presently contemplated levels, if at all. Our Manager's platform may not be scalable if our business grows substantially, it may be unable to make significant investments on a timely basis or at reasonable costs, or its service providers may be strained by our growth, which could disrupt our business and operations. Similarly, if our third-party servicers (including any affiliated Colony Capital servicer) perform poorly, we may be unable to realize all cash flow associated with our real estate debt and debt-like investments.

Because Colony Capital is a publicly traded company, any negative reaction by the stock market reflected in its stock price or deterioration in the public perception of Colony Capital has and could again result in a decline in our stock price or an adverse effect on our ability to acquire assets and obtain financing from third parties on favorable terms or at all. Any adverse changes in the financial condition of our Manager or its affiliates, including Colony Capital, or our relationship with them could hinder their ability to successfully manage our operations and our portfolio of investments.

Our Manager may not be successful, or there may be delays, in locating or allocating suitable investments, which could limit our ability to make distributions and lower the overall return on stockholders' investment.

Our Manager may not be successful in locating suitable investments on financially attractive terms. If we, through our Manager, are unable to find and allocate suitable investments promptly, we may hold the funds available for investment in an interest-bearing account or invest the proceeds in short-term assets. We expect that the income we earn on these temporary investments will not be substantial. In the event we are unable to timely locate suitable investments, we may be unable or limited in our ability to pay distributions, and we may not be able to meet our investment objectives. Further, the more money we have available for investment, the more difficult it will be to invest the funds promptly and on attractive terms. If our Manager is able to identify suitable investments, it may not be successful in consummating the investment, resulting in increased costs and diversion in the investment professionals' time, or if consummated, the returns on the investments may be below expectations.

Our Manager manages our portfolio pursuant to investment guidelines and is not required to seek the approval of our Board of Directors for each investment, financing, asset allocation or hedging decision made by it (subject to the net commitment thresholds set forth in our investment guidelines), which may result in riskier loans and investments and which could adversely affect our results of operations and financial condition.

Our Manager is authorized to follow investment guidelines that provide it with broad discretion in investment, financing, asset allocation and hedging decisions to the extent, generally, that any such investment contemplates a total net commitment by the OP of less than 3% of the OP's net equity. Our investment guidelines may be changed at any time with the consent of our Board of Directors, but without the consent of our stockholders. Our Board of Directors will periodically review our investment guidelines and our loan and investment portfolio but is not required to review and approve in advance all of our proposed loans and investments or our Manager's financing, asset allocation or hedging decisions, subject to the net commitment thresholds set forth in our investment guidelines. Subject to maintaining our REIT qualification and our exclusion from registration under the Investment Company Act, our Manager has latitude within the investment guidelines in determining the types of loans and investments it makes for us and how such loans and investments are financed or hedged and there are no limits on geographic or industry concentration, which could result in investment returns that are substantially below expectations or that result in losses, which could adversely affect our results of operations and financial condition.

Colony Capital and/or our Manager may revise our investment allocation policy and may in the future change then-existing, or adopt additional, conflicts of interest resolution policies and procedures designed to support the fair and equitable allocation of investments and to prevent the preferential allocation of investment opportunities among entities with overlapping investment objectives. The result of such a revision to the investment allocation policy may, among other things, be to increase the number of parties who have the right to participate in investment opportunities sourced by our Manager and its affiliates and/or its partners, thereby reducing the number of investment opportunities available to us. The investment allocation policy may not be materially amended in any manner that is reasonably likely to be adverse to us unless such amendment has been approved by a majority of our independent directors. Material changes to the investment allocation policy will be disclosed to clients and in public filings with the SEC, as appropriate. Our independent directors will periodically review our Manager's and Colony Capital's compliance with these conflicts of interest and allocation provisions.

The Management Agreement with our Manager was negotiated among related parties and may not be as favorable to us as if it had been negotiated with an unaffiliated third party and may be costly and difficult to terminate.

Certain of our executive officers and directors are executives of Colony Capital. The Management Agreement was negotiated among related parties and its terms, including the fees to be paid to our Manager and its affiliates for services they provide for us were not determined on an arm's length basis. Subject to certain limitations and exceptions, we also reimburse our Manager for both direct expenses as well as indirect costs, including our allocable share of personnel and employment costs of our Manager and its affiliates, which may include certain executive officers and non-investment personnel of our Manager and its affiliates, as well as expenses related to any office or office facilities, technology, travel and other general and administrative costs and expenses. As a result, the fees and reimbursements may be in excess of amounts that we would otherwise pay to third parties for such services.

Termination of the Management Agreement without cause will be difficult and costly. We may elect not to renew the Management Agreement upon the expiration of any renewal term by providing at least 180 days' prior written notice to our Manager only if there has been an affirmative vote of at least two-thirds of our independent directors then serving on our Board of Directors that (i) there has been unsatisfactory performance by our Manager that is materially detrimental to us or (ii) the compensation we pay to our Manager, in the form of base management fees and incentive fees, or the amount thereof, is unfair to us, subject to our Manager's right to prevent any termination due to unfair fees by accepting a reduction of management and/or incentive fees agreed to by at least two-thirds of our independent directors. Upon such a termination, or if we materially breach the Management Agreement and our Manager terminates the Management Agreement, the Management Agreement provides that we will be required to pay our Manager a termination fee, which is equal to three (3) times the sum of (x) the average annual base management fee and (y) the average annual incentive fee, in each case earned by our Manager during the 24-month period immediately preceding the most recently completed calendar quarter prior to the date of termination. Additionally, upon termination of the Management Agreement for any reason, including for cause, we will be required to pay our Manager all accrued and unpaid fees and expense reimbursements earned prior to the date of termination.

To the extent permitted by law, our Manager maintains a contractual as opposed to a fiduciary relationship with us. Our Manager's liability is limited under the Management Agreement, and we have agreed to indemnify our Manager against certain liabilities.

Pursuant to the Management Agreement, our Manager will not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our Board of Directors in following or declining to follow its advice or recommendations. To the extent permitted by law, our Manager maintains a contractual as opposed to a fiduciary relationship with us. Under the terms of the Management Agreement, our Manager and its affiliates, including their respective directors, members, officers, managers, employees, trustees, control persons, partners, stockholders and equityholders, will not be liable to us, any of our subsidiaries, our Board of Directors, our stockholders or any of our subsidiaries' stockholders, members or partners for acts or omissions performed in accordance with and pursuant to the Management Agreement, unless such acts or omissions constitute gross negligence, fraud, willful misconduct, bad faith or reckless disregard of their duties under the Management Agreement. We have agreed to indemnify our Manager and its affiliates, including their respective directors, members, officers, managers, employees, trustees, control persons, partners, stockholders and equityholders from and against any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature, including reasonable legal fees and other expenses reasonably incurred in respect of, arising out of or in connection with our business and operations or any action taken or omitted by any such person in good faith by or on our behalf pursuant to authority granted by the Management Agreement, except where found by a court of competent jurisdiction to be attributable to the gross negligence, fraud, willful misconduct or bad faith by such person or the reckless disregard by such person of their duties under the Management Agreement. As a result, we could experience poor performance or losses for which our Manager would not be liable.

Risks Related to Our Company and Our Structure

We have not established a minimum distribution payment level, and we cannot assure you of our ability to pay distributions in the future.

We are generally required to distribute to our stockholders at least 90% of our REIT taxable income each year for us to qualify as a REIT under the Internal Revenue Code of 1986 (the "Code"). We have not established a minimum distribution payment level, and our ability to make distributions may be materially and adversely affected by a number of factors, including the risk factors described herein. Distributions to our stockholders, if any, will be authorized by our Board of Directors in its sole discretion and declared by us out of funds legally available therefore and will be dependent upon a number of factors, including our targeted distribution rate, access to cash in the capital markets and other financing sources, historical and projected results of operations, cash flows and financial condition, our view of our ability to realize gains in the future through appreciation in the value of our assets, general economic conditions and economic conditions that more specifically impact our business or prospects, our financing covenants, maintenance of our REIT qualification, applicable provisions of the Maryland General Corporation Law (the "MGCL") and such other factors as our Board of Directors deems relevant.

We believe that a change in any one of the following factors could adversely affect our results of operations and cash flows and impair our ability to make distributions to our stockholders:

- our ability to make attractive investments;
- margin calls or other expenses that reduce our cash flows;
- defaults or prepayments in our investment portfolio or decreases in the value of our investment portfolio; and
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

For example, in April 2020, our Board of Directors suspended our monthly distribution due to the volatility and unprecedented market conditions caused by the COVID-19 pandemic. The Board approved a quarterly dividend of $0.10 per share for the quarter ending March 31, 2021, and we expect to continue quarterly cash dividends thereafter, subject to board approval. However, no assurance can be given that we will be able to make distributions to our stockholders at any time in the future or that the level of any distributions we do make to our stockholders will achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect us.

In addition, distributions out of our current earnings and profits that we make to our stockholders will generally be taxable to our stockholders as ordinary income. However, a portion of our distributions may be designated by us as (i) "capital gain dividends" to the extent that they are attributable to capital gain income recognized by us, (ii) "qualified dividend income," or (iii) may constitute a return of capital to the extent that they exceed our current earnings and profits as determined for U.S. federal income tax purposes. A return of capital is not taxable, but has the effect of reducing the basis of a stockholder's investment in our common stock.

Certain provisions of Maryland law may limit the ability of a third party to acquire control of us.

Certain provisions of the MGCL may have the effect of inhibiting a third party from acquiring our Company or of impeding a change of control under circumstances that otherwise could provide our Company's stockholders with the opportunity to realize a premium over the then-prevailing market price of our common stock, including:

- *"business combination"* provisions that, subject to limitations, prohibit certain business combinations between an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our Company's outstanding shares of voting stock or an affiliate or associate of the corporation who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding stock of the corporation) or an affiliate of any interested stockholder and our Company for five years after the most recent date on which the stockholder becomes an interested stockholder and thereafter imposes two super-majority stockholder voting requirements on these combinations; and
- *"control share"* provisions that provide that holders of "control shares" of our Company (defined as outstanding voting shares of stock that, if aggregated with all other shares of stock owned by the acquiror or in respect of which the

acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the acquisition of issued and outstanding "control shares") have no voting rights except to the extent approved by the affirmative vote of the holders entitled to cast two-thirds of the votes entitled to be cast on the matter, excluding all interested shares.

In accordance with Maryland Business Combination Act our Board of Directors has exempted any business combinations between us and any person, provided that any such business combination is first approved by our Board of Directors. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to any future business combinations between us and any of our interested stockholders (or their affiliates) that are first approved by our Board of Directors, including any future business combination with the OP or any current or future affiliates of the OP. Our bylaws contain a provision exempting us from the Maryland Control Share Acquisition Act. If this resolution is revoked or repealed, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer. There can be no assurance that these resolutions or exemptions will not be amended or eliminated at any time in the future.

Additionally, Title 3, Subtitle 8 of the MGCL permits our Board of Directors, without stockholder approval and regardless of what currently is provided in our charter and our bylaws, to implement certain takeover defenses, such as a classified board, some of which we do not have.

Ownership limitations may delay, defer or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% of the value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year. Our charter, with certain exceptions, authorizes our Board of Directors to take the actions that are necessary or appropriate to preserve our qualification as a REIT. Unless exempted by our Board of Directors, no person may actually or constructively own more than 9.8% of the aggregate of the outstanding shares of our capital stock (as defined in our charter) by value or 9.8% of the aggregate of the outstanding shares of our common stock (as defined in our charter) by value or by number of shares, whichever is more restrictive. Our Board of Directors, in its sole discretion, may exempt (prospectively or retroactively) a person from this limitation if it obtains such representations, covenants and undertakings as it deems appropriate to conclude that granting the exemption will not cause us to lose our status as a REIT. These ownership limitations in our charter are standard in REIT charters and are intended to provide added assurance of compliance with the tax law requirements, and to reduce administrative burdens. However, these ownership limits might also delay, defer or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders or result in the transfer of shares acquired in excess of the ownership limits to a trust for the benefit of a charitable beneficiary and, as a result, the forfeiture by the acquirer of the benefits of owning the additional shares.

Our charter contains provisions that make removal of our directors difficult, which makes it more difficult for our stockholders to effect changes to our management and may prevent a change in control of our Company that is otherwise in the best interests of our stockholders.

Our charter provides that a director may be removed only for cause and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. Vacancies on our Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors then in office, even if the remaining directors do not constitute a quorum, and directors elected to fill a vacancy will serve for the full term of the class of directors in which the vacancy occurred. These requirements make it more difficult for our stockholders to effect changes to our management by removing and replacing directors and may prevent a change in control of our company that is otherwise in the best interests of our stockholders.

Our charter permits our Board of Directors to issue stock with terms that may subordinate the rights of our common stockholders or discourage a third party from acquiring us in a manner that could result in a premium price to stockholders.

Our Board of Directors may classify or reclassify any unissued shares of common stock, classify any unissued shares of our preferred stock, as applicable, and reclassify any previously classified but unissued shares of our preferred stock into other classes or series of stock and set the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption of any such stock. Thus, our Board of Directors could authorize the issuance of preferred stock with priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to holders of our common stock. Additionally, our Board of

Directors may amend our charter from time to time to increase or decrease the aggregate number of authorized shares of stock or the number of authorized shares of any class or series of stock without stockholder approval.

Our umbrella partnership real estate investment trust, or UPREIT, structure may result in potential conflicts of interest with members of our operating company whose interests may not be aligned with those of stockholders.

Members of our operating company have the right to vote on certain amendments to the limited liability company agreement, as well as on certain other matters. Persons holding such voting rights may exercise them in a manner that conflicts with the interests of our stockholders. As managing member of our operating company, we are obligated to act in a manner that is in the best interest of our operating company. Circumstances may arise in the future when the interests of members in our operating company may conflict with the interests of our stockholders. These conflicts may be resolved in a manner stockholders do not believe are in their best interests.

Failure to obtain, maintain or renew required licenses and authorizations necessary to operate our mortgage-related activities may have a material adverse effect on us.

We and our Manager are required to obtain, maintain or renew certain licenses and authorizations (including "doing business" authorizations and licenses to act as a commercial mortgage lender) from U.S. federal or state governmental authorities, government sponsored entities or similar bodies in connection with some or all of our mortgage-related activities. There is no assurance that we or our Manager will be able to obtain, maintain or renew any or all of the licenses and authorizations that we require or that we or our Manager will avoid experiencing significant delays in connection therewith. The failure of our Company or our Manager to obtain, maintain or renew licenses will restrict our options and ability to engage in desired activities, and could subject us to fines, suspensions, terminations and various other adverse actions if it is determined that we or our Manager have engaged without the requisite licenses or authorizations in activities that required a license or authorization, which could have a material adverse effect on us.

Failure to implement effective information and cyber security policies, procedures and capabilities could disrupt our business and harm our results of operations.

Our business is highly dependent on communications and information systems of Colony Capital. We are dependent on the effectiveness of such information and cyber security policies, procedures and capabilities to protect our computer and telecommunications systems and the data that resides on or is transmitted through them. An externally caused information security incident, such as a hacker attack, virus or worm, or an internally caused issue, such as failure to control access to sensitive systems, could materially interrupt business operations or cause disclosure or modification of sensitive or confidential information and could result in material financial loss, loss of competitive position, regulatory actions, breach of contracts, reputational harm or legal liability.

Given our dependence on information systems of Colony Capital, any failure or disruptions in such systems during or following any internalization transaction or transition to a new manager that results in an information security incident may also cause material financial loss, loss of competitive position, regulatory actions, breach of contracts, reputational harm or legal liability.

We do not own the Colony Capital name, but have entered into a license agreement with an affiliate of Colony Capital granting us the right to use the Colony Capital name. Use of the name by other parties or the termination of our license agreement may harm our business.

Concurrently with the completion of the Combination, we entered into a license agreement pursuant to which we have a non-exclusive, royalty-free license to use the name "Colony Capital." Under this agreement, we have a right to use the "Colony Capital" name as long as our Manager is affiliated with Colony Capital. Colony Capital will retain the right to continue using the "Colony Capital" name. We will further be unable to preclude Colony Capital from licensing or transferring the ownership of the "Colony Capital" name to third parties, some of whom may compete against us. Consequently, we will be unable to prevent any damage to goodwill that may occur as a result of the activities of Colony Capital or others. Furthermore, in the event the license agreement is terminated, we will be required to change our name and cease using the "Colony Capital" name. Any of these events could disrupt our recognition in the marketplace, damage any goodwill we may have generated and otherwise harm our business.

Risks Related to Our Business and Our Investments

Our CRE debt, select equity and securities investments are subject to the risks typically associated with real estate.

Our CRE debt, select equity and securities investments are subject to the risks typically associated with real estate, including:

- tenant mix;

- real estate conditions, such as an oversupply of or a reduction in demand for real estate space in an area;
- lack of liquidity inherent in the nature of the assets;
- borrower/tenant/operator mix and the success of the borrower/tenant/operator business;
- success of tenant businesses;
- ability to collect interest/loan obligation/principal, including income recognition and recovery of payment-in-kind interest on applicable loan investments;
- property management decisions;
- property location, condition and design;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- changes in national, regional or local economic conditions and/or specific industry segments, including the credit and securitization markets;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates, real estate tax rates and other operating expenses;
- compliance with environmental laws;
- costs of remediation and liabilities associated with environmental conditions;
- the potential for uninsured or underinsured property losses;
- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance; and
- acts of God, terrorist attacks, social unrest and civil disturbances.

The value of each investment is affected significantly by its ability to generate cash flow and net income, which in turn depends on the amount of financing/interest payments, rental or other income that can be generated net of expenses required to be incurred with respect to the investment. Many expenses associated with properties (such as operating expenses and capital expenses) cannot be reduced when there is a reduction in income from the properties. Some of our CRE securities may be subject to the risk of first loss and therefore could be adversely affected by payment defaults, delinquencies and others of these risks.

These factors may have a material adverse effect on the value and the return that we can realize from our assets, as well as the ability of our borrowers to pay their loans and the ability of the borrowers on the underlying loans securing our securities to pay their loans.

The B-Notes that we have acquired and may acquire in the future may be subject to additional risks related to the privately negotiated structure and terms of the transaction, which may result in significant operating losses to us and may limit our ability to make distributions to our stockholders.

We have and may continue to acquire B-Notes. A B-Note is a mortgage loan typically (1) secured by a first mortgage on a single large commercial property or group of related properties (and therefore reflect the risks associated with significant concentration) and (2) subordinated to an A-Note secured by the same first mortgage on the same collateral. A privately negotiated intercreditor agreement between the holders of the A-Note and B-Note may restrict the rights of the B-Note holders. In particular, the intercreditor agreement may prohibit the B-Note holder from calling the loan, making modifications with respect to the loan or filing a bankruptcy petition without the consent of the A-Note holder. As a result, to the extent that we acquire B-Notes, the A-Note holder may take actions that we do not agree with and that are not in our stockholders' best interests.

In addition, because the rights of the B-Note holder are subordinated to the rights of the A-Note holder, the B-Note may be the first to incur loss if the loan does not perform and the collateral value diminishes. As a result, if a borrower defaults, there may not be sufficient funds remaining for B-Note holders after payment to the A-Note holders. If there are insufficient funds after payment to the A-Note holders, we could incur significant losses related to our B-Notes, which would result in operating losses for us and may limit our ability to make distributions to our stockholders.

The mezzanine loan assets that we have acquired and may acquire in the future will involve greater risks of loss than senior loans secured by income-producing properties.

We have and may continue to acquire mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt is paid in full. Where debt senior to our loan exists, the presence of intercreditor arrangements between the holder of the mortgage loan and us, as the mezzanine lender, may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies and control decisions made in bankruptcy proceedings relating to borrowers. As a result, we may not recover some or all of our investment, which could result in losses. In addition, even if we are able to foreclose on the underlying collateral following a default on a mezzanine loan, we would be substituted for the defaulting borrower and, to the extent income generated on the underlying property is insufficient to meet outstanding debt obligations on the property, may need to commit substantial additional capital to stabilize the property and prevent additional defaults to lenders with existing liens on the property. Significant losses related to our mezzanine loans could have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

Participating interests may not be available and, even if obtained, may not be realized.

In connection with the origination or acquisition of certain structured finance assets, subject to maintaining our qualification as a REIT, we have obtained and may continue to obtain participating interests, or equity "kickers," in the owner of the property that entitle us to payments based upon a development's cash flow or profits or any increase in the value of the property that would be realized upon a refinancing or sale thereof. Competition for participating interests is dependent to a large degree upon market conditions. Participating interests are more difficult to obtain when real estate financing is available at relatively low interest rates. Participating interests are not insured or guaranteed by any governmental entity and are therefore subject to the general risks inherent in real estate investments. Therefore, even if we are successful in making investments that provide for participating interests, there can be no assurance that such interests will result in additional payments to us.

Any distressed loans or investments we make, or loans and investments that later become distressed, may subject us to losses and other risks relating to bankruptcy proceedings.

While our investment strategy focuses primarily on investments in "performing" real estate-related interests, our investment program may include making distressed investments from time to time (e.g., investments in defaulted, out-of-favor or distressed bank loans and debt securities) or may involve investments that become "non-performing" following our acquisition thereof. Certain of our investments may, therefore, include specific securities of companies that typically are highly leveraged, with significant burdens on cash flow and, therefore, involve a high degree of financial risk. During an economic downturn or recession, securities of financially troubled or operationally troubled issuers are more likely to go into default than securities of other issuers. Securities of financially troubled issuers and operationally troubled issuers are less liquid and more volatile than securities of companies not experiencing financial difficulties. The market prices of such securities are subject to erratic and abrupt market movements and the spread between bid and asked prices may be greater than normally expected. Investment in the securities of financially troubled issuers and operationally troubled issuers involves a high degree of credit and market risk.

In certain limited cases (e.g., in connection with a workout, restructuring and/or foreclosing proceedings involving one or more of our debt investments), the success of our investment strategy with respect thereto will depend, in part, on our ability to effectuate loan modifications and/or restructures. Identifying and implementing any such restructuring programs entails a high degree of uncertainty. There can be no assurance that we will be able to successfully identify and implement restructuring programs. Further, such modifications and/or restructuring may entail, among other things, a substantial reduction in the interest rate and a substantial writedown of the principal of such loan, debt securities or other interests. However, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, debt securities or other interests replacement "takeout" financing will not be available.

These financial difficulties may never be overcome and may cause borrowers to become subject to bankruptcy or other similar administrative proceedings. There is a possibility that we may incur substantial or total losses on our investments and in certain circumstances, become subject to certain additional potential liabilities that may exceed the value of our original investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In any reorganization or liquidation proceeding relating to our investments, we may lose our entire investment, may be required to accept cash or securities with a value less than our original investment and/or may be required to accept payment over an extended period of time. In addition, under certain circumstances, payments to us and distributions by us to the stockholders may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, bankruptcy laws and similar laws applicable to administrative proceedings may delay our ability to realize on collateral for loan positions held by us or may adversely affect the priority of such loans through doctrines such as equitable subordination or may result in a restructure of the debt through principles such as the “cramdown” provisions of the bankruptcy laws.

Provisions for loan losses and impairment charges are difficult to estimate, particularly in a challenging economic environment and if they turn out to be incorrect, our results of operations and financial condition could be materially and adversely impacted.

In a challenging economic environment, we may experience an increase in provisions for loan losses and asset impairment charges, as borrowers may be unable to remain current in payments on loans and declining property values weaken our collateral. Our determination of provision for loan losses requires us to make certain estimates and judgments based on a number of factors, including projected cash flow from the collateral securing our CRE debt, structure, including the availability of reserves and recourse guarantees, likelihood of repayment in full at the maturity of a loan, potential for refinancing and expected market discount rates for varying property types, all of which remain uncertain and are subjective. Some of our investments have limited liquidity or are not publicly traded and so we estimate the fair value of these investments on a quarterly basis. Also, the analysis of the value or income-producing ability of commercial property is highly subjective. Our estimates and judgments may not be correct, particularly during challenging economic environments when market volatility may make it difficult to determine the fair value of certain of our assets and liabilities or the likelihood of repayment of loans we originate. Subsequent valuations and estimates, in light of factors then prevailing, may result in decreases in the values of our assets resulting in impairment charges or increases in loan loss provisions and therefore our results of operations, financial condition and our ability to make distributions to stockholders could be materially and adversely impacted.

Prepayment rates may adversely affect the value of our portfolio of assets.

Generally, our borrowers may repay their loans prior to their stated final maturities. In periods of declining interest rates and/or credit spreads, prepayment rates on loans generally increase. If general interest rates or credit spreads decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, the value of our assets may be affected by prepayment rates on loans. If we originate or acquire mortgage-related securities or a pool of mortgage securities, we anticipate that the underlying mortgages will prepay at a projected rate generating an expected yield. If we purchase assets at a premium to par value, when borrowers prepay their loans faster than expected, the corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will have to amortize the related premium on an accelerated basis. Conversely, if we purchase assets at a discount to par value, when borrowers prepay their loans slower than expected, the decrease in corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will not be able to accrete the related discount as quickly as originally anticipated. In addition, as a result of the risk of prepayment, the market value of the prepaid assets may benefit less than other fixed income securities from declining interest rates.

Prepayment rates on loans may be affected by a number of factors including, but not limited to, the then-current level of interest rates and credit spreads, fluctuations in asset values, the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the loans, possible changes in tax laws, other opportunities for investment, and other economic, social, geographic, demographic and legal factors and other factors beyond our control. Consequently, such prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from prepayment or other such risks.

We invest in preferred equity interests, which involve a greater risk than conventional senior, junior or mezzanine debt financing.

Our preferred equity investments involve a higher degree of risk than conventional debt financing due to a variety of factors, including their non-collateralized nature and subordinated ranking to other loans and liabilities of the entity in which such preferred equity is held. Accordingly, if the issuer defaults on our investment, we would only be able to proceed against such entity in accordance with the terms of the preferred security, and not against any property owned by such entity. Furthermore, in the event of bankruptcy or foreclosure, we would only be able to recoup our investment after all lenders to, and other creditors of, such entity are paid in full. As a result, we may lose all or a significant part of our investment, which could result in significant losses, have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

We invest in commercial properties subject to net leases, which could subject us to losses.

We invest in commercial properties subject to net leases. Typically, net leases require the tenants to pay substantially all of the operating costs associated with the properties. As a result, the value of, and income from, investments in commercial properties subject to net leases will depend, in part, upon the ability of the applicable tenant to meet its obligations to maintain the property under the terms of the net lease. If a tenant fails or becomes unable to so maintain a property, we will be subject to all risks associated with owning the underlying real estate. Under many net leases, however, the owner of the property retains certain obligations with respect to the property, including, among other things, the responsibility for maintenance and repair of the property, to provide adequate parking, maintenance of common areas and compliance with other affirmative covenants in the lease. If we were to fail to meet any such obligations, the applicable tenant could abate rent or terminate the applicable lease, which could result in a loss of our capital invested in, and anticipated profits from, the property.

We expect that some commercial properties subject to net leases in which we invest generally will be occupied by a single tenant and, therefore, the success of these investments will be materially dependent on the financial stability of each such tenant. A default of any such tenant on its lease payments to us would cause us to lose the revenue from the property and cause us to have to find an alternative source of revenue to meet any mortgage payment and prevent a foreclosure if the property is subject to a mortgage. In the event of a default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-letting our property. If a lease is terminated, we may also incur significant losses to make the leased premises ready for another tenant and experience difficulty or a significant delay in re-leasing such property.

In addition, net leases typically have longer lease terms and, thus, there is an increased risk that contractual rental increases in future years will fail to result in fair market rental rates during those years.

We may acquire these investments through sale-leaseback transactions, which involve the purchase of a property and the leasing of such property back to the seller thereof. If we enter into a sale-leaseback transaction, our Manager will seek to structure any such sale-leaseback transaction such that the lease will be characterized as a “true lease” for U.S. federal income tax purposes, thereby allowing us to be treated as the owner of the property for U.S. federal income tax purposes. However, we cannot assure you that the Internal Revenue Service (the “IRS”) will not challenge such characterization. In the event that any such sale-leaseback transaction is challenged and recharacterized as a financing transaction or loan for U.S. federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction were so recharacterized, we might fail to satisfy the REIT qualification “asset tests” or “income tests” and, consequently, lose our REIT status effective with the year of recharacterization. Alternatively, the amount of our REIT taxable income could be recalculated, which might also cause us to fail to meet the REIT distribution requirement for a taxable year.

We invest in CRE securities, including CMBS and collateralized debt obligations (“CDOs”), which entail certain heightened risks and are subject to losses.

We invest in a variety of CRE securities, including CMBS, CDOs and other subordinate securities. The market for CRE securities is dependent upon liquidity for refinancing and may be negatively impacted by a slowdown in new issuance. For example, the equity interests of CDOs are illiquid and often must be held by a REIT. CRE securities such as CMBS may be subject to particular risks, including lack of standardized terms and payment of all or substantially all of the principal only at maturity rather than regular amortization of principal. The value of CRE securities may change due to interest rates, credit spreads, as well as shifts in the market’s perception of issuers and regulatory or tax changes adversely affecting the CRE debt market as a whole. The exercise of remedies and successful realization of liquidation proceeds relating to CRE securities may be highly dependent upon the performance of the servicer or special servicer. Ratings for CRE securities can also adversely affect their value. Moreover, some CRE securities, such as CDO notes, generally do not qualify as real estate assets for purposes of the gross asset and income requirements that apply to REITs, which could adversely affect our ability to qualify for tax treatment as a REIT.

Our investments in CMBS and CDOs are also subject to losses. In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B-Note, if any, then by the “first loss” subordinated security holder (generally, the “B-Piece” buyer) and then by the holder of a higher-rated security. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, mezzanine loans or B-Notes, and any classes of securities junior to those in which we invest, we will not be able to recover all of our investment in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related CMBS or CDO, there would be an increased risk of loss. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

Adverse changes in general economic conditions could adversely impact our business, financial condition and results of operations.

Our business is also closely tied to general economic conditions of the areas where our investments are located and in the real estate industry generally. As a result, our economic performance, the value of our CRE debt and debt-like investments, real estate and real estate related investments, and our ability to implement our business strategies may be significantly and adversely affected by changes in economic conditions in the United States where a substantial number of our investments are located and in international geographic areas, as applicable. The condition of the real estate markets in which we operate is cyclical and depends on the condition of the economy in the United States, Europe, China and elsewhere as a whole and to the perceptions of investors of the overall economic outlook. Rising interest rates, declining employment levels, declining demand for real estate, declining real estate values or periods of general economic slowdown or recession, increasing political instability or uncertainty, or the perception that any of these events may occur have negatively impacted the real estate market in the past and may in the future negatively impact our operating performance. Declining real estate values could reduce our level of new loan originations and make borrowers less likely to service the principal and interest on our CRE debt investments. Slower than expected economic growth pressured by a strained labor market, could result in lower occupancy rates and lower lease rates across many property types, which could create obstacles for us to achieve our business plans. In addition, the economic condition of each local market where we operate may depend on one or more key industries within that market, which, in turn, makes our business sensitive to the performance of those industries.

Adverse changes in general economic conditions may also disrupt the debt and equity capital markets and lack of access to capital or prohibitively high costs of obtaining or replacing capital may materially and adversely affect our business.

We have only a limited ability to change our portfolio promptly in response to economic or other conditions. Certain significant expenditures, such as debt service costs, real estate taxes, and operating and maintenance costs, are generally not reduced when market conditions are poor. These factors impede us from responding quickly to changes in the performance of our investments and could adversely impact our business, financial condition and results of operations.

We are subject to significant competition, and we may not be able to compete successfully for investments, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to significant competition for attractive investment opportunities from other financing institutions and investors, including those focused primarily on real estate and real estate-related investment activities, some of which have greater financial resources than we do, including publicly traded REITs, non-traded REITs, insurance companies, commercial and investment banking firms, private institutional funds, hedge funds, private equity funds and other investors (including other funds managed by Colony Capital). Our competitors, including other REITs, may raise significant amounts of capital, and may have investment objectives that overlap with our investment objectives, which may create additional competition for lending and other investment opportunities. Some of our competitors may have a lower cost of funds and access to funding sources that may not be available to us or are only available to us on substantially less attractive terms. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exclusion or exemption from the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more lending relationships than we can. If we pay higher prices for investments or originate loans on less advantageous terms to us, our returns may be lower and the value of our assets may not increase or may decrease significantly below the amount we paid for such assets. As we reinvest capital, we may not realize risk adjusted returns that are as attractive as those we have realized in the past. In addition, further changes in the financial regulatory regime could decrease the current restrictions on banks and other financial institutions and allow them to compete with us for investment opportunities that were previously not available to them. For example, amendments to the Dodd-Frank Act to diminish or eliminate risk retention requirements, among other things could increase competition with our business.

As a result of this competition, desirable loans and investments in our target assets may be limited in the future, and we may not be able to take advantage of attractive lending and investment opportunities from time to time. In addition, reduced CRE transaction volume could increase competition for available investment opportunities. We can provide no assurance that we will be able to identify and originate loans or make investments that are consistent with our investment objectives. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

We may not have control over certain of our loans and investments.

Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we may:

- acquire investments subject to rights of senior classes, special servicers or collateral managers under intercreditor, servicing agreements or securitization documents;
- pledge our investments as collateral for financing arrangements;
- acquire only a minority and/or a noncontrolling participation in an underlying investment;
- co-invest with others through partnerships, joint ventures or other entities, thereby acquiring noncontrolling interests; or
- rely on independent third-party management or servicing with respect to the management of an asset.

Therefore, we may not be able to exercise control over all aspects of our loans or investments. Such financial assets may involve risks not present in investments where senior creditors, junior creditors, servicers or third parties controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior or junior creditors or servicers whose interests may not be aligned with ours. A partner or co-venturer may have financial difficulties resulting in a negative impact on such asset, may have economic or business interests or goals that are inconsistent with ours, or may be in a position to take action contrary to our investment objectives. In addition, we may, in certain circumstances, be liable for the actions of our partners or co-venturers.

Most of the commercial mortgage loans that we originate or acquire are non-recourse loans.

Except for customary non-recourse carve-outs for certain actions and environmental liability, most commercial mortgage loans are effectively non-recourse obligations of the sponsor and borrower, meaning that there is no recourse against the assets of the borrower or sponsor other than the underlying collateral. In the event of any default under a commercial mortgage loan held directly by us, we will bear a risk of loss to the extent of any deficiency between the value of the collateral and the principal of and accrued interest on the mortgage loan, which could materially and adversely affect us. There can be no assurance that the value of the assets securing our commercial mortgage loans will not deteriorate over time due to factors beyond our control, as was the case during the credit crisis and the economic recession that began in 2008. Even if a commercial mortgage loan is recourse to the borrower (or if a non-recourse carve-out to the borrower applies), in most cases, the borrower's assets are limited primarily to its interest in the related mortgaged property. Further, although a commercial mortgage loan may provide for limited recourse to a principal or affiliate of the related borrower, there is no assurance that any recovery from such principal or affiliate will be made or that such principal's or affiliate's assets would be sufficient to pay any otherwise recoverable claim. In the event of the bankruptcy of a borrower, the loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law.

We may be subject to risks associated with future advance or capital expenditure obligations, such as declining real estate values and operating performance.

Our CRE debt investments may require us to advance future funds. We may also need to fund capital expenditures and other significant expenses for our real estate property investments. Future funding obligations subject us to significant risks, such as a decline in value of the property, cost overruns and the borrower or tenant may be unable to generate enough cash flow and execute its business plan, or sell or refinance the property, in order to repay its obligations to us. We could determine that we need to fund more money than we originally anticipated in order to maximize the value of our investment even though there is no assurance additional funding would be the best course of action. Further, future funding obligations may require us to maintain higher liquidity than we might otherwise maintain and this could reduce the overall return on our investments. We could also find ourselves in a position with insufficient liquidity to fund future obligations.

We may be unable to restructure our investments in a manner that we believe maximizes value, particularly if we are one of multiple creditors in a large capital structure.

In order to maximize value, we may be more likely to extend and work out an investment rather than pursue other remedies such as taking title to collateral. However, in situations where there are multiple creditors in large capital structures, it can be particularly difficult to assess the most likely course of action that a lender group or the borrower may take and it may also be difficult to achieve consensus among the lender group as to major decisions. Consequently, there could be a wide range of potential principal recovery outcomes, the timing of which can be unpredictable, based on the strategy pursued by a lender group or other applicable parties. These multiple creditor situations tend to be associated with larger loans. If we are one of a group of lenders, we may not independently control the decision-making. Consequently, we may be unable to restructure an investment in a manner that we believe would maximize value.

We have invested in, and may continue to invest in, certain assets with lower credit quality, which will increase our risk of losses and may reduce distributions to stockholders and may adversely affect the value of our common stock.

We have invested in, and may continue to invest in, unrated or non-investment grade CRE securities, enter into leases with unrated tenants or participate in subordinate, unrated or distressed mortgage loans. The non-investment grade ratings for these assets typically result from the overall leverage of the loans, the lack of a strong operating history for the borrower owners or the properties underlying the loans or securities, the borrowers' credit history, the properties' underlying cash flow or other factors. Because the ability of obligors of properties and mortgages, including mortgage loans underlying CMBS, to make rent or principal and interest payments may be impaired during an economic downturn, prices of lower credit quality investments and CRE securities may decline. As a result, these investments may have a higher risk of default and loss than investment grade rated assets. The existing credit support in the securitization structure may be insufficient to protect us against loss of our principal on these investments. Any loss we incur may be significant, reduce distributions to stockholders and adversely affect the value of our common stock.

Insurance may not cover all potential losses on CRE investments, which may impair the value of our assets.

We generally require that each of the borrowers under our CRE debt investments obtain comprehensive insurance covering the collateral, including liability, fire and extended coverage. We also generally obtain insurance directly on any property we acquire. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods and hurricanes that may be uninsurable or not economically insurable. We may not obtain, or require borrowers to obtain, certain types of insurance if it is deemed commercially unreasonable. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it infeasible to use insurance proceeds to replace a property if it is damaged or destroyed. Further, it is possible that our borrowers could breach their obligations to us and not maintain sufficient insurance coverage. Under such circumstances, the insurance proceeds, if any, might not be adequate to restore the economic value of the property, which might decrease the value of the property and in turn impair our investment.

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.

The success of our origination or acquisition of investments significantly depends on the financial stability of the borrowers and tenants underlying such investments. Before making a loan to a borrower, we assess the strength and skills of an entity's management and other factors that we believe are material to the performance of the investment. In making the assessment and otherwise conducting customary due diligence, we rely on the resources available to us and, in some cases, an investigation by third parties. There can be no assurance that our due diligence processes will uncover all relevant facts or that any investment will be successful. The inability of a single major borrower or tenant, or a number of smaller borrowers or tenants, to meet their payment obligations could result in reduced revenue or losses.

The leases at the properties underlying CRE debt investments or the properties held by us may not be relet or renewed on favorable terms, or at all, which may result in a reduction in our net income, and as a result we may be required to reduce or eliminate cash distributions to stockholders.

Our investments in real estate will be pressured if economic conditions and rental markets continue to be challenging. For instance, upon expiration or early termination of leases for space located at our properties, the space may not be relet or, if relet, the terms of the renewal or reletting (including the cost of required renovations or concessions to tenants) may be less favorable than current lease terms. We may be receiving above market rental rates which will decrease upon renewal, which will adversely impact our income and could harm our ability to service our debt and operate successfully. Weak economic conditions would likely reduce tenants' ability to make rent payments in accordance with the contractual terms of their leases and lead to early termination of leases. Furthermore, commercial space needs may contract, resulting in lower lease renewal rates and longer releasing periods when leases are not renewed. Any of these situations may result in extended periods where there is a significant decline in revenues or no revenues generated by a property. Additionally, to the extent that market rental rates are reduced, property-level cash flow would likely be negatively affected as existing leases renew at lower rates. If we are unable to relet or renew leases for all or substantially all of the space at these properties, if the rental rates upon such renewal or reletting are significantly lower than expected, or if our reserves for these purposes prove inadequate, we will experience a reduction in net income and may be required to reduce or eliminate cash distributions to stockholders.

Because real estate investments are relatively illiquid, 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.

Many of our investments are illiquid. Our Legacy, Non-Strategic Portfolio segment consists of direct investments in operating real estate such as multi-tenant office and multifamily residential assets such as real estate acquired in settlement of loans which we plan to exit. A variety of factors could make it difficult for us to dispose of any of our assets on acceptable terms even if a disposition is in the best interests of stockholders. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Certain properties may also be subject to transfer restrictions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of financing that can be placed or repaid on that property. We may be required to expend cash to correct defects or to make improvements before a property can be sold, and we cannot provide assurance that we will have cash available to correct those defects or to make those improvements. The Code also places limits on our ability as a REIT to sell certain properties held for fewer than two years.

Borrowers under certain of our CRE debt investments may give their tenants or other persons similar rights with respect to the collateral. Similarly, we may also determine to give our tenants a right of first refusal or similar options. Such rights could negatively affect the residual value or marketability of the property and impede our ability to sell the collateral or the property.

As a result, our ability to sell investments in response to changes in economic and other conditions could be limited. To the extent we are unable to sell any property for its book value or at all, we may be required to take a non-cash impairment charge or loss on the sale, either of which would reduce our earnings. Limitations on our ability to respond to adverse changes in the performance of our investments may have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to stockholders.

Our joint venture partners could take actions that decrease the value of an investment to us and lower our overall return.

We currently have, and may in the future enter into, joint ventures with third parties, affiliates of our Manager and other Managed Companies to make investments. We may also make investments in partnerships or other co-ownership arrangements or participations. Such investments may involve risks not otherwise present with other methods of investment, including, for instance, the following risks:

- our joint venture partner in an investment could become insolvent or bankrupt;
- fraud or other misconduct by our joint venture partners;
- we may share decision-making authority with our joint venture partners regarding certain major decisions affecting the ownership of the joint venture and the joint venture investment, such as the management of the CRE debt, sale of the property or the making of additional capital contributions for the benefit of the loan or property, which may prevent us from taking actions that are opposed by our joint venture partner;
- such joint venture partner may at any time have economic or business interests or goals that are or that become in conflict with our business interests or goals, including for example the management of the CRE debt or operation of the properties;
- such joint venture partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives;
- our joint venture partners may be structured differently than us for tax purposes and this could create conflicts of interest and risk to our REIT status;
- we may rely upon our joint venture partners to manage the day-to-day operations of the joint venture and underlying loans or assets, as well as to prepare financial information for the joint venture and any failure to perform these obligations may have a negative impact our performance and results of operations;
- our joint venture partner may experience a change of control, which could result in new management of our joint venture partner with less experience or conflicting interests to ours and be disruptive to our business;
- the terms of our joint ventures could restrict our ability to sell or transfer our interest to a third party when we desire on advantageous terms, which could result in reduced liquidity;
- our joint venture partners may not have sufficient personnel or appropriate levels of expertise to adequately support our initiatives; and
- to the extent we partner with other Managed Companies, our Manager and Colony Capital may have conflicts of interest that may not be resolved in our favor.

Any of the above might subject us to liabilities and thus reduce our returns on our investment with that joint venture partner. In addition, disagreements or disputes between us and our joint venture partner could result in litigation, which could increase our expenses and potentially limit the time and effort our officers and directors are able to devote to our business.

Further, in some instances, we and/or our partner may have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partner's interest, at a time when we otherwise would not have initiated such a transaction. Our ability to acquire our partner's interest may be limited if we do not have sufficient cash, available borrowing capacity or other capital resources. In such event, we may be forced to sell our interest in the joint venture when we would otherwise prefer to retain it.

Our investments that are not denominated in U.S. dollars subject us to currency rate exposure and may adversely impact our status as a REIT.

We have investments in triple net leases, other real estate investments and loans that are denominated in euros and the Norwegian kroner, and may in the future have investments denominated in other foreign currencies, which expose us to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. A change in foreign currency exchange rates may have an adverse impact on the valuation of our equity in foreign investments and loans denominated in currencies other than the U.S. dollar. We may not be able to successfully hedge the foreign currency exposure and may incur losses on these investments as a result of exchange rate fluctuations.

In addition, changes in foreign currency exchange rates used to value a REIT's foreign assets may be considered changes in the value of the REIT's assets. These changes may adversely affect our status as a REIT. Further, bank accounts in foreign currency which are not considered cash or cash equivalents may adversely affect our status as a REIT.

Our operations in Europe and elsewhere expose our business to risks inherent in conducting business in foreign markets.

A material portion of our revenues are sourced from our foreign operations in Europe and elsewhere or other foreign markets. Accordingly, our firm-wide results of operations depend in part on our foreign operations. Conducting business abroad carries significant risks, including:

- our REIT tax status not being respected under foreign laws, in which case any income or gains from foreign sources could be subject to foreign taxes and withholding taxes;
- changes in real estate and other tax rates, the tax treatment of transaction structures and other changes in operating expenses in a particular country where we have an investment;
- restrictions and limitations relating to the repatriation of profits;
- complexity and costs of staffing and managing international operations;
- the burden of complying with multiple and potentially conflicting laws;
- changes in relative interest rates;
- translation and transaction risks related to fluctuations in foreign currency and exchange rates;
- lack of uniform accounting standards (including availability of information in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"));
- unexpected changes in regulatory requirements;
- the impact of different business cycles and economic instability;
- political instability and civil unrest;
- legal and logistical barriers to enforcing our contractual rights, including in perfecting our security interests, collecting accounts receivable, foreclosing on secured assets and protecting our interests as a creditor in bankruptcies in certain geographic regions;
- share ownership restrictions on foreign operations;
- compliance with U.S. laws affecting operations outside of the United States, including sanctions laws, or anti-bribery laws such as the Foreign Corrupt Practices Act ("FCPA"); and
- geographic, time zone, language and cultural differences between personnel in different areas of the world.

Each of these risks might adversely affect our performance and impair our ability to make distributions to our stockholders required to qualify and remain qualified as a REIT. In addition, there is generally less publicly available information about foreign companies and a lack of uniform financial accounting standards and practices (including the availability of information in accordance with GAAP) which could impair our ability to analyze transactions and receive timely and accurate financial information from our investments necessary to meet our reporting obligations to financial institutions or governmental or regulatory agencies.

Concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency, given the diverse economic and political circumstances in individual Eurozone countries and in recent volatility in the value of the euro. These concerns could lead to the re-introduction of individual currencies in one or more Eurozone countries, or, in more extreme circumstances, the possible dissolution of the euro currency entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations would be uncertain. Such uncertainty would extend to among other things, whether obligations previously expressed to be owed and payable in euros would be re-denominated in a new currency, what laws would govern and the courts of which country would have jurisdiction. These potential developments, or market perceptions concerning these and related issues, could materially adversely affect the value of our euro-denominated assets and obligations.

In addition, the United Kingdom completed its withdrawal from the European Union effective as of January 1, 2021. The consequences for the economies of the European Union member states as a result of the United Kingdom's withdrawal from the European Union are unknown and unpredictable. Uncertainty about global or regional economic conditions, and the regulation and availability of financial services, poses a risk as consumers and businesses may postpone spending in response to tighter credit, negative financial news, and declines in income or asset values, which could adversely affect the availability of financing, our business and our results of operations.

Inflation in foreign countries, along with government measures to curb inflation, may have an adverse effect on our investments.

Certain countries have in the past experienced extremely high rates of inflation. Inflation, along with governmental measures to curb inflation, coupled with public speculation about possible future governmental measures to be adopted, has had significant negative effects on these international economies in the past and this could occur again in the future. The introduction of governmental policies to curb inflation can have an adverse effect on our business. High inflation in the countries in which we purchase real estate or make other investments could increase our expenses and we may not be able to pass these increased costs on to our tenants.

Risks Related to Our Financing Strategy

Our indebtedness may subject us to increased risk of loss and could adversely affect our results of operations and financial condition.

We use a variety of structures to finance the origination and acquisition of our investments, including our credit facilities, securitization financing transactions and other term borrowings, including repurchase agreements. Subject to market conditions and availability, we may incur a significant amount of debt through bank credit facilities (including term loans and revolving facilities), warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset-specific funding arrangements and additional repurchase agreements. We may also issue debt or equity securities to fund our growth. The type and percentage of leverage we employ will vary depending on our available capital, our ability to obtain and access financing arrangements with lenders, the type of asset we are funding, whether the financing is recourse or nonrecourse, debt restrictions contained in those financing arrangements and the lenders' and rating agencies' estimate of the stability of our investment portfolio's cash flow. We may significantly increase the amount of leverage we utilize at any time without approval of our Board of Directors. In addition, we may leverage individual assets at substantially higher levels. We may be unable to obtain necessary additional financing on favorable terms or, with respect to our investments, on terms that parallel the maturities of the debt originated or acquired, if we are able to obtain additional financing at all. If our strategy is not viable, we will have to find alternative forms of long-term financing for our assets, as secured revolving credit facilities and repurchase agreements may not accommodate long-term financing. If we do obtain additional debt or financing, the substantial debt could subject us to many risks that, if realized, would materially and adversely affect us, including the risk that:

- our cash flow from operations may be insufficient to make required payments of principal of and interest on our debt or we may fail to comply with covenants contained in our debt agreements, which is likely to result in (1) acceleration of such debt (and any other debt containing a cross-default or cross-acceleration provision), which we then may be unable to repay from internal funds or to refinance on favorable terms, or at all, (2) our inability to borrow undrawn amounts under our financing arrangements, even if we are current in payments on borrowings under those arrangements, which would result in a decrease in our liquidity, and/or (3) the loss of some or all of our collateral assets to foreclosure or sale;

- our debt may increase our vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase in an amount sufficient to offset the higher financing costs;
- we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, future business opportunities, stockholder distributions or other purposes;
- we may not be able to refinance any debt that matures prior to the maturity (or realization) of an underlying investment it was used to finance on favorable terms or at all; and
- we will have increased exposure to risks if the counterparties of our debt obligations are impacted by credit market turmoil or exposure to financial or other pressures.

There can be no assurance that a leveraging strategy will be successful and may subject us to increased risk of loss, harm our liquidity and could adversely affect our results of operations and financial condition.

Our master repurchase agreements impose, and additional lending facilities may impose, restrictive covenants, which would restrict our flexibility to determine our operating policies and investment strategy and to conduct our business.

We borrow funds under master repurchase agreements with various counterparties. The documents that govern these master repurchase agreements and the related guarantees contain, and additional lending facilities may contain, customary affirmative and negative covenants, including financial covenants applicable to us that may restrict our ability to further incur borrowings, restrict our distributions to stockholders prohibit us from discontinuing insurance coverage, replacing our Manager and restrict our flexibility to determine our operating policies and investment strategy. In particular, our master repurchase agreements require us to maintain a certain amount of cash or set aside assets sufficient to maintain a specified liquidity position that would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as fully as we would otherwise choose, which could reduce our return on assets. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights in our other debt facilities. Further, this could also make it difficult for us to satisfy the requirements necessary to maintain our qualification as a REIT for U.S. federal income tax purposes or to maintain our exclusion from registration under the Investment Company Act. In addition, in the event that the lender files for bankruptcy or becomes insolvent, our loans may become subject to bankruptcy or insolvency proceedings, thus depriving us, at least temporarily, of the benefit of these assets. Such an event could restrict our access to bank credit facilities and increase our cost of capital. Our master repurchase agreements also grant certain consent rights to the lenders thereunder, which give them the right to consent to certain modifications to the pledged collateral. This could limit our ability to manage a pledged investment in a way that we think would provide the best outcome for our stockholders.

These types of financing arrangements also involve the risk that the market value of the assets pledged or sold by us to the provider of the financing may decline in value, in which case the lender or counterparty may require us to provide additional collateral or lead to margin calls that may require us to repay all or a portion of the funds advanced. We may not have the funds available to repay our debt at that time, which would likely result in defaults unless we are able to raise the funds from alternative sources including by selling assets at a time when we might not otherwise choose to do so, which we may not be able to achieve on favorable terms or at all.

Posting additional collateral would reduce our cash available to make other, higher yielding investments (thereby decreasing our return on equity). If we cannot meet these requirements, the lender or counterparty could accelerate our indebtedness, increase the interest rate on advanced funds and terminate our ability to borrow funds from it, which could materially and adversely affect our financial condition and ability to implement our investment strategy. In the case of repurchase transactions, if the value of the underlying security has declined as of the end of that term, or if we default on our obligations under the repurchase agreement, we will likely incur a loss on our repurchase transactions.

Interest rate fluctuations could reduce our ability to generate income on our investments and may cause losses.

Our financial performance is influenced by changes in interest rates, in particular, as such changes may affect our CRE securities, floating-rate borrowings and CRE debt to the extent such debt does not float as a result of floors or otherwise. Changes in interest rates affect our net interest income, which is the difference between the interest income we earn on our interest-earning investments and the interest expense we incur in financing these investments. Changes in the level of interest rates also may affect our ability to originate and acquire assets, the value of our assets and our ability to realize gains from the disposition of assets. Changes in interest rates may also affect borrower default rates. In a period of rising interest rates, our interest expense could increase, while the interest we earn on our fixed-rate debt investments would not change, adversely affecting our profitability. Our operating results depend in large part on differences between the income from our assets, net of credit losses, and our financing costs. We anticipate that for any period during which our assets are not match-funded (when we match maturities and interest rates of our liabilities with our assets to manage risks of being forced to refinance), the income from such assets will respond more slowly to interest rate fluctuations than the cost of our borrowings. We may fail to appropriately employ a match-funded structure on favorable terms or at all. Consequently, changes in interest rates particularly short term interest rates may significantly influence our net income. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions and other factors beyond our control. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us.

Hedging against interest rate and currency exposure may adversely affect our earnings, limit our gains or result in losses, which could adversely affect cash available for distribution to our stockholders.

We may enter into swap, cap or floor agreements or pursue other interest rate or currency hedging strategies. Our hedging activity will vary in scope based on interest rate levels, currency exposure, the type of investments held and other changing market conditions. Interest rate and/or currency hedging may fail to protect or could adversely affect us because, among other things:

- interest rate and/or currency hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate and/or currency hedging may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability or asset;
- our hedging opportunities may be limited by the treatment of income from hedging transactions under the rules determining REIT qualification;
- the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction;
- the counterparties with which we trade may cease making markets and quoting prices in such instruments, which may render us unable to enter into an offsetting transaction with respect to an open position;
- the party owing money in the hedging transaction may default on its obligation to pay;
- we may purchase a hedge that turns out not to be necessary (i.e., a hedge that is out of the money); and
- we may enter into hedging arrangements that would require us to fund cash payments in certain circumstances (such as the early termination of the hedging instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument).

Any hedging activity we engage in may adversely affect our earnings, which could adversely affect cash available for distribution to stockholders. Therefore, while we may enter into such transactions to seek to reduce interest rate and/or currency risks, unanticipated changes in interest rates or exchange rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not be able to establish a perfect correlation between hedging instruments and the investments being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. We may also be exposed to liquidity issues as a result of margin calls or settlement of derivative hedges. Our hedging activities, if not undertaken in compliance with certain U.S. federal income tax requirements, could also adversely affect our ability to qualify for taxation as a REIT. In addition, hedging instruments involve risk since they often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, there are no regulatory or statutory requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying derivative transactions may depend on compliance with applicable statutory, commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements.

We use short-term borrowings to finance our investments, and we may need to use such borrowings for extended periods of time to the extent we are unable to access long-term financing. This may expose us to increased risks associated with decreases in the fair value of the underlying collateral, which could have an adverse impact on our results of operations.

While we have and may continue to seek non-recourse, non-mark-to-market, matched-term, long-term financing through securitization financing transactions or other structures, such financing may be unavailable to us on favorable terms or at all. Consequently, we may be dependent on short-term financing arrangements that are not matched in duration to our financial assets. Short-term borrowing through repurchase arrangements, credit facilities and other types of borrowings may put our assets and financial condition at risk. Repurchase agreements economically resemble short-term, floating rate financing and usually require the maintenance of specific loan-to-collateral value ratios. Posting additional collateral to support our financing arrangements could significantly reduce our liquidity and limit our ability to leverage our assets. Furthermore, the cost of borrowings may increase substantially if lenders view us as having increased credit risk during periods of market distress. Any such short-term financing may also be recourse to us, which will increase the risk of our investments.

In addition, the value of assets underlying any such short-term financing may be marked-to-market periodically by the lender, including on a daily basis. To the extent these financing arrangements contain mark-to-market provisions, if the market value of the investments pledged by us declines due to credit quality deterioration, we may be required by our lenders to provide additional collateral or pay down a portion of our borrowings. In a weakening economic environment, we would generally expect credit quality and the value of the investment that serves as collateral for our financing arrangements to decline, and in such a scenario, it is likely that the terms of our financing arrangements would require partial repayment from us, which could be substantial.

These facilities may also be restricted to financing certain types of assets, such as first mortgage loans, which could impact our asset allocation. In addition, such short-term borrowing facilities may limit the length of time that any given asset may be used as eligible collateral. As a result, we may not be able to leverage our assets as fully as we would choose, which could reduce our return on assets. Further, such borrowings may require us to maintain a certain amount of cash reserves or to set aside unleveraged assets sufficient to maintain a specified liquidity position that would allow us to satisfy our collateral obligations. In the event that we are unable to meet the collateral obligations for our short-term borrowings, our financial condition could deteriorate rapidly.

We are subject to 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.

As of December 31, 2020, our portfolio had $1.0 billion of total mortgage financing. We are subject to risks normally associated with financing, including the risks that our cash flow is insufficient to make timely payments of interest or principal, that we may be unable to refinance existing borrowings or support collateral obligations and that the terms of refinancing may not be as favorable as the terms of existing borrowing. If we are unable to refinance or extend principal payments due at maturity or pay them with proceeds from other capital transactions or the sale of the underlying property, our cash flow may not be sufficient in all years to make distributions to stockholders and to repay all maturing borrowings. Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, the interest expense relating to that refinanced borrowing would increase, which could reduce our profitability, result in losses and negatively impact the amount of distributions we are able to pay to stockholders. Moreover, additional financing increases the amount of our leverage, which could negatively affect our ability to obtain additional financing in the future or make us more vulnerable in a downturn in our results of operations or the economy generally.

Any warehouse facilities that we may obtain in the future may limit our ability to acquire assets, and we may incur losses if the collateral is liquidated.

In the event that securitization financings become available, we may utilize, if available, warehouse facilities pursuant to which we would accumulate mortgage loans in anticipation of a securitization financing, which assets would be pledged as collateral for such facilities until the securitization transaction is consummated. In order to borrow funds to acquire assets under any future warehouse facilities, we expect that our lenders thereunder would have the right to review the potential assets for which we are seeking financing. We may be unable to obtain the consent of a lender to acquire assets that we believe would be beneficial to us, and we may be unable to obtain alternate financing for such assets. In addition, no assurance can be given that a securitization structure would be consummated with respect to the assets being warehoused. If the securitization is not consummated, the lender could liquidate the warehoused collateral and we would then have to pay any amount by which the original purchase price of the collateral assets exceeds its sale price, subject to negotiated caps, if any, on our exposure. In addition, regardless of whether the securitization is consummated, if any of the warehoused collateral is sold before the consummation, we would have to bear any resulting loss on the sale. Currently, we have no warehouse facilities in place, and no assurance can be given that we will be able to obtain one or more.

Risks Related to Regulatory Matters

The loss of our Investment Company Act exclusion could require us to register as an investment company or substantially change the way we conduct our business, either of which may have an adverse effect on us and the value of our common stock.

On August 31, 2011, the SEC published a concept release (Release No. 29778, File No. S7-34-11, Companies Engaged in the Business of Acquiring Mortgages and Mortgage Related Instruments), pursuant to which it is reviewing whether certain companies that invest in MBSs and rely on the exclusion from registration under Section 3(c)(5)(C) of the Investment Company Act, such as us, should continue to be allowed to rely on such an exclusion from registration. If the SEC or its staff takes action with respect to this exclusion, these changes could mean that certain of our subsidiaries could no longer rely on the Section 3(c)(5)(C) exclusion, and would have to rely on Section 3(c)(1) or 3(c)(7), which would mean that our investment in those subsidiaries would be investment securities. This could result in our failure to maintain our exclusion from registration as an investment company. If we fail to maintain an exclusion from registration as an investment company, either because of SEC interpretational changes or otherwise, we could, among other things, be required either: (i) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company; or (ii) to register as an investment company, either of which could have an adverse effect on us and the value of our common stock. If we are required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration and other matters.

Our Manager is subject to extensive regulation, including as an investment adviser in the United States, which could adversely affect its ability to manage our business.

Certain of Colony Capital's affiliates, including our Manager, are subject to regulation as investment advisers and/or fund managers by various regulatory authorities that are charged with protecting our interests. Instances of criminal activity and fraud by participants in the investment management industry and disclosures of trading and other abuses by participants in the financial services industry have led the U.S. government and regulators in foreign jurisdictions to consider increasing the rules and regulations governing, and oversight of, the financial system. This activity is expected to result in continued changes to the laws and regulations governing the investment management industry and more aggressive enforcement of the existing laws and regulations. Our Manager could be subject to civil liability, criminal liability, or sanction, including revocation of its registration as an investment adviser in the United States, revocation of the licenses of its employees, censures, fines or temporary suspension or permanent bar from conducting business if it is found to have violated any of these laws or regulations. Any such liability or sanction could adversely affect its ability to manage our business.

Our Manager must continually address conflicts between its interests and those of its Managed Companies, and us. In addition, the SEC and other regulators have increased their scrutiny of potential conflicts of interest. However, appropriately dealing with conflicts of interest is complex and difficult and if our Manager fails, or appears to fail, to deal appropriately with conflicts of interest, it could face litigation or regulatory proceedings or penalties, any of which could adversely affect its ability to manage our business.

Risks Related to Taxation

We may pay taxable dividends in our common stock and cash, in which case stockholders may sell shares of our common stock to pay tax on such dividends, placing downward pressure on the market price of our common stock.

We generally must distribute annually at least 90% of our REIT taxable income (subject to certain adjustments and excluding any net capital gain), in order to qualify as a REIT, and any REIT taxable income that we do not distribute will be subject to U.S. corporate income tax at regular rates. In April 2020, the Board of Directors of the Company determined it was prudent to conserve available liquidity and suspend the Company's monthly stock dividend beginning with the monthly period ending April 30, 2020. The Board of Directors will evaluate dividends in future periods based upon customary consideration, such as our cash balances, and cash flows and market conditions and could consider paying future dividends in shares of common stock, cash, or a combination of shares of common stock and cash. Subsequent to December 31, 2020, the Board of Directors approved a $0.10 quarterly dividend for the first quarter of 2021, payable on April 15, 2021 to stockholders of record as of March 31, 2021. However, no assurance can be given that we will be able to make distributions to our stockholders at any time in the future or that the level of any distributions we do make to our stockholders will achieve a market yield or increase or even be maintained over time.

On August 11, 2017, the IRS issued Revenue Procedure 2017-45, authorizing elective stock dividends to be made by public REITs. Pursuant to this revenue procedure, effective for distributions declared on or after August 11, 2017, the IRS will treat the distribution of stock pursuant to an elective stock dividend as a distribution of property under Section 301 of the Code (i.e., as a dividend to the extent of our earnings and profits), as long as at least 20% of the total dividend is available in cash and certain other requirements outlined in the revenue procedure are met.

If we make a taxable dividend payable in cash and common stock, taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. As a result, stockholders may be required to pay income tax with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the common stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our common stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common stock. If we make a taxable dividend payable in cash and our common stock and a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

Our qualification as a REIT involves complying with highly technical and complex provisions of the Code.

We elected to be taxed as a REIT under the U.S. federal income tax laws commencing with our taxable year ended December 31, 2018. Our qualification as a REIT involves the application of highly technical and complex provisions of the Code for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. New legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT.

Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis:

- With respect to the gross income and asset tests, our compliance depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Moreover, we invest in certain assets with respect to which the rules applicable to REITs are particularly difficult to interpret or to apply, including, but not limited to, the rules applicable to financing arrangements that are structured as sale and repurchase agreements; mezzanine loans; and investments in real estate mortgage loans that are acquired at a discount, subject to work-outs or modifications, or reasonably expected to be in default at the time of acquisition. If the IRS challenged our treatment of these assets as real estate assets for purposes of the REIT asset tests, and if such a challenge were sustained, we could fail to meet the asset tests applicable to REITs and thus fail to qualify as a REIT.
- The fact that we own direct or indirect interests in a number of entities that have elected to be taxed as REITs under the U.S. federal income tax laws (each, a "Subsidiary REIT"), further complicates the application of the REIT requirements for us. Each Subsidiary REIT is subject to the various REIT qualification requirements that are applicable to us. If a Subsidiary REIT were to fail to qualify as a REIT, then (i) that Subsidiary REIT would become subject to regular U.S. federal corporate income tax, (ii) our interest in such Subsidiary REIT would cease to be a qualifying asset for purposes of the REIT asset tests, and (iii) it is possible that we would fail certain of the REIT asset tests, in which event we also would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions.
- Our ability to satisfy the distribution and other requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own limited partner or non-managing member interests in partnerships and limited liability companies that are joint ventures or funds.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of our common stock. In addition, we would no longer be required to make distributions to stockholders. Unless we were entitled to relief under certain Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

We may incur adverse tax consequences if NorthStar I or NorthStar II were to have failed to qualify as a REIT for U.S. federal income tax purposes prior to the Mergers.

In connection with the closing of the Mergers, we received an opinion of counsel to each of NorthStar I and NorthStar II to the effect that it qualified as a REIT for U.S. federal income tax purposes under the Code through the time of the Mergers. Neither NorthStar I nor NorthStar II, however, requested a ruling from the IRS that it qualified as a REIT. If, notwithstanding these opinions, NorthStar I's or NorthStar II's REIT status for periods prior to the Mergers were successfully challenged, we would face serious adverse tax consequences that would substantially reduce our core funds from operations, and cash available for distribution, including cash available to pay dividends to our stockholders, because:

- NorthStar I or NorthStar II, as applicable, would be subject to U.S. federal, state and local income tax on its net income at regular corporate rates for the years it did not qualify as a REIT (and, for such years, would not be allowed a deduction for dividends paid to stockholders in computing its taxable income) and we would succeed to the liability for such taxes;
- if we were considered to be a "successor" of such entity, we would not be eligible to elect REIT status until the fifth taxable year following the year during which such entity was disqualified, unless it were entitled to relief under applicable statutory provisions;
- even if we were eligible to elect REIT status, we would be subject to tax (at the highest corporate rate in effect at the date of the sale) on the built-in gain on each asset of NorthStar I or NorthStar II, as applicable, existing at the time of the Mergers if we were to dispose of such asset for up to five years following the Mergers; and
- we would succeed to any earnings and profits accumulated by NorthStar I or NorthStar II, as applicable, for tax periods that such entity did not qualify as a REIT and we would have to pay a special dividend and/or employ applicable deficiency dividend procedures (including interest payments to the IRS) to eliminate such earnings and profits to maintain our REIT qualification.

As a result of these factors, NorthStar I's or NorthStar II's failure to qualify as a REIT prior to the Mergers could impair our ability to expand our business and raise capital and could materially adversely affect the value of our common stock. In addition, even if they qualified as REITs for the entirety of their existence, if there is an adjustment to NorthStar I's or NorthStar II's taxable income or dividends-paid deductions for periods prior to the Mergers, we could be required to elect to use the deficiency dividend procedure to maintain NorthStar I's or NorthStar II's, as applicable, REIT status for periods prior to the Mergers. That deficiency dividend procedure could require us to make significant distributions to our stockholders and to pay significant interest to the IRS.

Dividends payable by REITs do not qualify for the preferential tax rates available for some dividends.

The maximum rate applicable to "qualified dividend income" paid by non-REIT "C" corporations to U.S. stockholders that are individuals, trusts and estates generally is 20%. Dividends payable by REITs to those U.S. stockholders, however, generally are not eligible for the current reduced rate, except to the extent that certain holding requirements have been met and a REIT's dividends are attributable to dividends received by a REIT from taxable corporations (such as a taxable REIT subsidiary ("TRS")), to income that was subject to tax at the REIT/corporate level, or to dividends properly designated by the REIT as "capital gains dividends." Effective for taxable years before January 1, 2026, those U.S. stockholders may deduct 20% of their dividends from REITs (excluding qualified dividend income and capital gains dividends). For those U.S. stockholders in the top marginal tax bracket of 37%, the deduction for REIT dividends yields an effective income tax rate of 29.6% on REIT dividends, which is higher than the 20% tax rate on qualified dividend income paid by non-REIT "C" corporations, but still lower than the effective rate that applied prior to 2018, which is the first year that this special deduction for REIT dividends is available. Although the reduced rates applicable to dividend income from non-REIT "C" corporations do not adversely affect the taxation of REITs or dividends payable by REITs, it could cause investors who are non-corporate taxpayers to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT "C" corporations that pay dividends, which could adversely affect the value of our common stock.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our REIT taxable income (subject to certain adjustments and excluding any net capital gain), in order to qualify as a REIT, and any REIT taxable income that we do not distribute will be subject to U.S. corporate income tax at regular rates. In addition, from time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with U.S. GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example,

- we may be required to accrue income from mortgage loans, MBSs, and other types of debt securities or interests in debt securities before we receive any payments of interest or principal on such assets;
- we may acquire distressed debt investments that are subsequently modified by agreement with the borrower, which could cause us to have to recognize gain in certain circumstances;

- we may recognize substantial amounts of "cancellation of debt" income for U.S. federal income tax purposes (but not for U.S. GAAP purposes) due to discount repurchases of our liabilities, which could cause our REIT taxable income to exceed our U.S. GAAP income;
- we or our TRSs may recognize taxable "phantom income" as a result of modifications, pursuant to agreements with borrowers, of debt instruments that we acquire if the amendments to the outstanding debt are "significant modifications" under the applicable Treasury regulations. In addition, our TRSs may be treated as a "dealer" for U.S. federal income tax purposes, in which case the TRS would be required to mark-to-market its assets at the end of each taxable year and recognize taxable gain or loss on those assets even though there has been no actual sale of those assets;
- we may deduct our capital losses only to the extent of our capital gains and not against our ordinary income, in computing our REIT taxable income for a given taxable year;
- certain of our assets and liabilities are marked-to-market for U.S. GAAP purposes but not for tax purposes, which could result in losses for U.S. GAAP purposes that are not recognized in computing our REIT taxable income; and
- under the Tax Cut and Jobs Act of 2017, we generally must accrue income for U.S. federal income tax purposes no later than when such income is taken into account as revenue in our financial statements, which could create additional differences between REIT taxable income and the receipt of cash attributable to such income.

As a result of both the requirement to distribute 90% of our REIT taxable income each year (and to pay tax on any income that we do not distribute) and the fact that our taxable income may well exceed our cash income due to the factors mentioned above as well as other factors, we may find it difficult to meet the REIT distribution requirements in certain circumstances while also having adequate cash resources to execute our business plan. In particular, where we experience differences in timing between the recognition of taxable income and the actual receipt of cash, the requirement to distribute a substantial portion of our taxable income could cause us to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt or (iv) make a taxable distribution of our shares of common stock as part of a distribution in which stockholders may elect to receive shares of common stock or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with REIT requirements. These alternatives could increase our costs, reduce our equity, and/or result in stockholders being taxed on distributions of shares of stock without receiving cash sufficient to pay the resulting taxes. Thus, compliance with the REIT distribution requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

Even if we continue to qualify as a REIT, we may face other tax liabilities that reduce our cash available for distribution to stockholders.

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. We also are subject to U.S. federal and state income tax (and any applicable non-U.S. taxes) on the net income earned by our TRSs. In addition, we have substantial operations and assets outside of the U.S. that are subject to tax in those countries. Those taxes, unless incurred by a TRS, are not likely to generate an offsetting credit for taxes in the U.S. In addition, if we have net income from "prohibited transactions," that income will be subject to a 100% tax. In general, "prohibited transactions" are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to dispose of, modify or securitize loans in a manner that was treated as a sale or deemed exchange of the loans for U.S. federal income tax purposes that is subject to the prohibited transactions tax. In order to avoid the prohibited transactions tax, we may choose not to engage in certain sales or modifications of loans at the REIT-level, and may limit the structures we utilize for our securitization transactions, even though such sales or structures might otherwise be beneficial to us. Finally, we could, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain our qualification as a REIT. Any of these taxes would decrease cash available for distribution to our stockholders.

Complying with REIT requirements may force us to forgo and/or liquidate otherwise attractive investment opportunities.

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually and that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans and certain kinds of MBS. The remainder of our investment in securities (other than qualified 75% asset test assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than qualified 75% asset test assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total assets can be represented by stock or securities of one or more TRSs. Debt instruments issued by "publicly offered REITs," to the extent not secured by real property or interests in real property, qualify for the 75% asset test but the value of such debt instruments cannot exceed 25% of the value of our total assets. The compliance with these limitations, particularly given the nature of some of our investments, may hinder our ability to make, and, in certain cases, maintain ownership of certain attractive investments that might not qualify for the 75% asset test. If we fail to comply with the REIT asset tests requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio, or contribute to a TRS, otherwise attractive investments in order to maintain our qualification as a REIT. These actions could have the effect of reducing our income, increasing our income tax liability, and reducing amounts available for distribution to our stockholders. In addition, we may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments (or, in some cases, forego the sale of such investments) that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT.

The "taxable mortgage pool" rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.

Securitizations by us or our subsidiaries could result in the creation of taxable mortgage pools for U.S. federal income tax purposes. As a result, we could have "excess inclusion income." In general, dividend income that a tax-exempt entity receives from us should not constitute unrelated business taxable income ("UBTI"), as defined in Section 512 of the Code. If, however, we realize excess inclusion income and allocate it to stockholders, then this income would be fully taxable as UBTI to a tax-exempt entity under Section 512 of the Code. A foreign stockholder would generally be subject to U.S. federal income tax withholding on this excess inclusion income without reduction pursuant to any otherwise applicable income tax treaty. U.S. stockholders would not be able to offset such income with their net operating losses.

Although the law is not entirely clear, the IRS has taken the position that we are subject to tax at the highest corporate rate on the portion of our excess inclusion income equal to the percentage of our stock held in record name by "disqualified organizations" (generally tax-exempt investors, such as certain state pension plans and charitable remainder trusts, that are not subject to the tax on unrelated business taxable income). To the extent that our stock owned by "disqualified organizations" is held in street name by a broker-dealer or other nominee, the broker-dealer or nominee would be liable for a tax at the highest corporate rate on the portion of our excess inclusion income allocable to the stock held on behalf of the "disqualified organizations." A regulated investment company or other pass-through entity owning our stock may also be subject to tax at the highest corporate tax rate on any excess inclusion income allocated to their record name owners that are "disqualified organizations."

Excess inclusion income could result if a REIT held a residual interest in a real estate mortgage investment conduit ("REMIC"). In addition, excess inclusion income also may be generated if a REIT issues debt with two or more maturities and the terms of the payments of those debt instruments bear a relationship to the payments that the REIT received on mortgage loans or MBSs securing those liabilities. If any portion of our dividends is attributable to excess inclusion income, then the tax liability of tax-exempt stockholders, non-U.S. stockholders, stockholders with net operating losses, regulated investment companies and other pass-through entities whose record name owners are disqualified organizations and brokers-dealers and other nominees who hold stock on behalf of disqualified organizations will very likely increase.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code limit our ability to hedge certain of our liabilities. Under these provisions, any income from a hedging transaction that we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets, or to manage the risk of certain currency fluctuations, and that is properly identified under applicable Treasury Regulations, does not constitute "gross income" for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of the REIT gross income tests. As a result of these rules, we intend to limit our use of advantageous hedging techniques that do not qualify for the exclusion from the REIT gross income tests or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS.

There is a risk of changes in the tax law applicable to REITs.

The IRS, the United States Treasury Department and Congress frequently review U.S. federal income tax legislation, regulations and other guidance. We cannot predict whether, when or to what extent new U.S. federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect our taxation or our stockholders. We urge you to consult with your tax advisor with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares. Although REITs generally receive certain tax advantages compared to entities taxed as C corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated for U.S. federal income tax purposes as a C corporation.

Our ownership of assets and conduct of operations through our TRSs is limited and involves certain risks for us.

We use our TRSs to hold assets and earn income that would not be qualifying assets or income if held or earned directly by us. Apart from the fact that income from those TRSs may be subject to U.S. federal, foreign, state and local income tax on their taxable income and only their after-tax net income is available for distribution to us, our use of the TRS for this purpose is subject to certain costs, risks and limitations:

- No more than 20% of the value of our gross assets may consist of stock or securities of one or more TRSs.
- The TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.
- We treat income that we earn from certain foreign TRSs, including issuers in CDO transactions, as qualifying dividend income for purposes of the REIT income tests, based on several private letter rulings that the IRS has issued to other taxpayers (which technically may be relied upon only by those taxpayers), but there can be no assurance that the IRS might not successfully challenge our treatment of such income as qualifying income, in which event we might not satisfy the REIT 95% gross income test, and we either could be subject to a penalty tax with respect to some or all of that income we could fail to continue to qualify as a REIT.
- We generally structure our foreign TRSs with the intent that their income and operations will not be subject to U.S. federal, state and local income tax. If the IRS successfully challenged that tax treatment, it would reduce the amount that those foreign TRSs would have available to pay to their creditors and to distribute to us.

We are mindful of all of these limitations and analyze and structure the income and operations of our TRSs to mitigate these costs and risks to us to the extent practicable, but we may not always be successful in all cases.

General Risk Factors

Stockholders have limited control over changes in our policies and operations, which increases the uncertainty and risks they face as stockholders.

Our Board of Directors determines our major policies, including our policies regarding growth, REIT qualification and distributions. Our Board of Directors may amend or revise these and other policies without a vote of the stockholders. We may change our investment policies without stockholder notice or consent, which could result in investments that are riskier or different than our current investments. Our Board of Directors' broad discretion in setting policies and stockholders' inability to exert control over those policies increases the uncertainty and risks stockholders face.

If we are unable to implement and maintain effective internal controls over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected.

As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. The process of designing, implementing and testing the internal controls over financial reporting required to comply with this obligation is time consuming, costly and complicated. If we identify material weaknesses in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or to assert that our internal controls over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, and the market price of our common stock could be negatively affected. We could also become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

New accounting standards may result in a significant change to our recognition of credit losses.

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard replaced the incurred loss impairment methodology pursuant to GAAP with a methodology that reflects current expected credit losses ("CECL") and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under the CECL model, which became effective for us for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, we are required to present certain financial assets carried at amortized cost, such as loans held for investment, at the net amount expected to be collected. The measurement of expected credit losses is based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement takes place at the time the financial asset is first added to the balance sheet and updated quarterly thereafter. This differs from the incurred loss impairment methodology pursuant to GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, the CECL model may affect how we determine our allowance for loan losses and could require us to increase our allowance and recognize provisions for loan losses earlier in the lending cycle. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If we are required to increase our level of allowance for loan losses for any reason, such increase may affect our business, financial condition and results of operations.

Environmental compliance costs and other potential environmental liabilities associated with our current or former properties or our CRE debt or real estate-related investments could materially impair the value of our investments and expose us to material liability.

Under various federal, state and local environmental laws, statutes, ordinances and regulations relating to the protection of the environment, a current or previous owner or operator of real property, such as us, our borrowers and our tenants, may be liable in certain circumstances for the costs of investigation, removal or remediation of contamination, or related to hazardous or toxic substances, materials or wastes, including petroleum and materials containing asbestos or, mold, present or released at, under, on, or from such property. In addition, we also may be liable for costs of remediating contamination at off-site disposal or treatment facilities where we arranged for disposal or treatment of hazardous substances at such facilities. Potential liabilities relating to the forgoing also include government fines and penalties, natural resource damages, and damages for injuries to persons and property. In addition, some environmental laws can create a lien on the contaminated site in favor of the government for damages and the costs it incurs in connection with the contamination. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence, release or disposal of such substances, may be joint and several, and may be imposed on the current or former owner or operator of a property in connection with the activities of a tenant or a prior owner or operator at the property. The presence of contamination or the failure to remediate contamination may adversely affect our or our tenants' ability to sell, develop, operate or lease real estate, or to borrow using the real estate as collateral, which, in turn, could reduce our revenues. As an owner or operator of a site, including if we take ownership through foreclosure, we also can be liable under common law to third parties for damages and injuries resulting from environmental contamination at or emanating from the site (e.g., for cleanup costs, natural resource damages, bodily injury or property damage). Some of our properties are or have been used for commercial or industrial purposes involving the use or presence of hazardous substances, materials or waste, which could have resulted in environmental impacts at or from these properties, including contamination of which we are not presently aware.

We are also subject to federal, state and local environmental, health and safety laws and regulations and zoning requirements, including those regarding the handling of regulated substances and wastes, emissions to the environment and fire codes. If we, or our tenants or borrowers, fail to comply with these various laws and requirements, we might incur costs and liabilities, including governmental fines and penalties. Moreover, we do not know whether existing laws and requirements will change or, if they do, whether future laws and requirements will require us to make significant unanticipated expenditures that could have a material adverse effect on our business. Our tenants are subject to the same environmental, health and safety and zoning laws and also may be liable for cleanup or remediation of contamination. Such liability could affect a tenant's ability to make rental payments to us.

Some of our properties may contain, or may have contained, asbestos-containing building materials. Environmental, health and safety laws require that owners or operators of or employers in buildings with ACM properly manage and maintain these materials, adequately inform or train those who may come into contact with ACM and undertake special precautions, including removal or other abatement, in the event that ACM is disturbed during building maintenance, renovation or demolition. These laws may impose fines and penalties on employers or, building owners or operators for failure to comply with these requirements. In addition, third parties may seek recovery from employers, owners or operators for personal injury associated with exposure to asbestos.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues also can stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants and others if property damage or personal injury occurs.

These costs and liabilities, including for any required investigation, remediation, removal, fines, penalties, costs to comply with environmental law or personal or property injury or damages and our or our tenants' or borrowers' liability could significantly exceed the value of the property without any limits.

The scope of any indemnification our tenants or borrowers have agreed to provide us for environmental liabilities may be limited. For instance, some of our agreements with our tenants or borrowers do not require them to indemnify us for environmental liabilities arising before such tenant or borrower took possession of the premises. Further, we cannot assure stockholders that any such tenant or borrower would be able to fulfill its indemnification obligations. If we were deemed liable for any such environmental liabilities and were unable to seek recovery against our tenant or borrower, our business, financial condition and results of operations could be materially and adversely affected.

Furthermore, we may invest in real estate, or CRE debt secured by real estate or subordinate interests, with environmental impacts or issues that materially impair the value of the real estate. Even as a lender, if we participate in management or take title to collateral with environmental problems or if other circumstances arise, we could be subject to environmental liability. There are substantial risks associated with such an investment.

Laws, regulations or other issues related to climate change could have a material adverse effect on us.

If we, or other companies with which we do business, particularly utilities that provide our facilities with electricity, become subject to laws or regulations related to climate change, it could have a material adverse effect on us. The United States may enact new laws, regulations and interpretations relating to climate change, including potential cap-and-trade systems, carbon taxes and other requirements relating to reduction of carbon footprints and/or greenhouse gas emissions. Other countries have enacted climate change laws and regulations, and the United States has been involved in discussions and agreements regarding international climate change treaties. The federal government and some of the states and localities in which we operate have enacted certain climate change laws and regulations and/or have begun regulating carbon footprints and greenhouse gas emissions. Although these laws and regulations have not had any known material adverse effect on us to date, they could limit our ability to develop properties or result in substantial costs, including compliance costs, retrofit costs and construction costs, monitoring and reporting costs and capital expenditures for environmental control facilities and other new equipment. In addition, these laws and regulations could lead to increased costs for the electricity that our tenant's require to conduct operations. Furthermore, our reputation could be damaged if we violate climate change laws or regulations. We cannot predict how future laws and regulations, or future interpretations of current laws and regulations, related to climate change will affect our business, results of operations, liquidity and financial condition. Lastly, the potential physical impacts of climate change on our operations are highly uncertain, and would be particular to the geographic circumstances in areas in which we operate. These potential impacts may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures, any of which could increase our operating costs. Any of these matters could have a material adverse effect on us.

There can be no assurance that our existing floating rate debt and hedging arrangements will continue to use LIBOR as a reference rate, that LIBOR will continue as a viable or appropriate reference rate and in the event that LIBOR is discontinued, which replacement rate will be used and whether such a rate will be adopted in the same way in the loan and hedge markets and perform in the same way as LIBOR would have at any time.

Certain of our floating-rate debt and hedging arrangements determine the applicable interest rate or payment amount by reference to LIBOR, or to another financial metric. In July 2017, the Chief Executive of the U.K. Financial Conduct Authority ("FCA") announced its intent to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021, indicating that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. On November 30, 2020, the U.S. Federal Reserve Board expressed support for a plan to cease publication of the one week and two month USD LIBOR settings after December 31, 2021, and the remaining USD LIBOR settings after June 30, 2023 and encouraged banks to transition from USD LIBOR as soon as possible. It appears highly likely that USD LIBOR for the remaining USD LIBOR settings will be discontinued after June 2023. Our floating rate debt and hedging arrangements use rates based on one month USD LIBOR and include debt and hedges that will mature after June 2023. Accordingly, unless such arrangements are modified to provide for a specific replacement benchmark, it is unclear what rate would apply to such floating rate debt and hedges.

In April 2018, the New York Federal Reserve commenced publishing an alternative reference rate, the Secured Overnight Financing Rate ("SOFR"), proposed by a group of major market participants convened by the U.S. Federal Reserve with participation by SEC Staff and other regulators. Guidance and documentation published by the International Swaps and Derivatives Association ("ISDA") in October 2020 proposes SOFR as the fallback benchmark rate for dollar-denominated derivative instruments currently utilizing the USD LIBOR benchmark rate, such as our hedging instruments and recommends that parties to hedge arrangements modify their existing arrangements to provide for SOFR as the replacement for LIBOR. Accordingly, it is likely that we will be requested to modify our hedge arrangements to provide that SOFR will become the benchmark rate upon certain LIBOR cessation events.

While it is likely that the hedging market will generally adopt SOFR as the benchmark replacement, there is still some uncertainty as to the implementation of a replacement in the loan markets, in particular when and how such a replacement will be implemented in the loan market. While the loan market may eventually generally adopt SOFR as the replacement for LIBOR, there can be no assurance as to the timing of such adoption and any differences in the timing of adoption of SOFR between the loan and hedge market as well as differences in methodology and valuation can lead to mismatches in hedging, which could result in changes to our risk exposure, adverse tax or accounting effects, increased compliance and legal and operational costs.

Furthermore, the composition and characteristics of SOFR are not the same as those of LIBOR and SOFR. SOFR is a secured rate, while LIBOR is an unsecured rate, and SOFR is an overnight rate, while LIBOR is a forward-looking rate that represents interbank funding over different maturities. While market participants, including ISDA, have proposed certain methods to interpolate and transition between LIBOR and SOFR, there can be no assurance that SOFR (including a term SOFR or compounded SOFR) will perform in the same way as LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, regulatory, judicial or other events.

In addition, any such discontinuation or changes, whether actual or anticipated, could result in market volatility, adverse tax or accounting effects, increased compliance, legal and operational costs, and risks associated with contract negotiations.

Changes in laws or regulations governing our operations, changes in the interpretation thereof or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes to certain of our business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us, subject us to increased competition or otherwise adversely affect our business.

The laws and regulations governing our operations, as well as their interpretation, may change from time to time, and new laws and regulations may be enacted. For example, from time to time the market for real estate debt transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. Furthermore, if regulatory capital requirements—whether under the Dodd-Frank Act, Basel III (voluntary minimum requirements for internationally active banks) or other regulatory action—are imposed on private lenders that provide us with funds, or were to be imposed on us, they or we may be required to limit, or increase the cost of, financing they provide to us or that we provide to others. Among other things, this could potentially increase our financing costs, reduce our ability to originate or acquire loans and reduce our liquidity or require us to sell assets at an inopportune time or price.

There has been increasing commentary amongst regulators and intergovernmental institutions on the role of nonbank institutions in providing credit and, particularly, so-called "shadow banking," a term generally referring to credit intermediation involving entities and activities outside the regulated banking system and increased oversight and regulation of such entities. In the United States, the Dodd-Frank Act established the Financial Stability Oversight Council (the "FSOC"), which is comprised of representatives of all the major U.S. financial regulators, to act as the financial system's systemic risk regulator. The FSOC has the authority to review the activities of non-bank financial companies predominantly engaged in financial activities and designate those companies as "systemically important" for supervision by the Federal Reserve. Although the FSOC has raised the "systemically important financial institution" asset threshold to $250 billion in total consolidated assets, compliance with any increased regulation of non-bank credit extension could require changes to certain of our business practices, negatively impact our operations, cash flows or financial condition or impose additional costs on us.

The market price of our common stock may fluctuate significantly.

The capital and credit markets have from time to time experienced periods of extreme volatility and disruption. The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance.

Some of the factors that could negatively affect the market price of our common stock include:

- our actual or projected operating results, financial condition, cash flows and liquidity, or changes in business strategy or prospects;

- actual or perceived conflicts of interest with our Manager, Colony Capital or their affiliates and individuals, including our executives;
- equity issuances by us, or resales of our shares by our stockholders, or the perception that such issuances or resales may occur;
- loss of a major funding source;
- actual or anticipated accounting problems;
- publication of research reports about us or the real estate industry;
- changes in market valuations of similar companies;
- adverse market reaction to the level of leverage we employ;
- additions to or departures of our Manager's and/or Colony Capital's key personnel or adverse effects on the business or operations of our Manager, Colony Capital or their affiliates;
- speculation in the press or investment community;
- our failure to meet, or the lowering of, our earnings estimates or those of any securities analysts;
- increases in market interest rates, which may lead investors to demand a higher distribution yield for our common stock and would result in increased interest expenses on our debt;
- a compression of the yield on our investments and an increase in the cost of our liabilities;
- failure to operate in a manner consistent with our intention to qualify as a REIT or exclusion from registration under the Investment Company Act;
- price and volume fluctuations in the overall stock market from time to time;
- general market and economic conditions and trends including inflationary concerns, and the current state of the credit and capital markets;
- significant volatility in the market price and trading volume of securities of publicly traded REITs or other companies in our sector, which is not necessarily related to the operating performance of these companies;
- changes in law, regulatory policies or tax guidelines, or interpretations thereof, particularly with respect to REITs;
- changes in the value of our portfolio;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- operating performance of companies comparable to us;
- short-selling pressure with respect to shares of our common stock or REITs generally; and
- uncertainty surrounding the strength of the U.S. economic recovery, particularly in light of the recent debt ceiling and budget deficit concerns, and other U.S. and international political and economic affairs.

Any of the foregoing factors could negatively affect our stock price or result in fluctuations in the price or trading volume of our common stock.

Future offerings of debt or equity securities, which would rank senior to our common stock, may adversely affect the market price of our common stock.

If we decide to issue debt or equity securities in the future, which would rank senior to our common stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us.

We may issue additional equity securities, which may dilute your interest in us.

Stockholders do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue a total of 1,000,000,000 shares of capital stock, of which 950,000,000 shares are classified as common stock and 50,000,000 shares are classified as preferred stock. Our Board of Directors, with the approval of a majority of our entire Board of Directors and without stockholder approval, may amend our charter to increase or decrease the aggregate number of authorized shares of capital stock or the number of shares of capital stock of any class or series that we are authorized to issue. Our Board of Directors may elect to: (i) sell additional shares in one or more future public offerings; (ii) issue equity interests in private offerings; (iii) issue shares to our Manager, or its successors or assigns, in payment of an outstanding fee obligation; (iv) issue shares of our common stock to sellers of assets we acquire in connection with an exchange of limited partnership interests of our operating company; or (v) issue shares of our common stock to pay distributions to existing stockholders. If we issue and sell additional shares of our common stock, the ownership interests of our existing stockholders will be diluted to the extent they do not participate in the offering.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Information regarding our investment properties at December 31, 2020 are included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Core Portfolio—Net Leased Real Estate," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Legacy, Non-Strategic Portfolio—Owned Real Estate" and "Item 15. Exhibits and Financial Statement Schedules—Schedule III. Real Estate and Accumulated Depreciation" of this Annual Report.

Item 3. Legal Proceedings

Neither the Company nor our Manager is 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 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our Class A common stock began trading on the NYSE on February 1, 2018 under the symbol "CLNC." Prior to February 1, 2018, our Class A common stock was not listed on a national securities exchange and there was no established public trading market for such shares.

As of February 24, 2021, the closing price of our Class A common stock was $8.94 and we had approximately 130.0 million shares of Class A common stock outstanding held by a total of 3,626 holders of record. This figure does not reflect the beneficial ownership of shares held in nominee name.

Distributions

Holders of our common stock are entitled to receive distributions if and when the Board of Directors authorizes and declares a distribution. The Board of Directors has not established any minimum distribution level. In order to maintain our qualification as a REIT, we intend to pay dividends to our stockholders that, on an annual basis, will represent at least 90% of our taxable income (which may not necessarily equal net income as calculated in accordance with U.S. GAAP), determined without regard to the deduction for dividends paid and excluding net capital gains.

Dividends paid to stockholders, for income tax purposes, represent distributions of ordinary income, capital gains, return of capital or a combination thereof. The following table presents the income tax treatment of dividends per share of common and preferred stock.

2020		Common Stock
Ordinary income	$	0.30
Return of capital		0.10
Total	$	0.40
2019		
Ordinary income	$	1.11
Capital gains		0.21
Return of capital		0.38
Total	$	1.70
2018		
Ordinary income	$	1.08
Return of capital		0.37
Total	$	1.45

For the year ended December 31, 2020, we paid aggregate dividends of $52.6 million to our Class A common stockholders. The COVID-19 pandemic has caused extraordinary volatility and unprecedented market conditions, including actual and unanticipated consequences to the Company and certain investments, which may continue. Having made stock dividend payments through March 31, 2020, the Board of Directors and management determined it to be prudent and in the best interests of the Company to conserve available liquidity and suspend the Company's monthly stock dividend beginning with the monthly period ended April 30, 2020. The Company will pay a quarterly dividend of $0.10 per share for the quarter ending March 31, 2021 and expects to continue quarterly cash dividends thereafter, subject to board approval, to ensure that the Company meets the minimum distribution requirements to maintain its status as a REIT for the annual period ended December 31, 2021. The Board of Directors will evaluate dividends in future periods based upon customary considerations, including market conditions.

The credit agreement governing our $450 million revolving credit facility limits our ability to make dividends and other payments with respect to our shares of common stock. The credit agreement limits dividends to an amount required to maintain REIT status or to avoid income tax and restricts stock repurchases, each for liquidity preservation purposes. The credit agreement also generally provides that if a default occurs and is continuing, we will be precluded from making distributions on our common stock (other than those required to allow the Company to qualify and maintain its status as a REIT, so long as such default does not arise from a payment default or event of insolvency).

Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered securities of our Company during the year ended December 31, 2020, other than those previously disclosed in filings with the SEC.

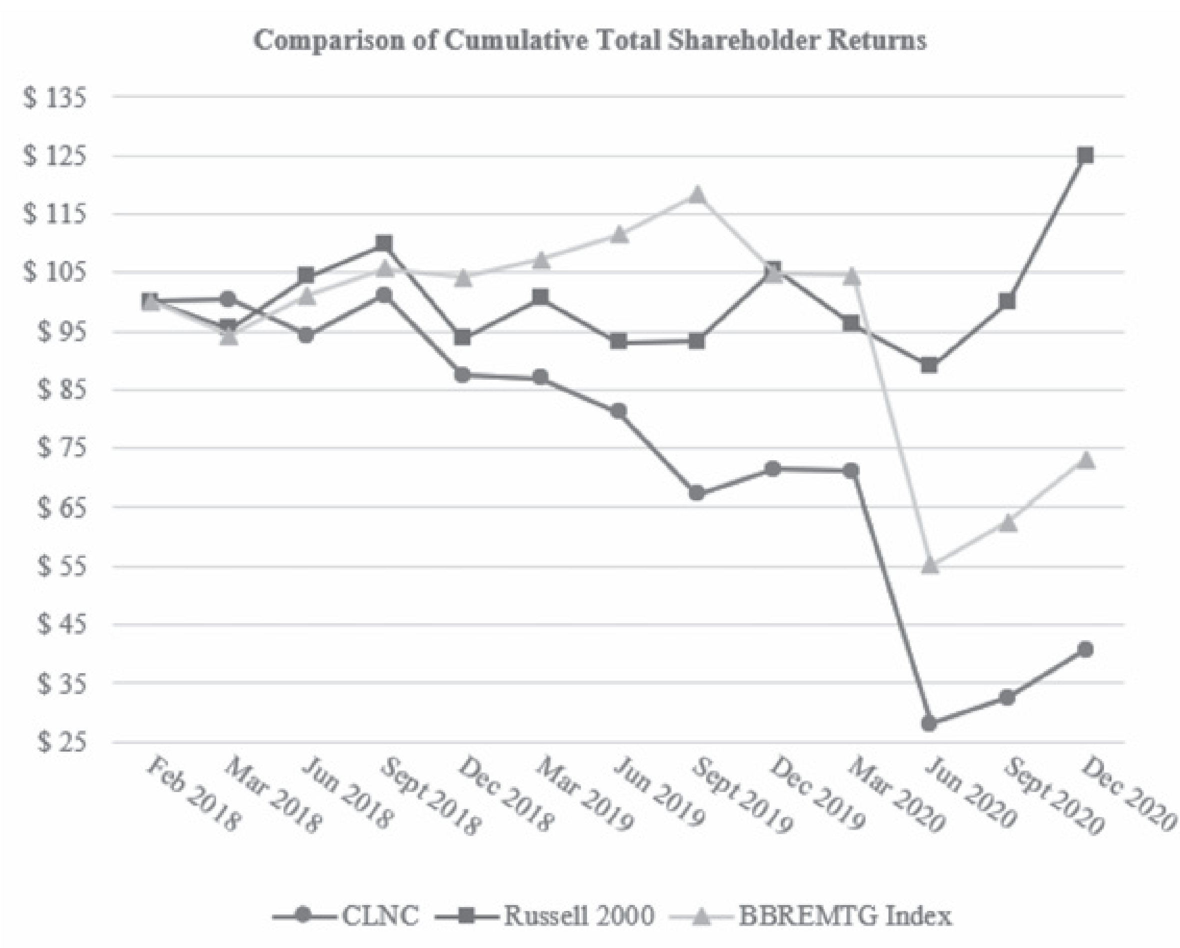
Purchases of Equity Securities by Issuer

The Company did not purchase any of its Class A common stock during the year ended December 31, 2020.

The Company's Board of Directors authorized a stock repurchase program (the "Stock Repurchase Program"), under which the Company could repurchase up to $300.0 million of its outstanding Class A common stock until March 31, 2020. Under the Stock Repurchase Program, the Company may repurchase shares in open market purchases, through tender offers or otherwise in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. Given the ongoing impact of the COVID-19 pandemic to the underlying value of our investments, and related uncertainty in our ability to meet certain financial covenants, during the second quarter of 2020 we amended our Bank Credit Facility, which included a restriction on stock repurchases.

Stock Performance Graph

The following graph compares the cumulative total return on our class A common stock with the cumulative total returns on the Russell 2000 Index (the "Russell 2000") and the Bloomberg REIT Mortgage Index (the "BBREMTG Index"), a published industry index from February 1, 2018 to December 31, 2020. The cumulative total return on our class A common stock as presented is not necessarily indicative of future performance of our class A common stock.



Item 6. Selected Financial Data

Selected Historical Financial Information of the Company

For the years ended December 31, 2020 and 2019, the selected financial data is derived from our audited consolidated financial statements, other than non-GAAP financial measures and selected quarterly financial information, which are unaudited, and should be read in conjunction with the consolidated financial statements and accompanying notes included in "Item 15. Exhibits and Financial Statement Schedules" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report. The financial condition and results of operations as of and for the year ended December 31, 2020 are not necessarily indicative of the financial condition and results of operations that may be expected for any future periods.

Selected Historical Financial Information of CLNY Investment Entities

For the years ended December 31, 2017 and 2016, the following tables set forth selected historical combined financial information of the investment entities in which CLNY OP owned interests ranging from 38% to 100%, which includes the CLNY OP Contributed Entities that were contributed to the OP and the RED REIT Contributed Entities. The selected historical combined financial information also includes certain intercompany balances between those entities and CLNY OP or its subsidiaries. These entities and balances are collectively referred to as the "CLNY Investment Entities." The assets, liabilities and noncontrolling interests of the CLNY Investment Entities have been carved out of the books and records of Colony Capital at their historical carrying amounts. The remaining interests in the CLNY Investment Entities that are owned by Colony Capital-sponsored investment vehicles or third parties were not contributed to the Company. Colony Capital's interests in the respective underlying assets and liabilities of the CLNY Investment Entities are presented as "CLNY Owner" and the remaining interests are presented as "Other Owners."

The following selected combined financial information as of and for the years ended December 31, 2017 and 2016 is derived from the audited combined financial statements of the CLNY Investment Entities.

Selected Annual Financial Information

	Year Ended December 31,				
(In thousands, except per share data)	**2020**	**2019**	**2018**	**2017**	**2016**
Statements of Operations Data:					
Interest income	$ 249,312	$ 295,372	$ 295,024	$ 140,214	$ 140,529
Property operating income	175,037	253,955	178,339	23,750	1,138
Total revenues	426,185	551,660	477,014	164,755	142,203
Interest expense	146,995	197,694	179,485	21,019	26,031
Property operating expense	64,987	112,801	73,616	7,978	905
Interest expense on real estate	48,860	55,415	43,437	5,095	—
Net income (loss)	(375,584)	(462,648)	(177,353)	127,880	109,021
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	(353,299)	(414,512)	(168,498)	88,504	76,051
Per Share Data:					
Net income (loss) attributable to common stockholders per share - basic and diluted	$ (2.75)	$ (3.25)	$ (1.41)	$ 1.86	$ 1.60
Dividends declared per share of common stock	$ 0.30	$ 1.65	$ 1.60	$ —	$ —
Balance Sheet Data - at Year End:					
Total assets	$ 6,211,937	$ 7,414,306	$ 8,660,730	$ 1,839,402	$ 1,802,192
Total debt	4,102,085	4,951,412	5,594,245	389,661	502,413
Total liabilities	4,253,259	5,212,956	5,815,528	431,832	566,628
Total equity attributable to Colony Credit Real Estate, Inc. common stockholders	1,665,673	2,119,022	2,706,905	1,079,808	884,716
Total equity	1,958,678	2,201,350	2,845,202	1,407,570	1,235,564

Selected Quarterly Financial Information (Unaudited)

The following tables present selected quarterly financial information for the years ended December 31, 2020 and 2019 (dollars in thousands, except per share data):

(In thousands, except per share data)	Three Months Ended			
	December 31,	September 30,	June 30,	March 31,
2020:				
Total revenue	$ 103,634	$ 98,561	$ 95,409	$ 128,581
Net income (loss)	(61,289)	6,430	(240,584)	(80,141)
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	(52,525)	5,007	(227,059)	(78,722)
Net income (loss) per share of common stock, basic/diluted)	$ (0.40)	$ 0.04	$ (1.77)	$ (0.62)
2019:				
Total revenue	$ 131,645	$ 133,889	$ 145,930	$ 140,196
Net income (loss)	35,180	(401,995)	(110,790)	14,957
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	33,952	(356,031)	(107,341)	14,908
Net income (loss) per share of common stock, basic/diluted[1][2]	$ 0.25	$ (2.77)	$ (0.84)	$ 0.11

(1) Annual earnings per share ("EPS") may not equal the sum of each quarter's EPS due to rounding and other computational factors.
(2) Excludes 3,075,623 CLNC OP Units, which are redeemable for cash, or at the Company's option, shares of Class A common stock on a one-for-one basis, and therefore would not be dilutive.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our results of operations and financial condition in conjunction with our financial statements and related notes, "Risk Factors," "Selected Financial Data," and "Business" included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in the sections of this Annual Report on Form 10-K entitled "Risk Factors" and "Forward-Looking Statements."

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 we expect to be our primary investment strategy. Additionally, we may also 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 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 will continue to target net leased equity investments on a selective basis. We also currently have investments in CRE debt securities primarily consisting of commercial mortgage-backed securities ("CMBS") (including "B pieces" of a CMBS securitization pool) or CRE collateralized loan obligations ("CLOs") (including the junior tranches collateralized by pools of CRE debt investments). However, we have continued to reduce our CMBS holdings since the second quarter of 2020, and have two available for sale CMBS securities in addition to our "B pieces" of a CMBS securitization pool at December 31, 2020. Additionally, we have fully repaid any remaining CMBS securities repurchase financing. Any future investments in more highly rated investment grade CRE debt securities would be selective and opportunistic.

We were organized in the state of Maryland on August 23, 2017. On January 31, 2018, we completed the Combination among the CLNY Contributed Portfolio, the RED REIT Contributed Entities, NorthStar I and NorthStar II, and the other related transactions, in an all-stock exchange. 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, Credit RE Operating Company, LLC (the "OP"). At December 31, 2020, we owned 97.7% of the OP, as its sole managing member. The remaining 2.3% is owned primarily by our affiliate as noncontrolling interests.

We are externally managed by a subsidiary of Colony Capital, a New York Stock Exchange ("NYSE")-listed global real estate and investment management firm. As of December 31, 2020, Colony Capital owned approximately 36.5% of our common equity on a fully diluted basis.

Our Business Segments

We present our business segments as follows:

- Core Portfolio, which consists of the following four segments:
    - Senior and Mezzanine Loans and Preferred Equity—CRE debt investments including senior mortgage loans, mezzanine loans, and preferred equity interests as well as participations in such loans. The segment also includes acquisition, development and construction ("ADC") arrangements accounted for as equity method investments.
    - CRE Debt Securities— securities investments currently consisting of BBB and some BB rated CMBS (including Non-Investment Grade "B-pieces" of a CMBS securitization pool) or CRE CLOs (including the junior tranches thereof, collateralized by pools of CRE debt investments).
    - Net Leased 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.
    - Corporate—includes corporate-level asset management and other fees including expenses related to our secured revolving credit facility, related party and general and administrative expenses to the Core Portfolio only.

- Legacy, Non-Strategic Portfolio—segment consists of direct investments in operating real estate such as multi-tenant office. It also includes two portfolios of private equity funds ("PE Investments") and certain retail and other legacy loans originated prior to the Combination. This segment also includes corporate-level asset management and other fees including expenses related to secured revolving credit facility, related party and general and administrative expenses related to the Legacy, Non-Strategic Portfolio only. Commencing with reporting in first quarter of 2021, we will no longer report this segment and the remaining Legacy, Non-Strategic assets will be reported within the Core Portfolio.

COVID-19 Initiatives

Throughout Management's Discussion and Analysis of Financial Condition and Results of Operations, we highlight significant actions we have taken to further protect the balance sheet from COVID-19 related risks. We have executed on certain liquidity generating measures that include the sale of select Core Portfolio assets. The Core Portfolio asset sales consist of loans, securities and equity investments. We have also completed a long-term asset level financing against select Core Portfolio and Legacy, Non-Strategic assets. To date, these initiatives have not only generated liquidity, but also reduced financing exposures. Additionally, Core Portfolio asset sales have resulted in a material impact to earnings and certain downward adjustments to stockholders' equity. Any future Core Portfolio asset sales may have a similar impact.

For more information, refer to "Part I - Item 1A. Risk Factors" and "Significant Developments," in "Core Portfolio" and "Potential Sources of Liquidity" in our "Liquidity and Capital Resources" sections below for further discussion regarding these action steps, the COVID-19 pandemic and its impact on our future operating results, liquidity and financial condition.

Significant Developments

During the year ended December 31, 2020 and through February 24, 2021, significant developments affecting our business and results of operations of our Core Portfolio and Legacy, Non-Strategic Portfolio, respectively, included the following:

Capital Resources

- As of the date of this report, we have approximately $689 million of liquidity, consisting of $588 million cash on hand and $101 million available on our Bank Credit Facility;
- Reduced borrowing under our Bank Credit Facility (as defined below) and continue to reduce borrowing on our master repurchase facilities as a result of COVID-19 uncertainties. We fully repaid all outstanding borrowings on our Bank Credit Facility in July 2020 and CMBS Credit Facilities in December 2020. The total combined reduction of debt on these facilities in 2020 through the date hereof is $387.5 million;
- Executed a $229 million asset level preferred financing on a portfolio of five of our investments generating $200 million of proceeds at closing with $29.0 million future funding. For further description refer to "Potential Sources of Liquidity" in our "Liquidity and Capital Resources"; and
- Declared a quarterly dividend of $0.10 per share on April 15, 2021 to stockholders of record as of March 31, 2021 and expect to continue quarterly dividends thereafter, subject to board approval, to ensure that the Company meets the minimum distribution requirements to maintain its status as a REIT for the annual period ending December 31, 2021.

Core Portfolio

- In the third and fourth quarters of 2020 and through the date of this report, originated 10 senior mortgage loans with a total commitment of $354.0 million;
- Sold two industrial portfolios, a preferred equity investment held in a joint venture and one loan that generated gross and net proceeds of $670.2 million and $277.8 million, respectively. We recognized a net gain of $14.6 million on the sales. "See Net Leased Real Estate" in "Core Portfolio" below;
- Sold 42 of our 43 CRE debt securities for a total gross sales price of $154.6 million, which generated net proceeds of $68.8 million and recognized a net loss of $42.1 million;
- Recorded a combined $62.5 million provision for loan losses and other write downs to fair value on four loans, all of which were resolved by December 31, 2020;
- Succeeded in the recapitalization of the Los Angeles Mixed-use project. In doing so we transferred our mezzanine loan and preferred equity interests in the project to a third-party mezzanine lender who provided $275.0 million in additional financing (the "Upsized Mezzanine Loan"). We retained a B-participation in the Upsized Mezzanine Loan at the same loan value. We placed the Los Angeles Mixed-use project on nonaccrual status at the beginning of the second quarter of 2020 and subsequently recorded our proportionate share of a fair value loss adjustment totaling $89.3 million. See "Los Angeles, California Mixed-Use Project - Third Party $275 Million Construction Mezzanine Loan Upsize and Retained B-Participation Investment" in "Core Portfolio" in Part II, Item 7. of this Form 10-K; and
- Placed Project Dockland on nonaccrual status in the beginning of the third quarter of 2020 and recorded our proportionate share of a fair value loss adjustment totaling $64.0 million during the fourth quarter. See "Dublin, Ireland Senior Predevelopment Loan" in "Core Portfolio" in Part II, Item 7. of this Form 10-K.

Legacy, Non-Strategic Portfolio

- Since October 1, 2019, the commencement of our portfolio bifurcation, we have resolved 56 investments. Our remaining Legacy, Non-Strategic Portfolio net asset value represents less than 1% of our total net book value;
- Sold 34 real estate properties investments for a total gross sales price of $344.6 million, generating net proceeds of $164.2 million and a net loss of $7.8 million;
- Recorded $42.8 million of impairment on real estate properties, all of which were sold during 2020;
- Sold eight loans and one loan held in a joint venture for total gross proceeds of $113.0 million, generating net proceeds of $96.1 million and a net gain of $10.1 million; and
- Commencing with reporting in first quarter of 2021, we will no longer report this segment and the remaining Legacy, Non-Strategic assets will be reported within the Core Portfolio.

Results of Operations

Core

- Generated U.S. GAAP net loss of $290.8 million, or $(2.26) per share and Distributable Earnings loss of $194.2 million, or $(1.48) per share during the year ended December 31, 2020.

Legacy, Non-Strategic Portfolio

- Generated U.S. GAAP net loss of $62.5 million, or $(0.49) per share, and Legacy, Non-Strategic Distributable Earnings loss of $10.8 million, or $(0.08) per share during the year ended December 31, 2020.

Factors Impacting Our Operating Results

Overview

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 mortgage loans, mezzanine loans, preferred equity, debt securities, net leased properties and our other assets, and the level of our net operating income. 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 on our CRE loans, prepayment speeds 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, credit-worthiness of our borrowers, competition and other factors, none of which can be predicted with any certainty. Our operating results also may be impacted by credit losses in excess of initial anticipations or unanticipated credit events experienced by borrowers whose mortgage loans are held directly by us or that are included in our CMBS. 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.

Impact of COVID-19

Considerable uncertainty still surrounds COVID-19 and its potential effects, and the extent of and effectiveness of any responses taken on a national and local level.

Accordingly, the COVID-19 pandemic has negatively impacted CRE credit REITs across the industry, as well as other companies that own and operate commercial real estate investments, including our company. As we manage the impact and uncertainties of the COVID-19 pandemic, cash preservation, liquidity and investment and portfolio management are our key priorities.

We are working closely with our borrowers and tenants to address the impact of COVID-19 on their business. To the extent that certain borrowers are experiencing significant financial dislocation we have and may continue to consider the use of interest and other reserves and/or replenishment obligations of the borrower and/or guarantors to meet current interest payment obligations, for a limited period. Similarly, we have and may in the future evaluate converting certain current interest payment obligations to payment-in-kind as a potential bridge period solution. We have in limited cases allowed some portions of current interest to convert to payment-in-kind.

We have taken actions since the onset of the COVID-19 pandemic to mitigate the impact on our financial condition while establishing a defensive posture through this period. As of the date of this report, we have liquidity of approximately $689 million, consisting of $588 million cash on hand and $101 million available on our Bank Credit Facility. We anticipate liquidity to increase further as a result of proceeds from sales related to assets under contract. It is important to note that while the combined result of these activities and events is an increase in liquidity and a reduction in debt, these events will also reduce future period earnings.

The decisive steps taken to protect the balance sheet and generate liquidity, better position us to address further market and investment deterioration related to COVID-19. While asset and liability management and liquidity remain a priority, our focus has started to shift toward new investments, building earnings and further growth initiatives. New deployment will depend upon market pricing, opportunity and certainty of performance, each of which will be impacted by uncertainties relating to the impact of COVID-19. During the fourth quarter of 2020 through February 24, 2021 we originated nine senior mortgage loans with a total commitment of $334.5 million.

While we have generated liquidity and reduced our financing exposures, the Core Portfolio assets sold to date has had a material impact on earnings.

The COVID-19 pandemic has created uncertainties that have and will continue to negatively impact our future operating results, liquidity and financial condition. However, we believe there are too many uncertainties to predict and quantify the continuing impact. The potential concerns and risks include, but are not limited to, mortgage borrowers ability to make monthly payments, lessees' capacity to pay their rent, and the resulting impact on us to meet our obligations. Therefore, there can be no assurances that we will not need to take impairment charges in future quarters or experience further declines in revenues and net income, which could be material. For more information, refer to "COVID-19 Update" in "Core Portfolio" and "Legacy, Non-Strategic Portfolio" sections below and "Part I - Item 1A. Risk Factors" of this Annual Report on Form 10-K for further discussion regarding the COVID-19 pandemic and its impact on our future operating results, liquidity and financial condition.

Changes in fair value of our assets

It is our business strategy to hold our target assets as long-term investments. As a result, we do not expect that changes in the market value of the assets will normally impact our operating results. However, at least on a quarterly basis, we assess both our ability and intent to continue to hold such assets as long-term investments. As part of this process, we monitor our target assets for "other-than-temporary" impairment. A change in our ability and/or intent to continue to hold any of our assets could result in our recognizing an impairment charge or realizing losses upon the sale of such securities.

Changes in market interest rates

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

- the value of 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 and CMBS to reset, although on a delayed basis, to higher interest rates;
- 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 and CMBS to reset, although on a delayed basis, to lower interest rates;
- to the extent we use leverage to finance our assets, the interest expense associated with our borrowings to decrease; and
- to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to decrease.

Credit risk

One objective of our strategy is to minimize credit losses. However, we are subject to varying degrees of credit risk in connection with our target assets. Our Manager seeks to mitigate this risk by seeking to acquire high quality assets, at appropriate prices given anticipated and unanticipated losses and by deploying 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.

Market conditions

We believe that market conditions impact our operating results and will cause us to adjust our investment and financing strategies over time as new opportunities emerge and risk profiles of our business change. In addition, changes in government programs could impact our ability to acquire our target assets. Except as set forth above, we are not aware of any material trends or uncertainties, other than national economic conditions affecting mortgage loans, MBSs and real estate, generally, that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition of real estate-related assets, other than those referred to in this Annual Report on Form 10-K.

Results of Operations Summary

The following tables present our results of operations for the years ended December 31, 2020, 2019 and 2018 (dollars in thousands):

	Year Ended December 31,								
	2020			2019			2018		
	Core Portfolio	Legacy, Non-Strategic Portfolio	Total	Core Portfolio	Legacy, Non-Strategic Portfolio	Total	Core Portfolio	Legacy, Non-Strategic Portfolio	Total
Net interest income	$ 102,702	$ (385)	$ 102,317	$ 87,347	$ 10,331	$ 97,678	$ 77,358	$ 38,181	$ 115,539
Property and other income	86,727	90,146	176,873	117,304	138,984	256,288	90,221	91,769	181,990
Management fee expense	(26,200)	(3,539)	(29,739)	(33,912)	(8,478)	(42,390)	(34,551)	(8,639)	(43,190)
Property operating expense	(11,410)	(53,577)	(64,987)	(31,733)	(81,068)	(112,801)	(26,673)	(46,943)	(73,616)
Transaction, investment and servicing expense	(6,727)	(3,248)	(9,975)	(3,214)	(3,977)	(7,191)	(35,895)	(905)	(36,800)
Interest expense on real estate	(32,407)	(16,453)	(48,860)	(34,430)	(20,985)	(55,415)	(25,372)	(18,065)	(43,437)
Depreciation and amortization	(40,910)	(18,856)	(59,766)	(49,003)	(54,217)	(103,220)	(45,735)	(45,251)	(90,986)
Provision for loan losses	(40,919)	(37,642)	(78,561)	—	(220,572)	(220,572)	517	(114,428)	(113,911)
Impairment of operating real estate	—	(42,814)	(42,814)	(23,911)	(258,838)	(282,749)	(2,435)	(29,378)	(31,813)
Administrative expense	(18,834)	(7,717)	(26,551)	(16,891)	(15,045)	(31,936)	(14,382)	(12,252)	(26,634)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	(50,521)	—	(50,521)	4,090	—	4,090	5,003	—	5,003
Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	—	—	2,772	—	2,772	(3,447)	—	(3,447)
Other gain (loss) on investments, net	(128,452)	9,727	(118,725)	(8,470)	7,498	(972)	(3,410)	644	(2,766)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(166,951)	(84,358)	(251,309)	9,949	(506,367)	(496,418)	(18,801)	(145,267)	(164,068)
Equity in earnings (loss) of unconsolidated ventures	(135,613)	440	(135,173)	56,241	(19,299)	36,942	42,484	(18,710)	23,774
Income tax benefit (expense)	(260)	11,158	10,898	(739)	(2,433)	(3,172)	(1,125)	(35,934)	(37,059)
Net income (loss)	$ (302,824)	$ (72,760)	$ (375,584)	$ 65,451	$ (528,099)	$ (462,648)	$ 22,558	$ (199,911)	$ (177,353)

See “Core Portfolio” and “Legacy, Non-Strategic Portfolio” sections for further discussion of our portfolio and results of operations.

Core Portfolio

As of December 31, 2020, our Core Portfolio, including our senior and mezzanine loans and preferred equity, CRE debt securities, net leased real estate and corporate segments, consisted of 63 investments representing approximately $3.2 billion in book value (excluding cash, cash equivalents and certain other assets). Our senior and mezzanine loans and preferred equity consisted of 48 senior mortgage loans, mezzanine loans, preferred equity investments and other loans and had a weighted average cash coupon of 5.0% and a weighted average all-in unlevered yield of 5.8%. Our net leased real estate consisted of approximately 9.2 million total square feet of space and total 2020 net operating income ("NOI") of that portfolio was approximately $58.2 million.

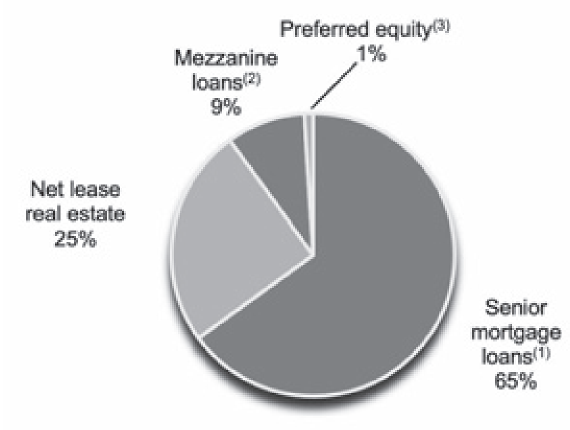
As of December 31, 2020, our Core Portfolio consisted of the following investments (dollars in thousands):

	Count[(1)]	Book value (Consolidated)	Book value (at CLNC share)[(2)]	Net book value (Consolidated)[(3)]	Net book value (at CLNC share)[(4)]
Core Portfolio					
Senior mortgage loans[(5)]	34	$ 2,134,818	$ 2,028,072	$ 683,796	$ 577,051
Mezzanine loans[(5)]	9	314,473	269,096	314,473	269,096
Preferred equity and other loans[(5)(6)]	5	41,911	38,357	41,911	38,357
CRE debt securities	10	69,923	69,923	69,923	69,923
Net leased real estate	5	976,150	775,076	284,145	233,035
Total/Weighted average Core Portfolio	63	$ 3,537,275	$ 3,180,524	$ 1,394,248	$ 1,187,462

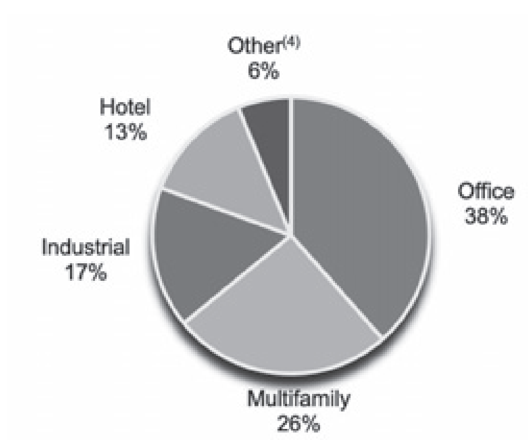
(1) Count for net leased real estate represents number of investments.
(2) Book value at our share represents the proportionate book value based on ownership by asset as of December 31, 2020.
(3) Net book value represents book value less any associated financing as of December 31, 2020.
(4) Net book value at our share represents the proportionate book value based on asset ownership less any associated financing based on ownership as of December 31, 2020.
(5) Senior mortgage loans, mezzanine loans, and preferred equity include investments in joint ventures whose underlying interest is in a loan or preferred equity.
(6) Preferred equity balances include $17.1 million of book value at our share attributable to related equity participation interests.

The following charts illustrate the diversification of our Core Portfolio (not including CRE Debt Securities) based on investment type, underlying property type, and geography, as of December 31, 2020 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

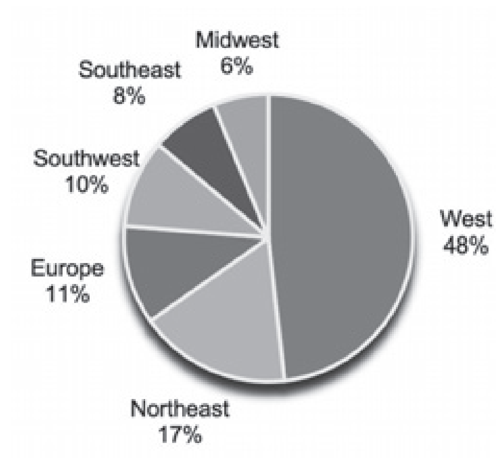
Investment Type



Property Type



Geography



(1) Senior mortgage loans include junior participations in our originated senior mortgage loans for which we have syndicated the senior participations to other investors and retained the junior participations for our portfolio and contiguous mezzanine loans where we own both the senior and junior loan positions. We believe these investments are more similar to the senior mortgage loans we originate than other loan types given their credit quality and risk profile.
(2) Mezzanine loans include other subordinated loans.
(3) Preferred equity balances include $17.1 million of book value at our share attributable to related equity participation interests.
(4) Other includes commercial and residential development and predevelopment assets.

Underwriting Process

We use an investment and underwriting process that has been developed and utilized by our Manager's and its affiliates' senior management teams 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 and preferred equity held for investment for impairment quarterly, the Company evaluates loans and preferred equity held for investment to determine if an allowance for loan loss should be established. In conjunction with this review, the Company assesses the risk factors of each senior and mezzanine loans and preferred equity and assigns 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, the Company's loans and preferred equity held for investment are rated "1" through "5," from less risk to greater risk. 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 NOI, debt service coverage ratio, debt yield and occupancy metrics. Sponsor is investment grade, very well capitalized, and employs 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 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.

As mentioned above, management considers several risk factors when assigning our risk ranking each quarter. Throughout 2020, our average risk ranking was impacted by the current and potential future effects of the COVID-19 pandemic, resulting in a number of assets moving from average risk (3) to high risk (4).

For the quarter ended December 31, 2020, management believes the extended impact of the COVID-19 pandemic remains uncertain, and therefore continues to represent a significant risk to our portfolio. As such, the year-end average rating is 3.7, which is consistent throughout 2020.

Senior and Mezzanine Loans and Preferred Equity

Our senior and mezzanine loans and preferred equity consists of senior mortgage loans, mezzanine loans and preferred equity interests, some of which have equity participation interests.

The following table provides a summary of our senior and mezzanine loans and preferred equity in our Core Portfolio based on our internal risk rankings as of December 31, 2020 (dollars in thousands):

		Carrying Value (at CLNC share)[1]				
Risk Ranking	**Count[2]**	**Senior mortgage loans[3]**	**Mezzanine loans**	**Preferred equity and other loans**	**Total**	**% of Core Portfolio**
3	19	$ 813,716	$ 9,255	$ 896	$ 823,867	35.3 %
4	25	1,215,261	131,943	37,459	1,384,663	59.3 %
5	3	26,923	100,070	—	126,993	5.4 %
	47	$ 2,055,900	$ 241,268	$ 38,355	$ 2,335,523	100.0 %
Weighted average risk ranking						3.7

(1) Carrying value at our share represents the proportionate book value based on ownership by asset as of December 31, 2020.
(2) Count excludes one equity method participation held in a joint venture with a de minimis carry value (at CLNC share) which was not assigned a risk ranking.
(3) Includes one mezzanine loan totaling $27.8 million where we are also the senior lender.

The following table provides asset level detail for senior and mezzanine loans and preferred equity included in our Core Portfolio as of December 31, 2020 (dollars in thousands):

	Collateral 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]	Q4/Q3 Risk ranking[5]
Senior loans											
Loan 1	Multifamily	6/21/2019	Milpitas, CA	$ 179,400	$ 179,961	Floating	3.1%	5.5%	7/9/2024	72%	3/3
Loan 2	Hotel	1/2/2018	San Jose, CA	160,700	173,485	Floating	4.3%	5.3%	1/9/2023	62%	4/4
Loan 3	Hotel	6/28/2018	Berkeley, CA	115,916	120,000	Floating	3.2%	5.2%	7/9/2025	66%	4/4
Loan 4	Office	12/7/2018	Carlsbad, CA	115,587	116,000	Floating	3.7%	6.0%	12/9/2023	73%	3/3
Loan 5	Industrial	9/19/2019	New York, NY	115,423	116,000	Floating	3.1%	5.8%	9/19/2024	76%	4/4
Loan 6[6]	Multifamily	6/18/2019	Santa Clara, CA	103,942	105,365	Floating	4.4%	7.3%	6/18/2024	64%	4/4
Loan 7	Office	5/31/2019	Stamford, CT	98,567	99,622	Floating	3.5%	5.8%	6/9/2025	71%	4/4
Loan 8	Multifamily	4/11/2019	Various - U.S.	91,724	92,000	Floating	3.0%	5.9%	4/9/2024	65%	4/4
Loan 9	Office	6/27/2018	Burlingame, CA	73,243	73,254	Floating	2.8%	4.7%	7/9/2023	61%	3/3
Loan 10	Hotel	6/25/2018	Englewood, CO	72,754	73,938	Floating	3.5%	5.3%	7/9/2023	69%	4/4
Loan 11	Office	8/28/2018	San Jose, CA	71,131	71,137	Floating	2.5%	4.3%	8/28/2025	66%	3/3
Loan 12	Other (Mixed-use)	10/24/2019	Brooklyn, NY	66,504	72,251	Floating	3.4%	5.9%	11/9/2024	66%	4/4
Loan 13	Office	4/5/2019	Long Island City, NY	62,233	62,981	Floating	3.3%	5.8%	4/9/2024	58%	4/4
Loan 14	Office	5/29/2019	Long Island City, NY	61,140	63,770	Floating	3.5%	6.0%	6/9/2024	59%	4/4
Loan 15	Office	2/13/2019	Baltimore, MD	55,843	56,199	Floating	3.5%	6.2%	2/9/2024	74%	4/4
Loan 16	Office	7/12/2019	Washington, D.C.	55,781	56,081	Floating	2.8%	5.7%	8/9/2024	68%	4/4
Loan 17	Multifamily	12/23/2020	Salt Lake City, UT	50,497	51,100	Floating	3.2%	3.9%	1/9/2026	68%	3
Loan 18	Multifamily	7/1/2019	Phoenix, AZ	44,376	44,384	Floating	2.7%	5.0%	7/9/2024	76%	3/3
Loan 19	Multifamily	12/21/2020	Austin, TX	39,898	40,585	Floating	3.7%	5.0%	1/9/2026	54%	3
Loan 20	Multifamily	2/8/2019	Las Vegas, NV	39,872	39,962	Floating	3.2%	5.9%	2/9/2024	71%	4/4
Loan 21	Multifamily	4/26/2018	Oxnard, CA	36,694	36,500	Floating	5.2%	6.5%	2/9/2021	71%	4/4
Loan 22	Office	9/26/2019	Salt Lake City, UT	36,479	36,824	Floating	2.7%	5.0%	10/9/2024	72%	4/4
Loan 23	Multifamily	12/29/2020	Fullerton, CA	34,356	34,860	Floating	3.8%	4.8%	1/9/2026	70%	3
Loan 24	Office	6/16/2017	Miami, FL	33,621	33,305	Floating	4.9%	5.6%	7/9/2022	68%	3/3
Loan 25	Office	3/28/2019	San Jose, CA	30,193	30,251	Floating	3.0%	5.9%	4/9/2024	64%	3/3
Loan 26[6][7]	Other (Mixed-use)	10/17/2018	Dublin, Ireland	26,921	39,753	n/a [7]	n/a [7]	n/a [7]	12/31/2023	94%	5/5
Loan 27	Multifamily	1/11/2019	Tempe, AZ	26,713	26,659	Floating	2.9%	5.2%	2/9/2024	79%	3/3
Loan 28	Office	9/16/2019	San Francisco, CA	22,826	22,951	Floating	3.2%	5.9%	10/9/2024	72%	3/3
Loan 29	Office	8/27/2019	San Francisco, CA	20,535	20,623	Floating	2.8%	5.6%	9/9/2024	73%	3/3
Loan 30	Office	2/26/2019	Charlotte, NC	20,470	20,585	Floating	3.4%	6.0%	3/9/2024	56%	3/3
Loan 31	Hotel	7/30/2020	Bloomington, MN	19,059	19,500	Floating	3.0%	4.8%	11/9/2021	64%	3/5
Loan 32	Office	10/29/2020	Denver, CO	18,421	18,708	Floating	3.6%	4.7%	11/9/2025	64%	3
Loan 33	Multifamily	2/8/2019	Las Vegas, NV	13,860	13,876	Floating	3.2%	5.9%	2/9/2024	71%	4/4
Loan 34	Multifamily	11/24/2020	Tucson, AZ	13,393	13,540	Floating	3.6%	4.5%	12/9/2025	75%	3
Total/Weighted average senior loans				$ 2,028,072	$ 2,076,010			5.5%	5/25/2024	67%	3.6/3.7
Mezzanine loans											
Loan 35[6][7]	Other (Mixed-use)	9/1/2020	Los Angeles, CA	$ 97,891	$ 162,243	n/a [7]	n/a [7]	n/a [7]	7/9/2023	62% – 88%	5/5
Loan 36[6]	Multifamily	12/26/2018	Santa Clarita, CA	55,105	58,718	Fixed	7.0%	13.8%	12/26/2024	56% – 84%	4/4
Loan 37[6]	Multifamily	12/3/2019	Milpitas, CA	33,567	34,139	Fixed	8.0%	13.3%	12/3/2024	49% – 71%	4/4
Loan 38	Hotel	9/23/2019	Berkeley, CA	27,828	29,290	Fixed	9.0%	11.5%	7/9/2025	66% – 81%	4/4
Loan 39[6]	Multifamily	7/11/2019	Placentia, CA	27,771	29,140	Fixed	8.0%	13.3%	7/11/2024	51% – 84%	4/4
Loan 40	Hotel	1/9/2017	New York, NY	11,182	12,000	Floating	11.0%	11.5%	9/2/2022	63% – 76%	4/4
Loan 41[6]	Office	7/20/2018	Dublin, Ireland	9,255	8,935	Fixed	—%	12.5%	12/20/2021	45% – 68%	3/4

	Collateral 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)	Q4/Q3 Risk ranking(5)
Loan 42	Multifamily	7/30/2014	Various - TX	4,318	4,517	Fixed	9.5%	9.5%	8/11/2024	71% – 83%	4/4
Loan 43(7)	Other (Mixed-use)	3/19/2013	San Rafael, CA	2,179	3,583	n/a (7)	n/a (7)	n/a (7)	3/31/2021	32% – 86%	5/5
Total/Weighted average mezzanine loans				$ 269,096	$ 342,565			8.1%	3/19/2024	57% - 81%	4.3/4.4
Preferred equity & other loans											
Loan 44(6)(8)	Office	8/22/2018	Las Vegas, NV	$ 18,141	$ 18,681	Fixed	8.0%	15.3%	9/9/2023	n/a	4/4
Loan 45(6)	Industrial	9/1/2016	Various - U.S.	16,200	—	n/a	n/a	n/a	9/2/2027	n/a	4/4
Loan 46	Hotel	8/17/2020	San Jose, CA	3,118	3,118	Floating	4.3%	5.3%	1/9/2021	n/a	4/4
Loan 47	Office	7/20/2018	Dublin, Ireland	896	—	n/a	n/a	n/a	12/20/2021	n/a	3/4
Loan 48(8)	Hotel	10/24/2014	Austin, TX	2	—	n/a	n/a	n/a	n/a	n/a	n/a
Total/Weighted average preferred equity & other loans(9)				$ 38,357	$ 21,799			7.7%	2/7/2025	n/a	4.0/4.3
Total/Weighted average senior and mezzanine loans and preferred equity - Core Portfolio				$ 2,335,525	$ 2,440,374			5.8%	5/22/2024	n/a	3.7/3.8

(1) Represents carrying values at our share as of December 31, 2020.

(2) Represents the stated coupon rate for loans; for floating rate loans, does not include USD 1-month London Interbank Offered Rate ("LIBOR") which was 0.14% as of December 31, 2020.

(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, extension and exit fees. Unlevered all-in yield for the loan portfolio assumes the applicable floating benchmark rate as of December 31, 2020 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 and preferred equity are rated "1" through "5," from less risk to greater risk. Represents risk ranking as of December 31, 2020 and September 30, 2020, respectively.

(6) Construction senior loans' loan-to-value reflect the total commitment amount of the loan divided by the 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, respectively. 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) Loans 26, 35 and 43 are on nonaccrual status as of December 31, 2020; as such, no income is being recognized.

(8) Represents equity participation interests related to senior loans, mezzanine loans and/or preferred equity investments.

(9) Weighted average calculation for preferred equity and other loans excludes equity participation interests.

The following table details the types of properties securing our senior and mezzanine loans and preferred equity included in our Core Portfolio and geographic distribution as of December 31, 2020 (dollars in thousands):

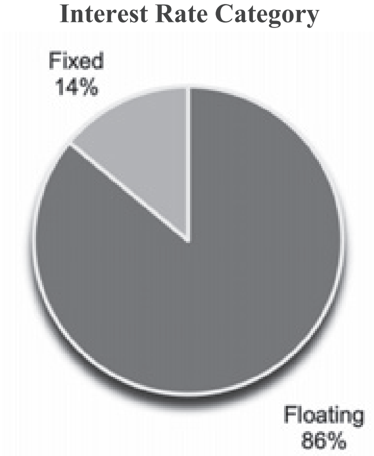
		Book value (at CLNC share)			
Collateral property type	**Count**	**Senior mortgage loans**	**Mezzanine loans and preferred equity**	**Total**	**% of Total**
Office	18	$ 776,067	$ 28,292	$ 804,359	34.4 %
Multifamily	16	674,725	120,761	795,486	34.1 %
Hotel	8	368,429	42,130	410,559	17.6 %
Other[(1)]	4	93,428	100,070	193,498	8.3 %
Industrial	2	115,423	16,200	131,623	5.6 %
Total	48	$ 2,028,072	$ 307,453	$ 2,335,525	100.0 %

		Book value (at CLNC share)			
Region	**Count**	**Senior mortgage loans**	**Mezzanine loans and preferred equity**	**Total**	**% of Total**
US West	24	$ 1,109,428	$ 270,356	$ 1,379,784	59.1 %
US Northeast	8	515,492	11,785	527,277	22.6 %
US Southwest	9	303,080	5,913	308,993	13.2 %
US Southeast	2	54,090	4,033	58,123	2.5 %
Europe	3	26,923	10,151	37,074	1.6 %
US Midwest	2	19,059	5,215	24,274	1.0 %
Total	48	$ 2,028,072	$ 307,453	$ 2,335,525	100.0 %

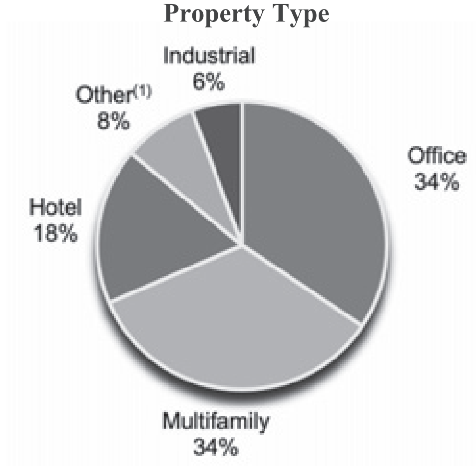
(1) Other includes commercial and residential development and predevelopment assets.

The following charts illustrate the diversification of our senior and mezzanine loans and preferred equity included in our Core Portfolio based on interest rate category, property type, and geography as of December 31, 2020 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

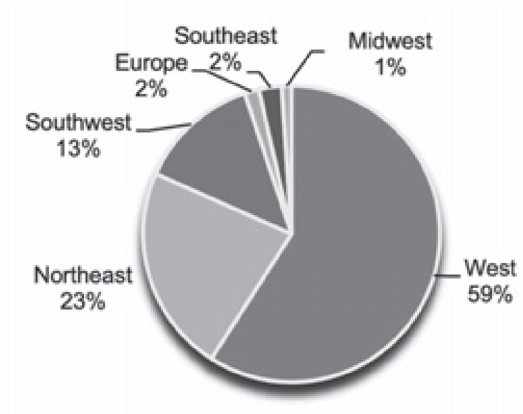
Interest Rate Category



Property Type



Geography



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

COVID-19 Update

Since April 1, 2020, through February 24, 2021, we have collected 98% of our loan interest payments, excluding payment-in-kind loans. Most of our borrowers paid on time utilizing cash from operations, while some utilized interest and other reserves. Additionally, some loans required partial modification of their existing reserves to provide their loan interest payment.

We expect some borrowers may continue to experience difficulties making their loan payments over the next several quarters. We are particularly concerned with and focused on loans collateralized by hotels as well as mezzanine loans and preferred equity investments that are subordinate to senior loans provided by other lenders such as our Los Angeles Construction Loan and Preferred Equity Investment discussed below. Failure of our borrowers to meet their loan obligations will not only impact our financial results but may also trigger repayments under our master repurchase facilities. Our asset management team is having discussions with borrowers to remain informed on a reasonably current basis, seek to identify issues and address potential value preserving solutions, which may include a loan modification.

We have three loans on nonaccrual status in our Core Portfolio during the year ended December 31, 2020, of which we received cash interest payments from these loans of $1.4 million and applied the cash interest collected as a reduction to the loan's carrying value.

At December 31, 2020 our current expected credit loss reserve ("CECL") calculated by our probability of default ("PD")/loss given default ("LGD") model for our outstanding loans and future loan funding commitments is $38.5 million, or $0.29 per share, which is 1.6% of the aggregate commitment amount of our loan portfolio. This represents a slight decrease of $1.6 million from $40.2 million at September 30, 2020. The difference is primarily driven by an improved long-term macro economic outlook, which was offset by increased reserves on our Hospitality loans.

During the second quarter of 2020, we sold a preferred equity investment which included 35% of the preferred equity's kicker feature for a total gross sales price and liquidity of $98.6 million while recognizing a net loss on the sale of $10.1 million. Refer to "Potential Sources of Liquidity" in "Liquidity and Capital Resources" below for further discussion regarding the COVID-19 pandemic and its impact on our future operating results, liquidity and financial condition.

Additionally, during the year ended December 31, 2020, the following four loans were resolved:

- The hotel property securing our Midwest Hospitality loan was sold and we received $24.5 million in gross proceeds and concurrently provided a bridge loan in the amount of $19.5 million to a new borrower secured by Midwest Hospitality. For the three months ended March 31, 2020 we recorded a specific provision for loan loss of $2.3 million and recognized an additional loan loss of $1.1 million upon repayment. This loan was placed on nonaccrual status during 2019.
- We received gross proceeds of $80.7 million in a discounted payoff of one loan secured by six suburban office buildings ("Northeast Office Portfolio") which was equal to the carrying value of the loan, net of current provision for loan losses. A $20.9 million allowance for loan losses was recorded as of March 31, 2020, which included an $8.8 million allowance for loan losses resulting from CECL adoption and an additional $12.1 million provision for loan losses recognition during the three months ended March 31, 2020.

- We received $105.2 million in gross proceeds resulting from a sale of our loan secured by a hospitality asset in San Diego, California ("West Hospitality") and concurrently repaid $56.8 million on our master repurchase facility. During the second quarter of 2020, we classified this loan as held for sale and recognized a net loss of $32.8 million to reflect the expected proceeds to be collected in a sale of the loan. We had recorded a $5.2 million allowance for loan losses as of March 31, 2020, which included a $2.6 million allowance for loan losses resulting from CECL adoption and an additional $2.6 million provision for loan losses recognized for West Hospitality during the three months ended March 31, 2020. In connection with transferring the loan to held for sale during the second quarter of 2020, we reversed out the $5.2 million from provision for loan losses line item and recorded $38.0 million in other loss, net.
- During the three months ended December 31, 2020 the Company received gross proceeds of $12.1 million on one loan secured by a borrowers limited partner interests in a fund ("Corporate Term loan") in a discounted payoff which was equal to the carrying value of the loan, net of provision for loan losses of $3.2 million.

Los Angeles, California Mixed-Use Project—Third Party $275 Million Construction Mezzanine Loan Upsize and Retained B-Participation Investment

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value	Q4/Q3 Risk ranking
Loan 35	Mezzanine	Other (Mixed-use)	9/1/2020	$ 97,891	$ 162,243	n/a	n/a	n/a	7/9/2023	62% – 88%	5/5

In July 2017, we originated a $189.0 million commitment to an approximately $574 million mezzanine loan and preferred equity investment in a development project in Los Angeles County, which includes a hospitality and retail renovation and a new condominium tower construction (the "Mixed-use Project"). Our investment interests are held through a joint venture (the "Colony Mezzanine Lender") with affiliates of our Manager.

In April 2020, the senior mortgage lender notified the borrower developer that the Mixed-use Project loan funding was out of balance, due to cost overruns from certain hard and soft costs and senior loan interest reserve shortfalls projected through completion. To address the out of balance circumstance during the second quarter of 2020, the Colony Mezzanine Lender made two protective advances to the senior mortgage lender totaling $69.1 million, of which our share was $28.5 million. The Colony Mezzanine Lender placed this investment on nonaccrual status.

In June 2020, the senior mortgage lender funded a third protective advance of $15.5 million. Additionally, the loans held by the senior mortgage lender and Colony Mezzanine Lender, respectively, matured on July 9, 2020.

On September 1, 2020, in cooperation with the borrower and the EB-5 lender, the Colony Mezzanine Lender and senior mortgage lender secured $275 million of additional mezzanine financing from a third-party mezzanine lender (the "Senior Mezzanine Lender"). To consummate the new mezzanine financing, the Colony Mezzanine Lender simplified its investment interest by converting its existing preferred equity principal and accrued interest into the existing mezzanine loan, transferred the mezzanine loan to the Senior Mezzanine Lender, who subsequently increased the mezzanine loan amount by $275 million to an approximately $821 million total mezzanine loan (the "Upsized Mezzanine Loan"). The Senior Mezzanine Lender holds a $275 million A-participation and the Colony Mezzanine Lender (including our interest) continues to hold an approximately $546 million B-participation interest in the Upsized Mezzanine Loan at the Mixed-use Project. The Senior Mezzanine Lender is the sole administrative agent and Upsized Mezzanine Loan owner. The Upsized Mezzanine Loan closing and revised budget addressed certain amendments to maturity dates to complete and sell the hotel by July 2021 and modifications to certain borrower extension tests to facilitate completion of the Mixed-use Project. The Colony Mezzanine Lender's B-participation investment continues to carry an interest rate of 12.90% per annum, consistent with our interest rate prior to this mezzanine refinancing event. The B-participation investment is a subordinate interest to the A-participation interest in respect to payments of principal and interest. The new $275 million financing commitment covers current capital requirements at the Mixed-use Project and includes both $65 million of interest reserves to cover A-participation interest payments and $100 million reserved for future funding obligations, in furtherance of a revised construction budget to be made by the Senior Mezzanine Lender and senior mortgage lender only. The Colony Mezzanine Lender is no longer subject to future funding commitments in accordance with the revised budget. As previously reported, the Colony Mezzanine Lender had a remaining unfunded commitment of $39.3 million, of which our share was $14.5 million.

During the three months ended June 30, 2020, we placed the mezzanine loans and preferred equity investment on nonaccrual status and recorded our proportionate share of a fair value loss adjustment totaling $89.3 million. Having recently completed the Upsized Mezzanine Loan refinancing, among other factors, for the three months ended September 30, 2020 and December 31, 2020, we continue to maintain the nonaccrual status and fair value loss adjustment on our proportionate share of the Colony Mezzanine Lender's B-participation investment.

The hotel portion of the development has been completed and the temporary certificate of occupancy was granted in October 2020. It is anticipated that the sales marketing of the hotel property itself will commence in the coming months. In December 2020, two hotel condo sales have closed, and subsequent to December 2020, two additional condo sales have closed resulting in an approximately $10 million and $6 million pay down of the senior mortgage construction loan, respectively.

Notwithstanding the Upsized Mezzanine Loan closing, including a revised budget, amendments to maturity dates and extension tests and reserves for future funding, and a potential targeted hotel sale by July 2021, it is possible that additional cost overruns, actual and potential construction delays, delays in the hotel opening, the provision of full services and/or diminished hotel and conference facility demand, delays in selling the hotel and/or slower pace of condominium sales, greater negative carry costs than currently projected or other factors, individually or together, may occur and be further impacted by COVID-19 and could negatively impact the overall value of the Mixed-use Project, including our continuing interest in the B-participation investment.

Dublin, Ireland Senior Predevelopment 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	Q4/Q3 Risk ranking
Loan 26	Senior	Other (Mixed-use)	10/17/2018	$ 26,921	$ 39,753	n/a	n/a	n/a	12/31/2023	94%	5/5

We hold a $189.6 million co-lender interest (61%) in a senior mortgage loan in the amount of $310.9 million. Our investment interests are held through a joint venture that includes private investment vehicles managed by Colony Capital (the “Colony Senior Lenders”). The senior mortgage is Euro-denominated and is for a fully entitled land acquisition for a mixed-use development project in Dublin, Ireland (Project Dockland).

The land has planning permission for 420 apartments and approximately 380,000 square feet of offices, but the project borrower has applied for planning permission to increase these numbers to approximately 1,000 total residential units across two towers of 40 and 44 stories and 540,000 square feet of offices. These applications are currently under review by the planning authorities. Pre-letting discussions are ongoing in respect to the office building.

While the Project Dockland schedule had been extended by approximately six to nine months, as previously disclosed, the majority of enabling works commenced in July 2020 and were on track to be completed in January 2021. The enabling works are currently on hold due to new restrictions (closure of construction sites) imposed by the Irish government in early January 2021 and such restrictions are expected to last through at least through February 2021. The aforementioned delay and/or further delays may limit the ability of the borrower to obtain a senior secured development construction facility within the expected timeline as initially underwritten. We and our senior mortgage co-lenders regularly engage in discussions with the borrower to address continuing developments at the project.

The combination of project delays, the permitting process and uncertain market conditions as a result of COVID-19 (including adverse impacts on demand for office and residential space), continue to negatively impact the Colony Senior Lenders’ investment interest and elevated concerns regarding the ability to secure an anchor tenant and realize the full amount of the existing senior mortgage loan. During the three months ended September 30, 2020, we placed the senior mortgage loan on nonaccrual status. During the three months ended December 31, 2020, we continue to maintain nonaccrual status and recorded our proportionate share of a fair value loss adjustment totaling $64.0 million, of which $57.7 million was allocated to our Company and $6.4 million was allocated to our partner in the “*5-Investment Preferred Financing.*” Refer to “Liquidity and Capital Resources” section for further discussion.

Project Dockland’s fair value was based on a weighted average probability analysis of potential resolutions based on a number of factors which included the inability to secure an anchor tenant in a timely manner or at all, the lack of clarity around the timing of entitlements and continuing uncertain market conditions as a result of COVID-19. The loan’s initial maturity date was December 31, 2020, and we have extended the loan to June 2021. We are working with the borrower and evaluating options, however uncertainties regarding development, permitting, leasing, and exit strategies may continue to impact our investment.

During the second quarter of 2020, we completed an asset level preferred financing on five assets which included Project Dockland. Refer to “Liquidity and Capital Resources” section for further discussion regarding the “*5-Investment Preferred Financing.*”

San Jose, California Hotel Senior Loan and Preferred Equity

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value	Q4/Q3 Risk ranking
Loan 2	Senior	Hotel	1/2/2018	$ 160,700	$ 173,485	Floating	4.3%	5.3%	1/9/2023	62%	4/4
Loan 46	Preferred Equity	Hotel	8/17/2020	3,118	3,118	Floating	4.3%	5.3%	1/9/2021	n/a	4/4

We originated a $173.5 million senior loan for the sponsors purchase of a hotel located in San Jose, California (the "San Jose Hotel"). The 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. In January 2020, the loan was extended to January 2021. The onset of the COVID-19 pandemic in the spring of 2020 has created challenges to the entire lodging industry, and group travel orientation has been negatively impacted at the San Jose Hotel. Occupancy has substantially declined leading to weaker financial performance. The loan was modified in April 2020 to allow the borrower to use the existing capital improvements reserve to pay the debt service. We again modified the loan in May 2020 to waive the escrow payments for taxes, insurance, and FF&E. The borrower has funded and contributed certain capital demands at the property to maintain hotel operations. We have been cooperating with the borrower who is engaged in a recapitalization initiative, during which we have funded limited preferred equity funds to partially support debt service and have extended the maturity date through the beginning of April 2021 in order to work together with the borrower to complete such efforts. The borrower has funded approximately $16 million out-of-pocket for operating expenses and debt service since April 2020. Notwithstanding these efforts, the impact of COVID-19 and/or other risks associated with the hospitality industry, and this asset may impact continuing cooperation with and/or funding by the borrower, the execution of a recapitalization, necessitate protective actions by the borrower and/or require foreclosure considerations, any of which may negatively impact the value of our investment interest.

Berkeley, California Hotel Senior Loan and Mezzanine 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	Q4/Q3 Risk ranking
Loan 3	Senior	Hotel	6/28/2018	$ 115,916	$ 120,000	Floating	3.2%	5.2%	7/9/2025	66%	4/4
Loan 38	Mezzanine	Hotel	9/23/2019	27,828	29,290	Fixed	9.0%	11.5%	7/9/2025	66% -81%	4/4

We originated a $109.8 million senior loan in 2018 to replace the sponsors existing financing on a hotel located in Berkeley, California (the "Berkeley Hotel"). The hotel includes meeting space, full-service restaurants and tennis club facilities. The loan included an initial funding of $98.8 million with an additional $11.0 million of future advances. The sponsor purchased the Berkeley Hotel in 2014 for a purchase price of $89.5 and has spent a significant amount on capital improvements. In September 2019, we upsized the senior loan by $15.0 million to $120.0 million and funded a $28.3 million mezzanine loan to facilitate the sponsors acquisition of a third party's equity interest in the property. Due to the COVID-19 pandemic the Berkeley Hotel was closed from April through July of 2020, during which time the loan stayed current through the combination of borrower reserves and lender advances from the mezzanine loan.

Subsequently, the hotel partially re-opened and began generating cash flow from operations, but cash flows are currently insufficient to fully cover the debt service payment. The borrower has supported debt service shortfalls out-of-pocket and in November 2020 also funded a one-month interest reserve. The December 2020 spike in COVID-19 cases in California has again impacted occupancy significantly, which may influence future borrower actions and support at the Berkeley Hotel and have a negative impact on performance of the asset and the value of our investment interest.

Long Island City, New York Office Senior Loans

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value	Q4/Q3 Risk ranking
Loan 13	Senior	Office	4/5/2019	$ 62,233	$ 62,981	Floating	3.3%	5.8%	4/9/2024	58%	4/4
Loan 14	Senior	Office	5/29/2019	61,140	63,770	Floating	3.5%	6.0%	6/9/2024	59%	4/4

We originated two senior mortgage loans on two transitional office properties to the same sponsorship group. However, the borrowing entities are not related and the loans are neither cross-collateralized nor cross defaulted.

The New York City metro office markets have experienced substantial increases in vacancy rates due to the COVID-19 pandemic. The Long Island City market has experienced further increases in vacancy as newly developed or renovated properties have become available for leasing. This has had a negative impact on both the sponsor's business plans and leasing activity for these two properties. As such, the underlying individual property cash flows are insufficient to cover their respective debt service payments. We are in active discussions with the borrowers to seek a separate resolution for each asset. The loans are current through February 2021. However, it is possible that these uncertain market conditions and borrower actions may result in a future valuation impairment or investment loss.

Other Impairment of Loans and Preferred Equity Held in Joint Ventures

During the second quarter of 2020 we recognized our proportionate share of a fair value loss adjustment totaling $7.0 million reducing the carrying to $10.8 million from $17.8 million on one mezzanine loan secured by a mixed-use development project ("West Mixed-use") of which we own 50.0% of the joint venture. The change in fair value was a result of revised sale expectations and its impact on repayment proceeds.

Payment-In-Kind ("PIK") Interest Income

We have debt investments in our portfolio that contain a 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. During the year ended December 31, 2020, we recorded total PIK interest of $26.6 million. We 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.

Refer to "COVID-19 Impact on Liquidity" in "Liquidity and Capital Resources" for further discussion regarding the COVID-19 pandemic and its impact on our future operating results, liquidity and financial condition.

CRE Debt Securities

The following table presents an overview of our CRE debt securities in our Core Portfolio as of December 31, 2020 (dollars in thousands):

			Weighted Average[1]			
CRE Debt Securities by ratings category[2]	**Number of Securities**	**Book value**	**Cash coupon**	**Unlevered all-in yield**	**Remaining term**	**Ratings**
Investment grade rated (BBB)	1	$ 5,070	— %	— %	5.3	BBB-
Non-investment grade rated (BB)	1	5,319	— %	— %	5.3	BB | B
"B-pieces" of CMBS securitization pools	8	59,534	2.4 %	10.9 %	5.0	—
Total/Weighted Average	10	$ 69,923	2.2 %	9.3 %	5.0	—

(1) Weighted average metrics weighted by book value, except for cash coupon which is weighted by principal balance.
(2) As of December 31, 2020, all CRE debt securities consisted of CMBS.

During the year ended December 31, 2020, we sold the following CMBS bonds (dollars in thousands):

	Number of Securities	**Gross Proceeds**	**Repayment of CMBS Credit Facility [1]**	**Net Proceeds**	**Net gain (loss)[2]**
Three months ended June 30, 2020	27	$ 89,700	$ 66,100	$ 23,600	$ (57,000)
Three months ended September 30, 2020	5	28,824	13,120	15,704	5,156
Three months ended December 31.2020	9	31,043	24,814	6,229	9,671
Total[3]	41	$ 149,567	$ 104,034	$ 45,533	$ (42,173)

(1) As of December 31, 2020, we have fully repaid $85.5 million of debt on our CMBS Credit Facility.
(2) Net loss during the three months ended June 30, 2020 contained $36.4 million previously recorded as an unrealized loss in other comprehensive income at March 31, 2020.
(3) Subsequent to December 31, 2020, we sold one CRE security for $5.1 million in gross sales proceeds and will recognize a gain of approximately $0.1 million; and we have only one remaining CRE security with a carrying value of $5.3 million.

During the year ended December 31, 2020 and through February 24, 2021, we sold 42 of our 43 CRE debt securities for a total gross sales price of $154.6 million, which generated net proceeds of $68.8 million and recognized a net loss of $42.1 million.

Consistent with the overall market, our CRE securities, which we mark to fair value, lost significant value since the onset of the COVID-19 pandemic. During the year ended December 31, 2020, we placed our CRE securities on cost recovery and as a result ceased accretion discounts to expected maturity and applied any cash interest received against the CRE securities carrying value. Additionally, we wrote down through earnings the amortized cost basis for securities in which the fair value dropped below the amortized cost basis, realizing a loss of $32.6 million for the year ended December 31, 2020.

During the second quarter of 2020, we unwound our interest rate swaps and in connection realized a loss of $34.0 million. This resulted in the release of $32.0 million held in a margin account to unrestricted cash.

Refer to "Potential Sources of Liquidity" in "Liquidity and Capital Resources" for further discussion regarding the COVID-19 pandemic and its impact on our future operating results, liquidity and financial condition.

Net Leased 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. These properties are typically well-located with strong operating partners and we believe offer both attractive cash flow and returns.

As of December 31, 2020, $0.8 billion, or 24.4% of our assets were invested in net leased real estate properties included in our Core Portfolio and these properties were 98.4% occupied. The following table presents our net leased real estate investments included in our Core Portfolio as of December 31, 2020 (dollars in thousands):

	Count	Carrying Value(1)	NOI for the year ended December 31, 2020(2)
Net leased real estate	5	$ 775,076	$ 58,237
Total/Weighted average net leased real estate - Core Portfolio	5	$ 775,076	$ 58,237

(1) Represents carrying values at our share as of December 31, 2020; includes real estate tangible assets, deferred leasing costs and other intangible assets less intangible liabilities.
(2) Excludes NOI of $7.0 million that relates to properties that have been sold. Please refer to "Non-GAAP Supplemental Financial Measures" for further information on NOI.

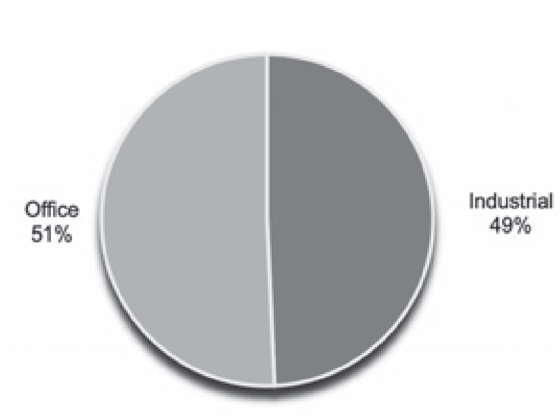
The following table provides asset-level detail of our net leased real estate included in our Core Portfolio as of December 31, 2020:

	Collateral type	City, State	Number of Properties	Number of Buildings	Rentable square feet ("RSF") / units/keys	Weighted average % leased(1)	Weighted average lease term (yrs)(2)
Net leased real estate							
Net lease 1(3)	Industrial	Various - U.S.	22	22	6,697,304 RSF	96%	4.2
Net lease 2	Office	Stavenger, Norway	1	26	1,290,926 RSF	100%	9.7
Net lease 3	Industrial	Various - U.S.	2	2	721,807 RSF	100%	17.9
Net lease 4	Office	Aurora, CO	1	1	183,529 RSF	100%	2.2
Net lease 5	Office	Indianapolis, IN	1	1	338,000 RSF	100%	5.3
Total/Weighted average net leased real estate			27	52	9,231,566 RSF	98%	7.6

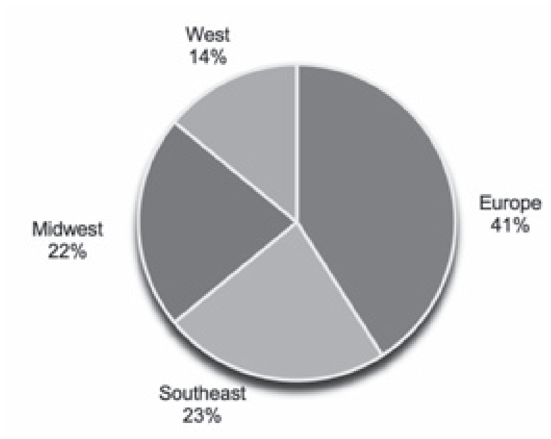
(1) Represents the percent leased as of December 31, 2020. Weighted average calculation based on carrying value at our share as of December 31, 2020.
(2) Based on in-place leases (defined as occupied and paying leases) as of December 31, 2020 and assumes that no renewal options are exercised. Weighted average calculation based on carrying value at our share as of December 31, 2020.
(3) In January 2021, we sold Net Lease 1 for total net proceeds of $81.8 million.

The following charts illustrate the concentration of our net leased real estate portfolio included in Core Portfolio based on property type and geography as of December 31, 2020 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

Property Type



Geography



COVID-19 Update

Since April 1, 2020 through February 24, 2021, we collected 97% of total rents from our net leased real estate portfolio. We believe these properties will continue to perform but caution that COVID-19 events could still result in lease modifications, impairment and the inability to make our mortgage payments, all which could result in defaults under our mortgage obligations or trigger repayments under our Bank Credit Facility.

For the year ended December 31, 2020 and through February 24, 2021, we sold two industrial portfolios and received total gross proceeds of $466.4 million and net proceeds of $132.4 million.

Stavenger, Norway Office Net Lease

	Collateral type	City, State	Number of Properties	Number of Buildings	Rentable square feet (“RSF”) / units/keys	Weighted average % leased	Weighted average lease term (yrs)
Net lease 2	Office	Stavenger, Norway	1	26	1,290,926 RSF	100%	9.7

In July 2018, we acquired a class A office campus in Stavenger, Norway (the “Norway Net Lease”) for $320 million. The office campus consists of 26 buildings, which includes rentable square footage of 1.3 million feet. 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 Net Lease has a weighted average remaining lease term of 9.7 years and the tenant has the option to extend for two 5-year periods at the same terms with rent adjusted to market rent. The Net Lease also has annual rent increases based on the Norwegian CPI Index. 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 $170.1 million with a fixed rate of 3.91%, which matures in June 2025. 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.

In order to generate additional liquidity, brought on by COVID-19, in the first quarter of 2020 we unwound our NOK FX Future contracts related to the Norway Net Lease recognizing a gain of $8.6 million. During the third quarter of 2020, we purchased one year put options of NOK for the notional amount of $92 million at a cost of $1.9 million. We will consider adding further NOK currency hedges in the future.

Refer to “Potential Sources of Liquidity” in “Liquidity and Capital Resources” for further discussion regarding the COVID-19 pandemic and its impact on our future operating results, liquidity and financial condition.

Results of Operations - Core Portfolio

The following table summarizes our Core Portfolio results of operations for the years ended December 31, 2020, 2019 and 2018 (dollars in thousands):

	Year Ended December 31,			Change	
	2020	2019	2018	2020 compared to 2019	2019 compared to 2018
Net interest income					
Interest income	$ 155,039	$ 158,019	$ 108,928	$ (2,980)	$ 49,091
Interest expense	(60,846)	(80,911)	(42,530)	20,065	(38,381)
Interest income on mortgage loans held in securitization trusts	92,461	120,203	143,371	(27,742)	(23,168)
Interest expense on mortgage obligations issued by securitization trusts	(83,952)	(109,964)	(132,411)	26,012	22,447
Net interest income	102,702	87,347	77,358	15,355	9,989
Property and other income					
Property operating income	85,716	115,127	88,414	(29,411)	26,713
Other income	1,011	2,177	1,807	(1,166)	370
Total property and other income	86,727	117,304	90,221	(30,577)	27,083
Expenses					
Management fee expense	26,200	33,912	34,551	(7,712)	(639)
Property operating expense	11,410	31,733	26,673	(20,323)	5,060
Transaction, investment and servicing expense	6,727	3,214	35,895	3,513	(32,681)
Interest expense on real estate	32,407	34,430	25,372	(2,023)	9,058
Depreciation and amortization	40,910	49,003	45,735	(8,093)	3,268
Provision for loan losses	40,919	—	(517)	40,919	517
Impairment of operating real estate	—	23,911	2,435	(23,911)	21,476
Administrative expense	18,834	16,891	14,382	1,943	2,509
Total expenses	177,407	193,094	184,526	(15,687)	8,568
Other income (loss)					
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	(50,521)	4,090	5,003	(54,611)	(913)
Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	2,772	(3,447)	(2,772)	6,219
Other loss, net	(128,452)	(8,470)	(3,410)	(119,982)	(5,060)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(166,951)	9,949	(18,801)	(176,900)	28,750
Equity in earnings (loss) of unconsolidated ventures	(135,613)	56,241	42,484	(191,854)	13,757
Income tax expense	(260)	(739)	(1,125)	479	386
Net income (loss)	$ (302,824)	$ 65,451	$ 22,558	$ (368,275)	$ 42,893

Comparison of Core Portfolio for Years Ended December 31, 2020 and 2019

Net Interest Income

Interest income

Interest income decreased by $3.0 million to $155.0 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The decrease was primarily due to $41.4 million related to the repayment of loan investments and a decrease of $13.6 million related to sales and placement of the remaining CRE securities on cost recovery status during the second quarter of 2020. This was partially offset by an increase of $52.0 million related to loan originations in 2019 and 2020.

Interest expense

Interest expense decreased by $20.1 million to $60.8 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The decrease was primarily due to a $17.8 million reduction from the collapse of a securitization trust and repayment of loan investments and a $2.5 million decrease due to a lower borrowing base on the Bank Credit Facility.

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

Net interest income on mortgage loans and obligations held in securitization trusts, net decreased by $1.7 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily due to the sale and deconsolidation of a retained investment in the subordinate tranches of one securitization trust in the third quarter of 2019.

Property and other income

Property operating income

Property operating income decreased by $29.4 million to $85.7 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The decrease was primarily due to a $25.3 million reduction in operating income due to the sale of a hotel in the fourth quarter of 2019.

Other income

Other income decreased by $1.2 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019 primarily as a result of lower realized gains on derivatives of $0.3 million in 2020 related to an office building and a decrease of $0.4 million due to income in 2019 related to debt facility true ups not applicable to 2020.

Expenses

Management fee expense

Management fee expense decreased by $7.7 million to $26.2 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The decrease is due to the reduction in stockholders' equity (as defined in the Management Agreement) as of December 31, 2020 compared to December 31, 2019. The reduction in stockholders' equity is primarily due to a fourth quarter 2019 amendment to our definition of core earnings in the Management Agreement.

Property operating expense

Property operating expense decreased by $20.3 million to $11.4 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The decrease resulted from the sale of a hotel during the fourth quarter of 2019.

Transaction, investment and servicing expense

Transaction, investment and servicing expense increased by $3.5 million to $6.7 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily due to a $1.7 million decrease in franchise tax refunds received and a $1.5 million increase in legal costs incurred associated with exploring the internalization of the management of the Company.

Interest expense on real estate

Interest expense on real estate decreased by $2.0 million to $32.4 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019 due to the sale of an industrial building in third quarter 2020.

Depreciation and amortization

Depreciation and amortization expense decreased by $8.1 million to $40.9 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. This was primarily due to a $1.8 million decrease resulting from the sale of a hotel during the fourth quarter of 2019 and a $6.2 million decrease resulting from the sale of an industrial building in the third quarter of 2020.

Provision for loan losses

During the year ended December 31, 2020, we recorded provision for loan losses of $40.9 million which primarily relates to $20.6 million in specific loan impairments on three individual loans and $15.5 million in CECL reserves in accordance with ASU No. 2016-13, *Financial Instruments-Credit Losses.*

Impairment of operating real estate

Impairment of operating real estate decreased by $23.9 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. There were no impairments assessed during the year ended December 31, 2020. During the year ended December 31, 2019, the impairment was attributable to an industrial real estate portfolio of properties, resulting from a reduction in the estimated holding period of the portfolio.

Administrative expense

Administrative expense increased by $1.9 million to $18.8 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. This increase was primarily due to $1.8 million of higher corporate expenses allocated to our Core Portfolio following the sales and repayments in our Legacy, Non-Strategic Portfolio.

Other income (loss)

Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net

During the year ended December 31, 2020, we recorded an unrealized loss of $50.5 million on mortgage loans and obligations held in securitization trusts, net which represents the change in fair value of the assets and liabilities of the securitization trusts consolidated as a result of our investment in the subordinate tranches of these securitization trusts.

Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net

Realized gain (loss) on mortgage loans and obligations held in securitizations trusts, net decreased by $2.8 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019 due to the sale and deconsolidation of a retained investment in the subordinate tranches of one securitization trust in the third quarter of 2019.

Other loss, net

During the year ended December 31, 2020, we recorded other loss, net of $128.5 million, which primarily represents an $82.3 million realized net loss on the sale of 41 CRE CMBS securities and the realization of the fair value marks on our CRE CMBS securities portfolio in addition to a $38.0 million provision for loan loss on one hospitality loan.

Equity in earnings (losses) of unconsolidated ventures

Equity in earnings of unconsolidated ventures decreased by $191.9 million to a loss of $135.6 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. This was primarily due to the Company recording $162.0 million in fair value losses relating to three equity method investments that have been placed on nonaccrual status in 2020, partially offset by $8.4 million related to the sale and repayment of equity method investments.

Income tax expense

Income tax expense decreased by $0.5 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily due to the sale of a hotel in December 2019 that was acquired through a legal foreclosure process in 2018, partially offset by a reduction of the deferred income tax benefit on one of our net lease portfolios acquired in 2018.

Comparison of Core Portfolio for Years Ended December 31, 2019 and 2018

Net Interest Income

Interest income

Interest income increased by $49.1 million to $158.0 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The increase was primarily due to a $48.6 million increase from originations, acquisitions and refinancings of loans and CMBS in 2018 and 2019 and a $41.4 million increase from recognizing a full year of interest income in 2019 on loans, preferred equity and CMBS originated or acquired in 2018 or acquired as part of the Combination in February 1, 2018. This was partially offset by a decrease of $30.3 million related to the repayment of loan investments, a decrease of $3.9 million related to the deconsolidation of certain investments entities as a result of the Combination and a decrease of $2.7 million related to the foreclosure of one loan investment.

Interest expense

Interest expense increased by $38.4 million to $80.9 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The increase was primarily due to a $25.1 million increase related to borrowings on our master repurchase and CMBS credit facilities, as well as securitization bonds, primarily associated with the originations and acquisitions of loans and CMBS in 2018 and 2019, and a $13.5 million increase from recognizing a full year of interest expense in 2019 on loans, preferred equity and CMBS originated or acquired in 2018 or acquired as part of the Combination in February 1, 2018.

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

Interest income on mortgage loans and obligations held in securitization trusts, net decreased by $0.7 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily due to the sale and deconsolidation of a retained investment in the subordinate tranches of one securitization trust in the third quarter of 2019.

Property and other income

Property operating income

Property operating income increased by $26.7 million to $115.1 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The increase was primarily due to a $21.3 million increase related to two net lease portfolios acquired in the third quarter of 2018, a $15.5 million increase related to a hotel acquired through legal foreclosure process in the third quarter of 2018 and a $3.8 million increase from recognizing a full year of property operating income on two industrial portfolios acquired as part of the Combination in February 1, 2018. This was partially offset by a $12.7 million decrease related to the October 2018 sale of a multi-tenant office portfolio.

Expenses

Management fee expense

Management fee expense decreased by $0.6 million to $33.9 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The decrease is due to the reduction in stockholders' equity (as defined in the Management Agreement) as of December 31, 2019 compared to December 31, 2018. The reduction in stockholders' equity is primarily due to a fourth quarter 2019 amendment to our definition of core earnings in the Management Agreement, as well as distributions declared and paid.

Property operating expense

Property operating expense increased by $5.1 million to $31.7 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The increase was primarily due to a $10.4 million increase related to a hotel acquired through legal foreclosure process in the third quarter of 2018. This was offset by a $4.3 million decrease related to the October 2018 sale of a multi-tenant office portfolio.

Transaction, investment and servicing expense

Transaction, investment and servicing expense decreased by $32.7 million to $3.2 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily as a result of lower transaction costs incurred associated with the Combination of $31.5 million.

Interest expense on real estate

Interest expense on real estate increased by $9.1 million to $34.4 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The increase was primarily due to $9.4 million increase resulting from the acquisition of two net lease portfolios acquired in 2018.

Depreciation and amortization

Depreciation and amortization expense increased by $3.3 million to $49.0 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. This was primarily due to a $10.5 million increase resulting from the acquisition of two net lease portfolios acquired in 2018, partially offset by a $7.8 million decrease related to the October 2018 sale of a multi-tenant office portfolio.

Impairment of operating real estate

Impairment of operating real estate of $23.9 million for the year ended December 31, 2019 is attributable to the reduction in the estimated holding period of an industrial real estate portfolio of properties. Impairment of operating real estate of $2.4 million for the year ended December 31, 2018 is related to the multi-tenant office portfolio sold in October 2018.

Administrative expense

Administrative expense increased by $2.5 million to $16.9 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. This was primarily due to an increase in equity-based compensation expense due to awards granted in March 2019 under the 2018 Equity Incentive Plan (the "2018 Plan"), partially offset by lower professional fees.

Other income (loss)

Unrealized gain on mortgage loans and obligations held in securitization trusts, net

During the years ended December 31, 2019 and 2018, we recorded an unrealized gain of $4.1 million and $5.0 million, respectively, on mortgage loans and obligations held in securitization trusts, net which represents the change in fair value of the assets and liabilities of the securitization trusts consolidated as a result of our investment in the subordinate tranches of these securitization trusts acquired in the Combination.

Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net

During the years ended December 31, 2019 and 2018, we recorded a realized gain of $2.8 million and realized loss of $3.4 million, respectively, on mortgage loans and obligations held in securitization trusts, net. The increase was primarily due to the realized gain upon sale of the retained interest of a securitization trust in the third quarter of 2019.

Other loss, net

Other loss, net decreased by $5.1 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The decrease was primarily due to a $4.9 million unrealized loss on non-designated interest rate swap contracts entered into in 2018 and a $1.5 million unrealized loss on non-designated foreign exchange contracts entered into during 2018, partially offset by a $1.1 million gain on the sale of the hotel in December 2019 previously acquired through legal foreclosure process in the third quarter of 2018.

Equity in earnings of unconsolidated ventures

Equity in earnings of unconsolidated ventures increased by $13.8 million to $56.2 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. This was primarily due to an increase of $21.9 million related to the full year impact of investments in unconsolidated joint ventures entered into in 2018, an increase of $9.5 million related to our increased commitment in June 2018 and July 2019 to one of our joint ventures which holds a mezzanine loan and a preferred equity investment and an increase of $5.2 million on one of our equity method investments in which the underlying investment was not operational until March 2018. This was partially offset by an impairment of $17.6 million on an equity participation interest in a joint venture and a $7.1 million decrease related to repayments of investments held in joint ventures.

Income tax expense

Income tax expense decreased by $0.4 million to $0.7 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily due to a deferred income tax benefit of $3.0 million on one of our net lease portfolios acquired in 2018, partially offset by a $2.2 million income tax provision on the hotel acquired through the legal foreclosure process in the third quarter of 2018, and subsequently sold in December 2019.

Legacy, Non-Strategic Portfolio

As of December 31, 2020, our Legacy, Non-Strategic Portfolio consisted of 14 investments representing approximately $318.5 million in book value (excluding cash, cash equivalents and certain other assets). Our loan portfolio consisted of one mezzanine loan and one preferred equity investment, both of which are on nonaccrual status as of December 31, 2020. Our owned real estate portfolio (including net leased and other real estate) consisted of approximately 1.9 million total square feet of space and the total NOI of that portfolio was approximately $22.9 million for the year ended December 31, 2020 (based on leases in place as of December 31, 2020). We intend to eliminate separate reporting on the Legacy, Non-Strategic Portfolio in 2021 given the substantial resolution and reduction of assets in this portfolio segment.

As of December 31, 2020, our Legacy, Non-Strategic Portfolio consisted of the following investments (dollars in thousands):

	Count[(1)]	Book value (Consolidated)	Book value (at CLNC share)[(2)]	Net book value (Consolidated)[(3)]	Net book value (at CLNC share)[(4)]
Legacy, Non-Strategic Portfolio					
Mezzanine loans[(5)]	1	$ 56,796	$ 11,465	$ 56,796	$ 11,465
Preferred equity[(5)]	1	682	138	682	138
Net leased real estate	5	41,705	41,705	(12,648)	(12,648)
Other real estate	3	212,479	198,403	8,756	8,162
Private equity interests	4	6,883	6,883	6,883	6,883
Total/Weighted average Legacy, Non-Strategic Portfolio	14	$ 318,545	$ 258,594	$ 60,469	$ 14,000

(1) Count for net leased and other real estate represents number of investments.
(2) Book value at our share represents the proportionate book value based on ownership by asset as of December 31, 2020.
(3) Net book value represents book value less any associated financing as of December 31, 2020.
(4) Net book value at our share represents the proportionate book value based on asset ownership less any associated financing based on ownership as of December 31, 2020.
(5) Mezzanine loans and preferred equity include investments in joint ventures whose underlying interest is in a loan or preferred equity.

Legacy, Non-Strategic Portfolio: Senior and Mezzanine Loans and Preferred Equity

Our Legacy, Non-Strategic Portfolio includes one mezzanine loan and one preferred equity interest, related to a residential development project in Rolling Hills, California. As of December 31, 2020, our at CLNC share book value of the mezzanine loan and preferred equity interest is $11.5 million and $0.1 million, respectively. These investments are included in the 5-Investment Preferred Financing with Goldman Sachs.

During the year ended December 31, 2020 the following loans within our Legacy, Non-Strategic Portfolio were resolved:

- In March 2018, the borrower on our four NY hospitality loans in our Legacy, Non-Strategic Portfolio failed to make all required interest payments and the loans were placed on nonaccrual status. These four loans are secured by the same collateral. During 2018, we recorded $53.8 million of provision for loan losses to reflect the estimated value to be recovered from the borrower following a sale. During 2019, we recorded an additional provision for loan loss of $154.3 million based on significant deterioration in the NY hospitality market, feedback from the sales process and the estimated value to be recovered from the borrower following a potential sale. During the three months ended March 31, 2020 the significant detrimental impact of COVID-19 on the U.S. hospitality industry further contributed to the deterioration of our four NY hospitality loans and as such we recorded an additional provision for loan losses of $36.8 million. During the three months ended June 30, 2020 we completed a discounted payoff of the NY hospitality loans and related investment interests.

- We placed one loan secured by a regional mall ("Midwest Regional Mall") on nonaccrual status during 2019 as collectability of the principal was uncertain; as such, interest collected is recognized using the cost recovery method by applying interest collected as a reduction to loan carrying value. We recorded $10.6 million of impairment related to Midwest Regional Mall and transferred the loan to held for sale during 2019. During the three months ended June 30, 2020 the Midwest Regional Mall was sold. We received $8.3 million in gross proceeds and recognized a gain of $3.7 million.

- During 2018, we recorded $8.8 million of provision for loan losses on one loan secured by a regional mall ("Northeast Regional Mall B") to reflect the estimated fair value of the collateral. During 2019, we recognized additional provision for loan losses of $10.5 million on Northeast Regional Mall B. The additional provisions were based on then-current and prospective leasing activity to reflect the estimated fair value of the collateral. During the three months ended March 31, 2020, the Northeast Regional Mall was sold. We received $9.2 million in gross proceeds and recognized a gain of $1.8 million.

- During 2019, we separately recognized provision for loan losses of $18.5 million on two loans secured by one regional mall ("West Regional Mall") to reflect the estimated fair value of the collateral. During the three months ended June 30, 2020, the West Regional Mall loan was sold. We received $23.5 million in gross proceeds and recognized a gain of $6.5 million.

- Also, during 2019, we recognized a $26.7 million provision for loan losses on three loans to two separate borrowers ("South Regional Mall A" and "South Regional Mall B") to reflect the estimated fair value of the collateral. During the three months ended March 31, 2020, we accepted a discounted payoff of South Regional Mall A. We received $22.0

million in gross proceeds and recognized a loss of $1.6 million. Additionally, during the three months ended March 31, 2020 South Regional Mall B was sold. We received $13.5 million in gross proceeds and recognized a gain of $8.7 million.

Impairment of Loans and Preferred Equity Held in Joint Ventures

During the year ended December 31, 2019, we recognized our proportionate share of a fair value loss adjustment totaling $14.7 million on one senior loan secured by a regional mall ("Southeast Regional Mall") of which we owned 50.0% of the joint venture. Southeast Regional Mall was included in our Legacy, Non-Strategic Portfolio prior to its sale during the three months ended June 30, 2020. We received $13.4 million in gross sales proceeds and recognized a gain of $1.6 million.

During the year ended December 31, 2020, we classified one investment in an unconsolidated venture secured by a land development loan ("West Land Development Loan") in our Legacy, Non-Strategic Portfolio with a carrying value of $11.0 million as held for sale. During the fourth quarter of 2020, we accepted a discounted payoff and recognized a $2.6 million realized loss.

COVID-19 Update

During the year ended December 31, 2020, we sold nine loans generating gross proceeds of $113.0 million. Our two remaining loans are on nonaccrual status. We have reviewed the two remaining loans in our Legacy, Non-Strategic portfolio and believe that it is too early to predict and quantify the full impact of principal loss. However, further losses or permanent impairment in future quarters are possible.

Legacy, Non-Strategic Portfolio: Owned Real Estate

Our owned real estate includes 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 own operating real estate investments through joint ventures with one or more partners. These properties are typically well-located with strong operating partners.

As of December 31, 2020, $240.1 million, or 92.9%, of our Legacy, Non-Strategic Portfolio was invested in owned real estate and was 100.0% occupied. The following table provides a summary of net leased and other real estate included in our Legacy, Non-Strategic Portfolio as of December 31, 2020 (dollars in thousands):

	Count	Carrying Value[(1)]	NOI for the year ended December 31, 2020[(2)]
Net leased real estate	5	$ 41,705	$ 6,516
Other real estate	3	198,403	16,360
Total/Weighted average owned real estate - Legacy, Non-Strategic Portfolio	8	$ 240,108	$ 22,876

(1) Represents carrying values at our share as of December 31, 2020; includes real estate tangible assets, deferred leasing costs and other intangible assets less intangible liabilities.
(2) Excludes NOI of $9.8 million that relates to properties that have been sold. Please refer to "Non-GAAP Supplemental Financial Measures" for further information on NOI.

The following table provides asset-level details of our net leased and other real estate included in our Legacy, Non-Strategic Portfolio as of December 31, 2020:

	Collateral type	City, State	Number of properties	Number of buildings	RSF / units/ keys	Weighted average % leased(1)	Weighted average lease term (yrs)(2)
Net leased real estate							
Net lease 1	Retail	Various - U.S.	7	7	319,600 RSF	100%	3.2
Net lease 2	Office	Rockaway, NJ	1	1	121,038 RSF	100%	2.0
Net lease 3	Retail	Keene, NH	1	1	45,471 RSF	100%	8.1
Net lease 4	Retail	Fort Wayne, IN	1	1	50,000 RSF	100%	3.7
Net lease 5	Retail	South Portland, ME	1	1	52,900 RSF	100%	2.7
Total/Weighted average net leased real estate			11	11	589,009 RSF	100%	3.4
Other real estate							
Other real estate 1	Office	Creve Coeur, MO	7	7	847,604 RSF	93%	3.8
Other real estate 2	Office	Warrendale, PA	5	5	496,414 RSF	82%	4.6
Other real estate 3	Hotel	Coraopolis, PA	1	1	318 Keys	n/a	—
Total/Weighted average other real estate			13	13	n/a	89%	4.1
Total/Weighted average owned real estate - Legacy, Non-Strategic Portfolio			24	24			

(1) Represents the percent leased as of December 31, 2020. Weighted average calculation based on carrying value at our share as of December 31, 2020.
(2) Based on in-place leases (defined as occupied and paying leases) as of December 31, 2020 and assumes that no renewal options are exercised. Weighted average calculation based on carrying value at our share as of December 31, 2020.

COVID-19 Update

Since April 1, 2020 through February 24, 2021, we collected 88.4% of total rents across our Legacy, Non-Strategic Portfolio.

We reviewed our Legacy, Non-Strategic owned real estate portfolio and our asset management team is in active discussions with all lessees. See table below (dollars in thousands):

	April 2020 through February 2021 Rent Collection		
	Billed	Collected	% Collected
Office	$ 40,326	$ 35,578	88.2 %
Retail	6,249	5,425	86.8 %
Student Housing	5,764	5,332	92.5 %
Multifamily	4,717	4,117	87.3 %
	$ 57,056	$ 50,452	88.4 %

We met all our mortgage obligations securing the properties within our Legacy, Non-Strategic Portfolio. We caution that known and unknown COVID-19 events could result in lease modifications, impairment and the inability to make our mortgage payments, all which could result in default under our mortgage obligations.

As we executed sales of owned real estate in our Legacy, Non-Strategic Portfolio we recorded impairment on held for sale operating real estate properties of $42.8 million during the year ended December 31, 2020 resulting from bids received and updated brokers' opinions of value (BOVs).

Since October 1, 2019, when we realigned the business and our reportable segments to reflect management's focus on the resolution of certain Legacy, Non-Strategic investments, we have completed the following sales (dollars in thousands):

	No. of Properties sold	Gross Proceeds	Net Proceeds	Net gain/(loss)
Three months ended December 31, 2019	6	$ 96,980	$ 95,425	$ 10,036
Three months ended March 31, 2020	6	172,579	80,133	(3,551)
Three months ended June 30, 2020	1	1,025	903	(83)
Three months ended September 30, 2020	5	143,412	62,189	10,489
Three months ended December 31, 2020	23	158,922	71,584	(5,725)
Total	41	$ 572,918	$ 310,234	$ 11,166

As of December 31, 2020 we continue to hold Legacy, Non-Strategic Owned Real Estate gross assets of $254.2 million which represents 4.1% of the company's total assets.

Refer to "Potential Sources of Liquidity" in "Liquidity and Capital Resources," respectively, for further discussion regarding the COVID-19 pandemic and its impact on our future operating results, liquidity and financial condition.

Results of Operations - Legacy, Non-Strategic Portfolio

The following table summarizes our Legacy, Non-Strategic Portfolio results of operations for the years ended December 31, 2020, 2019 and 2018 (dollars in thousands):

	Year Ended December 31,			Change	
	2020	2019	2018	2020 compared to 2019	2019 compared to 2018
Net interest income					
Interest income	$ 1,812	$ 17,150	$ 42,725	$ (15,338)	$ (25,575)
Interest expense	(2,197)	(6,819)	(4,544)	4,622	(2,275)
Net interest income	(385)	10,331	38,181	(10,716)	(27,850)
Property and other income					
Property operating income	89,321	138,828	89,925	(49,507)	48,903
Other income	825	156	1,844	669	(1,688)
Total property and other income	90,146	138,984	91,769	(48,838)	47,215
Expenses					
Management fee expense	3,539	8,478	8,639	(4,939)	(161)
Property operating expense	53,577	81,068	46,943	(27,491)	34,125
Transaction, investment and servicing expense	3,248	3,977	905	(729)	3,072
Interest expense on real estate	16,453	20,985	18,065	(4,532)	2,920
Depreciation and amortization	18,856	54,217	45,251	(35,361)	8,966
Provision for loan losses	37,642	220,572	114,428	(182,930)	106,144
Impairment of operating real estate	42,814	258,838	29,378	(216,024)	229,460
Administrative expense	7,717	15,045	12,252	(7,328)	2,793
Total expenses	183,846	663,180	275,861	(479,334)	387,319
Other income					
Other gain, net	9,727	7,498	644	2,229	6,854
Loss before equity in earnings of unconsolidated ventures and income taxes	(84,358)	(506,367)	(145,267)	422,009	(361,100)
Equity in earnings (loss) of unconsolidated ventures	440	(19,299)	(18,710)	19,739	(589)
Income tax benefit (expense)	11,158	(2,433)	(35,934)	13,591	33,501
Net loss	$ (72,760)	$ (528,099)	$ (199,911)	$ 455,339	$ (328,188)

Comparison of Legacy, Non-Strategic Portfolio for Years Ended December 31, 2020 and 2019

Net Interest Income

Interest income

Interest income decreased by $15.3 million to $1.8 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. This decrease was primarily due to $13.1 million related to the sale and repayment of loan investments and $1.3 million related to one foreclosed loan investment.

Interest expense

Interest expense decreased by $4.6 million to $2.2 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. This was primarily due to a lower allocation of interest expense on our Bank Credit Facility to the Legacy Non-Strategic Portfolio for the year ended December 31, 2020.

Property and other income

Property operating income

Property operating income decreased by $49.5 million to $89.3 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The lower income was primarily due to a $26.8 million decrease related to 34 real estate properties sold during 2020 and a $12.3 million decrease in hotel revenue due to COVID-19.

Other income

Other income increased by $0.7 million to $0.8 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. This is primarily due to tax refunds received during the year ended December 31, 2020.

Expenses

Management fee expense

Management fee expense decreased by $4.9 million to $3.5 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The decrease is due to the reduction in stockholders' equity (as defined in the Management Agreement) as of December 31, 2020 compared to December 31, 2019. The reduction in stockholders' equity is primarily due to a fourth quarter 2019 amendment to our definition of core earnings in the Management Agreement.

Property operating expense

Property operating expense decreased by $27.5 million to $53.6 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The lower expense was primarily due to a $14.2 million decrease related to 34 real estate properties sold during 2020 and a $7.3 million decrease in hotel operating expenses related to COVID-19.

Transaction, investment and servicing expense

Transaction, investment and servicing expense decreased by $0.7 million to $3.2 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019, as a result of lower costs associated with the sale of investments.

Interest expense on real estate

Interest expense on real estate decreased by $4.5 million to $16.5 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The decrease resulted from real estate properties sold within the past twelve months.

Depreciation and amortization

Depreciation and amortization expense decreased by $35.4 million to $18.9 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The lower expense was primarily due to a $22.1 million decrease related to 34 real estate properties sold during 2020 and $3.4 million related to properties sold during 2019.

Provision for loan losses

Provision for loan losses of $37.6 million was recorded for the year ended December 31, 2020, which is primarily attributable to the Company recording an additional provision of $36.8 million for our four NY hospitality loans due to the detrimental impact of COVID-19 on the hospitality industry.

Impairment of operating real estate

Impairment of operating real estate held for sale of $42.8 million for the year ended December 31, 2020 is primarily resulting from feedback received during the sales process.

Administrative expense

Administrative expense decreased by $7.3 million to $7.7 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. This decrease was primarily due to lower stock compensation expense allocated to the Legacy, Non-Strategic Portfolio and a lower allocation of indirect costs which are reimbursable to our Manager.

Other income

Other gain, net

Other gain, net increased by $2.2 million to $9.7 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. The increase was primarily due to gains recognized on asset sales during 2020.

Equity in earnings (loss) of unconsolidated ventures

Equity in earnings (loss) of unconsolidated ventures decreased by $19.7 million to a gain of $0.4 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. This was primarily due to recording $25.0 million in impairments on three of our equity method investments in 2019, partially offset by us recording a $2.6 million realized loss on the discounted payoff of one equity method investment during 2020.

Income tax benefit (expense)

Income tax expense decreased by $13.6 million to an income tax benefit of $11.2 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019. This was primarily due to the Company finalizing its 2019 federal tax return and determining it would be able to carryback certain tax capital losses to prior years resulting in a refund of $11.3 million.

Comparison of Legacy, Non-Strategic Portfolio for Years Ended December 31, 2019 and 2018

Net Interest Income

Interest income

Interest income decreased by $25.6 million to $17.2 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. This decrease was primarily due to $15.4 million related to the foreclosure of seven loan investments, $5.1 million related to the repayment of loan investments, $3.8 million due to placing the four NY hospitality loans on nonaccrual status and $0.9 million related to the deconsolidation of certain investments entities.

Interest expense

Interest expense increased by $2.3 million to $6.8 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The increase was primarily due to a $2.8 million increase related to borrowings on the revolving credit facility and a $1.6 million increase related to financing obtained from our master repurchase facilities on two loan investments, partially offset by a decrease of $2.1 million related to paydowns on our master repurchase facilities following the repayment of loan investments.

Property and other income

Property operating income

Property operating income increased by $48.9 million to $138.8 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The increase was primarily due to a $42.7 million increase related to the 30 real estate properties acquired through foreclosure in 2018 and 2019.

Expenses

Management fee expense

Management fee expense decreased by $0.2 million to $8.5 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The decrease is due to the reduction in stockholders' equity (as defined in the Management

Agreement) as of December 31, 2019 compared to December 31, 2018. The reduction in stockholders' equity is primarily due to a fourth quarter 2019 amendment to our definition of core earnings in the Management Agreement, as well as distributions declared and paid.

Property operating expense

Property operating expense increased by $34.1 million to $81.1 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The increase was primarily due to a $32.0 million increase related to the 30 real estate properties acquired through foreclosure in 2018 and 2019.

Transaction, investment and servicing expense

Transaction, investment and servicing expense increased by $3.1 million to $4.0 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily as a result of $2.1 million of legal costs associated with the foreclosure of 29 properties throughout 2019.

Interest expense on real estate

Interest expense on real estate increased by $2.9 million to $21.0 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The increase was primarily due to a $1.9 million increase due to recognizing a full year of interest expense on real estate in 2019 on operating real estate properties acquired in the Combination and a $1.1 million increase related to the financing obtained in March 2019 for a hotel foreclosed on in 2018.

Depreciation and amortization

Depreciation and amortization expense increased by $9.0 million to $54.2 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. This was primarily due to a $18.2 million increase related to 30 real estate properties acquired through foreclosure in the third quarter of 2018 and during 2019. The increase was partially offset by a $8.2 million decrease in amortization expense primarily as a result of short-term in-place lease value intangible assets on our multifamily properties that were fully amortized in 2018.

Provision for loan losses

Provision for loan losses of $220.6 million was recorded for the year ended December 31, 2019, which is attributable to our four NY hospitality loans of $154.3 million and seven loans collateralized by retail properties of $66.3 million. Provision for loan losses of $114.4 million was recorded for the year ended December 31, 2018, which is attributable to our four NY hospitality loans of $53.8 million, four loans collateralized with 28 office, retail, multifamily and industrial properties of $36.8 million and three loans collateralized by retail properties of $23.8 million.

Impairment of operating real estate

Impairment of operating real estate of $258.8 million for the year ended December 31, 2019 is resulting from a reduction in the estimated holding period of certain properties. Impairment of operating real estate of $29.4 million for the year ended December 31, 2018 is attributable to certain retail and student housing properties.

Administrative expense

Administrative expense increased by $2.8 million to $15.0 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. This was primarily due to higher expenses related to equity-based compensation due to awards granted in March 2019 under the 2018 Plan, reimbursable expenses allocated to us by our Manager.

Other income

Other gain, net

Other gain, net increased by $6.9 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The increase was primarily due to $8.8 million related to the gain on sale of three real estate properties, offset by a decrease of $1.3 million related to professional fees associated with the sale of our PE Investments.

Equity in earnings (loss) of unconsolidated ventures

Equity in losses of unconsolidated ventures increased by $0.6 million to $19.3 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. This was primarily due to an impairment of $30.8 million on five senior and mezzanine loans held in joint ventures and $3.8 million related to placing two mezzanine loans and one preferred equity investment on nonaccrual status. This was offset by an increase of $33.2 million related to our PE Investments in which we recorded no equity in earnings for the year ended December 31, 2019.

Income tax expense

Income tax expense decreased by $33.5 million to $2.4 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily due to a $34.9 million tax valuation adjustment recorded in 2018 following an analysis that determined it is more likely than not that some portion of the deferred tax asset related to its PE Investments will not be realized.

Non-GAAP Supplemental Financial Measures

Distributable Earnings/Legacy, Non-Strategic Distributable Earnings

We present Distributable Earnings/Legacy, Non-Strategic Distributable Earnings, which is a non-GAAP supplemental financial measure of our performance. Our Distributable Earnings are generated by the Core Portfolio and Legacy, Non-Strategic Distributable Earnings are generated by the Legacy, Non-Strategic Portfolio. We believe that Distributable Earnings/Legacy, Non-Strategic Distributable Earnings provides meaningful information to consider in addition to our net income and cash flow from operating activities determined in accordance with U.S. 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 U.S. GAAP adjustments that we believe are not necessarily indicative of our current portfolio and operations. For information on the fees we pay our Manager, see Note 10, “Related Party Arrangements” to our consolidated financial statements included in Item 15. Exhibits and Financial Statement Schedules of this Form 10-K.

We define Distributable Earnings/Legacy, Non-Strategic Distributable Earnings as U.S. 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) 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 U.S. GAAP and (x) certain material non-cash income or expense items that in the judgment of management should not be included in Distributable Earnings/Legacy, Non-Strategic Distributable Earnings. For clauses (ix) and (x), such exclusions shall only be applied after discussions between our Manager and our independent directors and after approval by a majority of our independent directors. Distributable Earnings/Legacy, Non-Strategic Distributable Earnings include provision for loan losses 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.

Distributable Earnings/Legacy, Non-Strategic Distributable Earnings does not represent net income or cash generated from operating activities and should not be considered as an alternative to U.S. GAAP net income or an indication of our cash flows from operating activities determined in accordance with U.S. 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/Legacy, Non-Strategic 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 may not be comparable to the Distributable Earnings reported by other companies.

The following tables present a reconciliation of net income (loss) attributable to our common stockholders to Distributable Earnings/Legacy, Non-Strategic 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 year ended December 31, 2020:

	Year Ended December 31, 2020		
	Total	**Legacy, Non-Strategic Portfolio**	**Core Portfolio**
Net loss attributable to Colony Credit Real Estate, Inc. common stockholders	$ (353,299)	$ (62,518)	$ (290,781)
Adjustments:			
Net gain attributable to noncontrolling interest of the Operating Partnership	(8,361)	(1,470)	(6,891)
Non-cash equity compensation expense	4,367	1,401	2,966
Transaction costs	3,294	1,138	2,156
Depreciation and amortization	59,159	17,797	41,362
Net unrealized loss (gain) on investments:			
Impairment of operating real estate and preferred equity	42,814	42,814	—
Other unrealized loss	40,732	27	40,705
CECL reserves	15,317	(153)	15,470
Losses (gains) on sales of real estate and preferred equity	432	(725)	1,157
Adjustments related to noncontrolling interests	(9,400)	(9,089)	(311)
Distributable Earnings/Legacy, Non-Strategic Distributable Earnings (Loss) attributable to Colony Credit Real Estate, Inc. common stockholders and noncontrolling interest of the Operating Partnership	$ (204,945)	$ (10,778)	$ (194,167)
Distributable Earnings/Legacy, Non-Strategic Distributable Earnings (Loss) per share[(1)]	$ (1.56)	$ (0.08)	$ (1.48)
Weighted average number of common shares and OP units[(1)]	131,623	131,623	131,623

(1) We calculate Distributable Earnings/Legacy, Non-Strategic Distributable Earnings (Loss) per share, a non-GAAP financial measure, based on a weighted-average number of common shares and OP units (held by members other than us or our subsidiaries). For the year ended December 31, 2020, weighted average number of common shares includes 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 adjusts 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 U.S. 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 U.S. 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 year ended December 31, 2020:

	Year Ended December 31, 2020		
	Total	Legacy Non-Strategic Portfolio	Core Portfolio
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	$ (22,312)	$ (34,765)	$ 12,453
Adjustments:			
Net income (loss) attributable to noncontrolling interest in investment entities	(7,201)	(8,717)	1,516
Amortization of above-and below-market lease intangibles	(415)	(287)	(128)
Interest income	(15)	—	(15)
Interest expense on real estate	48,860	16,453	32,407
Other income	(949)	(496)	(453)
Transaction, investment and servicing expense	864	318	546
Depreciation and amortization	59,766	18,856	40,910
Impairment of operating real estate	42,814	42,814	—
Administrative expense	379	78	301
Other (gain) loss on investments, net	(11,829)	1,202	(13,031)
Income tax benefit	(327)	—	(327)
NOI attributable to noncontrolling interest in investment entities	(11,680)	(2,756)	(8,924)
Total NOI attributable to Colony Credit Real Estate, Inc. common stockholders	$ 97,955	$ 32,700	$ 65,255

Liquidity and Capital Resources

Overview

Our primary liquidity needs 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 additional 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, which includes making payments to our Manager in accordance with the management agreement.

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 also invested in a number of our assets through co-investments with other investment vehicles managed by affiliates of our Manager and/or other third parties, which has and may allow us to pool capital to access larger transactions and diversify investment exposure.

Financing Strategy

We have a multi-pronged financing strategy that includes an up to $450 million secured revolving credit facility, up to approximately $2.1 billion in secured revolving repurchase facilities, $840 million in non-recourse securitization financing, $1.0 billion in commercial mortgages and $75 million in other asset-level financing structures. 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:

	December 31, 2020	December 31, 2019
Debt-to-equity ratio[(1)]	1.0x	1.4x

(1) Represents (i) total outstanding secured debt less cash and cash equivalents of $474.8 million and $462.0 million at December 31, 2020 and 2019, respectively to (ii) total equity, in each case, at period end.

Potential Sources of Liquidity

The COVID-19 pandemic has had a significant impact on our business, and during 2020 we acted to protect our liquidity. The pandemic's impact on the financial condition of our borrowers and their ability to make their monthly mortgage payments and remain in compliance with loan covenants and terms has been notable, as the failure of our borrowers to meet their loan obligations may trigger repayments to our Bank Credit Facility and Master Repurchase Facilities. During 2020, we experienced declines in the value of our target assets, and received margin calls, default notices and deficiency letters from certain of our financing counterparties.

Additionally, if our operating real estate lessees are unable to make monthly rent payments, we would be unable to make our monthly mortgage payments which could result in defaults under these obligations or trigger repayments under our Bank Credit Facility. If these events were to occur, we may not have sufficient available cash to repay amounts due.

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 February 1, 2018, the OP (together with certain subsidiaries of the OP from time to time party thereto as borrowers, collectively, the "Borrowers") entered into a credit agreement (the "Bank Credit Facility") with JPMorgan Chase Bank, N.A., as 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 $400.0 million. On December 17, 2018, the aggregate amount of revolving commitments was increased to $525.0 million and on February 4, 2019, the aggregate amount of revolving commitments was increased to $560.0 million.

Given the ongoing impact of the COVID-19 pandemic to the underlying value of our investments, and related uncertainty in our ability to meet certain financial covenants, during the second quarter we amended our Bank Credit Facility to: (i) reduce the minimum tangible net worth covenant requirement from $2.1 billion to $1.5 billion, providing portfolio management flexibilities as a result of any disruptions in investments caused by COVID-19 or other factors; (ii) reduce the facility size from $560.0 million to $450.0 million; (iii) limit dividends to an amount required to retain REIT status or to avoid income tax and restrict stock repurchases, each for liquidity preservation purpose; and (iv) focus new investments on senior mortgages.

Advances under the Bank Credit Facility accrue interest at a per annum rate equal to, at the applicable Borrower's election, either a LIBOR rate plus a margin of 2.25%, or a base rate determined according to a prime rate or federal funds rate 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 Bank Credit Facility. Amounts owing under the Bank Credit Facility 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 LIBOR rate election is in effect.

The maximum amount available for borrowing at any time under the Bank Credit Facility 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 the date hereof, the borrowing base valuation is sufficient to support the outstanding borrowings. The Bank Credit Facility will mature on February 1, 2022, unless the OP elects to exercise the extension options for up to two additional terms of six months each, subject to the terms and conditions in the Bank Credit Facility, resulting in a latest maturity date of February 1, 2023.

The obligations of the Borrowers under the Bank Credit Facility are guaranteed by substantially all material wholly owned subsidiaries of the OP pursuant to a Guarantee and Collateral Agreement with the OP and certain subsidiaries of the OP in favor of JPMorgan Chase Bank, N.A., as 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 (as such terms are defined in the Guarantee and Collateral Agreement) in which the proceeds of investment asset distributions are maintained.

The Bank Credit Facility contains various affirmative and negative covenants, including, among other things, the obligation of the Company to maintain REIT status and be listed on the NYSE, and limitations on debt, liens and restricted payments. In addition, the Bank Credit Facility includes the following financial covenants applicable to the OP and its consolidated subsidiaries: (a) consolidated tangible net worth of the OP must be greater than or equal to the sum of (i) $1.5 billion and (ii) 75% of the proceeds received by the OP from any offering of its common equity and of the 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 earnings before interest, income tax, depreciation, and amortization plus lease expenses to fixed charges for any period of four

(4) consecutive fiscal quarters must be not less than 1.50 to 1.00; (c) the OP's interest coverage ratio must be not less than 3.00 to 1.00; and (d) the OP's ratio of consolidated total debt to consolidated total assets must be not more than 0.70 to 1.00. The Bank Credit Facility 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 or material judgment defaults, bankruptcy matters involving any Borrower or any Guarantor and certain change of control events. Further, we may not make distributions in excess of amounts required to maintain REIT status and may not repurchase shares, among other provisions. 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.

During the three months ended March 31, 2020, concurrent with the onset of the COVID-19 pandemic, we drew $226.5 million on our Bank Credit Facility and ended such quarter with $340.0 million outstanding and $29.0 million of availability and reported $255 million cash on hand as of May 7, 2020. During the three months ended September 30, 2020, we fully paid down our Bank Credit Facility.

As of February 24, 2021, we have approximately $689 million of liquidity, consisting of $588 million cash on hand and $101 million of availability under our Bank Credit Facility.

Master Repurchase Facilities and CMBS Credit Facilities

Currently, our primary source of financing is our Master Repurchase Facilities, which we use to finance the origination of senior loans, and CMBS Credit Facilities, which we use to finance the purchase of securities. Repurchase agreements effectively allow us to borrow against loans, participations and securities that we own in an amount generally equal to (i) the market value of such loans, participations and/or securities multiplied by (ii) the applicable advance rate. Under these agreements, we sell our loans, participations and securities to a counterparty and agree to repurchase the same loans and securities 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, participations and securities 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 on favorable terms.

Master Repurchase Facilities

In response to the COVID-19 pandemic, the following actions were taken with regard to our Master Repurchase Facilities:

- During 2020, we amended the minimum tangible net worth covenant under all six of our Master Repurchase Facilities consistent with the Bank Credit Facility. During the first quarter of 2020, we received and timely paid a margin call on a hospitality loan and made voluntarily paydowns on two other hospitality and one retail loan. The lender granted us a holiday from future margin calls for four months, and we obtained broader discretion to enter in to permitted modifications with the borrowers on these three specific loans, if necessary.
- In May 2020, we entered into agreements to modify two of our master repurchase facilities pursuant to which we reduced facility advances corresponding to ten senior mortgage loans financed under such facilities. We and our lender counterparties agreed to temporary modifications providing for margin holidays from future margin calls or buffers before further margin calls are possible, as well as providing additional protections before certain repurchase obligations may be triggered. We were also provided broader discretion to negotiate with our borrowers to implement certain modifications to the underlying loans during such period. These holiday periods expired in the fourth quarter of 2020. Additionally, during the third quarter of 2020, we made voluntarily paydowns on a hospitality loan and a self-storage loan. In exchange for the paydown on the self-storage loan, the lender granted us a holiday from future margin calls for four months, and we obtained broader approval to enter into a permitted modification with the borrower.
- In October 2020, we exercised a one-year extension option on the Bank 2 facility, extending the maturity to October 2021. We additionally reduced the capacity from $200.0 million to $21.4 million.

Subsequent to December 31, 2020, we completed an amendment of the Bank 7 facility, extending the initial maturity to April 2024. Additionally, we completed an amendment to the Bank 3 facility which provides for two, one-year extension options.

While we continue to engage in discussions with our Master Repurchase Facility lenders, it is uncertain whether we will reach any future agreement due to the limited and temporary holiday and permitted modification periods described above, and the continuing impact of the COVID-19 pandemic. As such, we may receive additional margin calls, experience additional pressures or events of default under our financing agreements that will negatively impact our liquidity position.

CMBS Credit Facilities

During the first quarter of 2020, we received and paid margin calls on our CMBS Credit Facilities of $48.9 million. During the second quarter of 2020, we consolidated our CMBS Credit Facilities borrowings with one existing counterparty bank. In connection with the consolidation, we paid down the CMBS Credit Facilities borrowing advance rate to a blended borrowing advance rate of 62% and extended the repurchase date on all such borrowings, first to June 30, 2020 and then to December 31, 2020. This $73.9 million paydown allowed for a 15% additional loss on a bond specific basis before further margin calls. In the fourth quarter of 2020, we repaid all borrowings under the CMBS Credit Facilities ($18.2 million was outstanding prior to repayment). As of February 24, 2021, we have zero dollars outstanding under our CMBS Credit Facilities.

The following table presents a summary of our Master Repurchase, CMBS and Bank Credit Facilities as of December 31, 2020 (dollars in thousands):

	Maximum Facility Size	Current Borrowings	Weighted Average Final Maturity (Years)	Weighted Average Interest Rate
Master Repurchase Facilities				
Bank 1	$ 400,000	$ 112,509	2.3	LIBOR + 1.98%
Bank 2	21,353	19,353	1.8	LIBOR + 2.50%
Bank 3	600,000	196,738	1.3	LIBOR + 2.23%
Bank 7	500,000	89,912	1.3	LIBOR + 2.05%
Bank 8	250,000	116,712	0.5	LIBOR + 1.95%
Bank 9	300,000	—	2.8	
Total Master Repurchase Facilities	2,071,353	535,224		
CMBS Credit Facilities				
Bank 1[(1)]	—	—	—	—
Bank 3[(1)]	—	—	—	—
Bank 4[(1)]	—	—	—	—
Bank 5[(1)]	—	—	—	—
Bank 6[(1)]	—	—	—	—
Total CMBS Credit Facilities	—	—		
Bank Credit Facility	450,000	—	2.1	LIBOR + 2.25%
Total Facilities	$ 2,521,353	$ 535,224		

(1) Amounts can be drawn under the Bank 1, Bank 3, Bank 4, Bank 5 and Bank 6 CMBS Credit Facilities, but we are not utilizing them. The maturity dates on CMBS Credit Facilities are dependent upon asset type.

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 subsidiaries, CLNC 2019-FL1, which resulted in the sale of $840 million of investment grade notes. The securitization reflects an advance rate of 83.5% at a weighted average cost of funds of LIBOR plus 1.59%, and is collateralized by a pool of 21 senior loans, which we originated.

CLNC 2019-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 CLNC 2019-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 CLNC 2019-FL1. During the year ended December 31, 2020 and through February 24, 2021, eight loans held in CLNC 2019-FL1 were either fully or partially repaid, totaling $244.3 million. We replaced the repaid loans by contributing existing loan investments of equal value.

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.

5-Investment Preferred Financing

On June 5, 2020, we entered into a preferred financing arrangement (on a portfolio of five of our underlying investment interests) (the “5-Investment Preferred Financing”) from investment vehicles managed by Goldman Sachs (“GS”). The preferred financing provided $200 million of proceeds at closing.

The preferred financing is limited to (i) our interests in four co-investments, three of which are in our Core Portfolio and one which is in the Legacy, Non-Strategic Portfolio, alongside investment funds managed by affiliates of our manager, each of which are financings on underlying development projects (including residential, office and/or mixed-use components), and (ii) a wholly-owned triple-net industrial distribution center investment leased to a national grocery chain, which is included in our Core Portfolio. The preferred financing provides GS a 10% preferred return and certain other minimum returns, as well as a minority interest in future cash flows.

The transaction resulted in net liquidity to us of approximately $170 million, net of approximately $30 million in paydowns under the Company’s corporate credit facility. The preferred financing provides the ability to draw down up to an additional $29 million of commitments from GS for future advances to the portfolio, if any, at our same advance rate.

The following table presents a summary of the five assets included in the portfolio financing as of December 31, 2020 (dollars in thousands):

City, State	Collateral	Asset Type / #(1)	GS	CLNC	Total
Dublin, Ireland	Mixed Use	Loan 26	$ 106,746	$ 26,923	$ 133,669
Various, US	Industrial	Net Leased 3	57,888	20,229	78,117
Rolling Hills, CA (2)	Single Family Development	Mezzanine Loan	46,004	11,603	57,607
Dublin, Ireland	Office	Loans 41 and 47	40,247	10,151	50,398
San Rafael, CA	Mixed Use	Loan 43	8,639	2,179	10,818
Total Assets			$ 259,524	$ 71,085	$ 330,609

(1) For further details on each asset included in the portfolio financing please refer to “Core Portfolio” and “Legacy, Non-Strategic Portfolio” in the section titled “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”
(2) Rolling Hills, CA is the only Legacy, Non-Strategic asset included in the 5-Investment Preferred Financing.

We and our affiliates control the continuing investment and portfolio management of such investments and are consolidated on our consolidated balance sheet at December 31, 2020. The preferred financing provides for a disproportionate allocation of profits and losses and the share of income or loss is determined using a balance sheet approach known as the hypothetical liquidation at book value (“HLBV”) method. Under the HLBV method, earnings and losses are recognized based on how an entity would allocate and distribute its cash if it were to sell all of its assets and settle its liabilities for their carrying amounts and liquidate at the reporting date. Under the HLBV method, we could record, in any period, more or less income than may be generated in the case of an actual liquidation. The preferred financing resulted in a reallocation of a portion of stockholders equity to noncontrolling interest, resulting in a $69 million day one reduction in stockholders equity. The noncontrolling interest in investment entities on our consolidated balance sheet includes $259.5 million representing GS’s investment at December 31, 2020 under the HLBV method.

The following table presents a summary of the members capital from inception through the year ended December 31, 2020 (dollars in thousands):

	GS	CLNC	Total
Beginning Balance - June 5, 2020	$ 200,300	$ 177,574	$ 377,874
Day 1 allocation of stockholders equity	68,760	(68,760)	—
Contributions (1)	721	652	1,373
Distributions (2)	(6,000)	—	(6,000)
Profit / (Loss) allocation (3)	(4,257)	(38,381)	(42,638)
Ending Balance - December 31, 2020	$ 259,524	$ 71,085	$ 330,609

(1) Future advances on Loan 41 and Loan 47. Subsequent to December 31, 2020, GS and CLNC contributed $0.8 million and $0.7 million, respectively on Loan 41 and Loan 47.

(2) Distribution from Net Lease 3. Subsequent to December 31, 2020 CLNC distributed $8.0 million to GS pertaining to our mezzanine loan.

(3) Losses during the period were driven by the $64.1 million fair value adjustment, of which $57.7 million was allocated to CLNC and $6.4 million was allocated to GS, on our Dublin, Ireland mixed use Loan 26. These losses were offset by other profits across the portfolio financing.

Investment Sales

During the year ended December 31, 2020 and through February 24, 2021, we sold or received a discounted payoff for 15 loans, sold 36 owned real estate assets and sold 42 CRE debt securities generating net proceeds of $459.1 million and $271.8 million from our Core and Legacy, Non-Strategic Portfolios, respectively.

We classified two owned real estate properties as held for sale with a total net carrying value of $323.0 million at December 31, 2020, one of which was sold in January 2021. While we have agreements to sell or are proceeding with active marketing, the ongoing uncertainty surrounding the COVID-19 pandemic may result in us being unable to sell or complete the sale of these properties in the near to medium-term. Further, any completed sales may result in an investment loss.

Additionally, we continue to evaluate asset sales from our Core and Legacy, Non-Strategic Portfolios. While these sales are expected to generate liquidity, completion of these sales is uncertain and may result in lower than expected proceeds or an investment loss.

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.

Dividend

The COVID-19 pandemic has caused extraordinary volatility and unprecedented market conditions, including actual and unanticipated consequences to us and certain of our investments, which may continue. Having paid monthly dividend payments with respect to our common stock through March 31, 2020, we and the Board of Directors determined it was prudent and in our best interests to conserve available liquidity and suspend our monthly dividend beginning with the monthly period ended April 30, 2020. We and the Board of Directors monitored our taxable income to ensure that we met the minimum distribution requirements to maintain our status as a REIT for our taxable year ended December 31, 2020.

With the steps we have taken to mitigate the impact of COVID-19 on our liquidity and financial condition, and our focus shifting toward new investments, building earnings and further growth initiatives, the Board of Directors approved a quarterly dividend of $0.10 per share of Class A common stock for the quarter ending March 31, 2021, and we expect to continue quarterly cash dividends thereafter, subject to board approval, to ensure that the Company meets the minimum distributions requirements to maintain its status as a REIT for the annual period ending December 31, 2021.

Cash Flows

The following presents a summary of our consolidated statements of cash flows for the years ended December 31, 2020, 2019 and 2018 (dollars in thousands):

	Year Ended December 31,		
Cash flow provided by (used in):	**2020**	**2019**	**2018**
Operating activities	$ 96,356	$ 137,176	$ 100,722
Investing activities	1,002,742	(416,025)	(467,705)
Financing activities	(754,062)	286,783	487,517

Operating Activities

Cash inflows from operating activities are generated primarily through interest received from loans receivable and securities, property operating income from our real estate portfolio, and distributions of earnings received from unconsolidated ventures. 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 generated net cash inflows of $96.4 million, $137.2 million and $100.7 million for the years ended December 31, 2020, 2019 and 2018, respectively. Net cash provided by operating activities decreased $40.8 million for the year ended December 31, 2020 compared to the year ended December 31, 2019, primarily due to lower property operating income earned resulting from sales of real estate properties during the year ended December 31, 2020. Net cash provided by operating activities increased $36.5 million for the year ended December 31, 2019 compared to the year ended December 31, 2018, primarily due to higher transaction fees paid associated with the Combination during the year ended December 31, 2018.

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, disbursements on new and/or existing loans, and contributions to unconsolidated ventures, which are partially offset by repayments and sales of loan receivables, distributions of capital received from unconsolidated ventures, proceeds from sale of real estate, as well as proceeds from maturity or sale of securities.

Investing activities generated net cash inflows of $1.0 billion for the year ended December 31, 2020. Net cash provided by investing activities in 2020 resulted primarily from proceeds from repayments on loan and preferred equity held for investment of $434.7 million, sales of real estate of $454.6 million, proceeds from sales of loans held for sale of $137.1 million, proceeds from sale of real estate securities, available for sale of $149.6 million and proceeds from sale of investments in unconsolidated ventures of $108.4 million partially offset by originations and future advances on our loans and preferred equity held for investment, net of $297.0 million, and contributions to investments in unconsolidated ventures of $48.9 million.

Investing activities in 2019 used net cash outflows of $416.0 million, resulting from acquisition, origination and funding of loans and preferred equity held for investment, net of $1.4 billion, partially offset by repayment on loan and preferred equity held for investment of $465.6 million, distributions in excess of cumulative earnings from unconsolidated ventures of $212.6 million, proceeds from sale of investments in unconsolidated ventures of $115.3 million, proceeds from sale of real estate of $85.4 million, repayment of principal in mortgage loans held in securitization trusts of $47.5 million, proceeds from sale of mortgage loans held in securitization trusts of $39.8 million and net receipts on settlement of derivative instruments of $28.9 million.

Investing activities in 2018 used net cash outflow of $467.7 million, resulting from acquisition, origination and funding of loans and preferred equity held for investment, net of $919.5 million, acquisition of and additions to real estate, related intangibles and leasing commissions of $415.1 million, investment in unconsolidated ventures of $239.7 million, acquisition of real estate securities, available for sale of $58.7 million, and deposit on investments of $29.4 million, partially offset by repayment on loans and preferred equity held for investment of $626.6 million, cash received in the Combination of $328.5 million, proceeds from sale of real estate of $167.9 million, and distributions in excess of cumulative earnings from unconsolidated ventures of $98.5 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 as well as distributions to our noncontrolling interests.

Financing activities used net cash of $754.1 million for the year ended December 31, 2020. Net cash used in financing activities in 2020 resulted primarily from repayment of credit facilities of $862.6 million, repayment of mortgage notes of $240.1 million, distributions paid on common stock and noncontrolling interests of $52.6 million and distributions to noncontrolling interests in the amount of $31.3 million. This was partially offset by of borrowings from credit facilities in the amount of $298.6 million, contributions to the 5-Investment Preferred Financing of $200.0 million, and borrowings from mortgage notes in the amount of $18.6 million.

Our financing activities provided net cash inflow of $286.8 million for the year ended December 31, 2019. Net cash provided by financing activities in 2019 resulted primarily from borrowings from credit facilities in the amount of $1.8 billion and borrowings from mortgage notes in the amount of $85.7 million, partially offset by repayment of credit facilities in the amount of $1.3 billion, distributions paid on common stock and noncontrolling interests of $171.5 million and repayment of securitization bonds of $81.4 million.

Financing activities in 2018 generated net cash inflow of $487.5 million, resulting from borrowings from credit facilities in the amount of $1.7 billion and borrowings from mortgage notes in the amount of $246.4 million, partially offset by repayment of credit facilities in the amount of $999.3 million, distributions paid on common stock and noncontrolling interests in the amount of $189.8 million, repayment of securitization bonds in the amount of $108.2 million, and repayment of mortgage notes in the amount of $141.8 million.

Contractual Obligations, Commitments and Contingencies of the Company

The following table sets forth the known contractual obligations of the Company on an undiscounted basis. This table excludes obligations of the Company that are not fixed and determinable, including the Management Agreement (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]	$ 3,312	$ 1,575	$ 1,737	$ —	$ —
Secured debt[2]	1,847,490	185,142	517,859	859,869	284,620
Securitization bonds payable[3]	920,227	30,842	710,360	179,025	—
Ground lease obligations[4]	32,968	3,071	6,209	6,434	17,254
	$ 2,803,997	$ 220,630	$ 1,236,165	$ 1,045,328	$ 301,874
Lending commitments[5]	188,026				
Total	$ 2,992,023				

(1) Future interest payments were estimated based on the applicable index at December 31, 2020 and unused commitment fee of 0.35% per annum, assuming principal is repaid on the current maturity date of February 2022.

(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 December 31, 2020.

(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 Company assumed noncancelable operating ground leases as lessee or sublessee in connection with net lease properties acquired through the CLNY Contributions. The amounts represent minimum future base rent commitments through initial expiration dates of the respective leases, excluding any contingent rent payments. Rents paid underground 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.

Guarantees and Off-Balance Sheet Arrangements

As of December 31, 2020, we were not dependent on the use of any off-balance sheet financing arrangements for liquidity. We have made investments in unconsolidated ventures. Our investments in unconsolidated joint ventures consisted of investments in PE Investments, senior loans, mezzanine loans and preferred equity held in joint ventures, as well as acquisition, development and construction arrangements accounted for as equity method investments. In each case, our exposure to loss is limited to the carrying value of our investment.

Underwriting, Asset and Risk Management

Our Manager closely monitors our portfolio and actively manages risks associated with, among other things, our assets and interest rates. Prior to investing in any particular asset, our Manager's 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, partners and service providers, 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, our Manager focuses 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 our Manager determines 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 Manager's 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. Our Manager and its affiliates will 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 Manager's 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 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 7A, "Quantitative and Qualitative Disclosures About Market Risk" for additional details.

Critical Accounting Policies

Preparation of financial statements in accordance with U.S. generally accepted accounting principles requires the use of estimates and assumptions that involve the exercise of judgment and that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Certain accounting policies are considered to be critical accounting policies. Critical accounting policies are those that are most important to the portrayal of our financial condition and results of operations and require subjective and complex judgments, and for which the impact of changes in estimates and assumptions could have a material effect on our financial statements.

Principles of Consolidation

We consolidate entities in which we have a controlling financial interest by first considering if an entity meets the definition of a variable interest entity ("VIE") for which we are deemed to be the primary beneficiary, or if we have the power to control an entity through a majority of voting interest or through other arrangements.

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. We also consider interests held by our related parties, including de facto agents. We assess whether we are members of a related party group that collectively meets the power and benefits criteria and, if so, whether we are most closely associated with the VIE. In performing the related party analysis, we consider both qualitative and quantitative factors, including, but not limited to: the amount and characteristics of their investment relative to the related party; our ability 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 us or the related party to fund operating losses of the VIE; and the similarity and significance of the VIE's business to our activities and to those of the related party. The determination of whether an entity is a VIE, and whether we are 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. We consolidate such entities when we have the power to control these entities through ownership of a majority of the entities' voting interests or through other arrangements.

At each reporting period, we reassess 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 our 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 we hold in the entity prior to us 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, our existing interest in the acquired assets, if any, is not remeasured to fair value but continues to be carried at historical cost. We 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.

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, we make adjustments to estimated fair values to appropriately reflect counterparty credit risk as well as our own credit-worthiness.

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.

Business Combinations

Definition of a Business—We evaluate 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 us 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 acquisition of assets are included in the cost basis of the assets acquired.

Business Combinations— We account 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.

Loans and Preferred Equity Held for Investment

We originate and purchase loans and preferred equity held for investment. The accounting framework for loans and referred equity held for investment depends on our 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 ADC loan.

Loans and Preferred Equity Held for Investment

Loans and preferred equity that we have 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 us. 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.

We have debt investments in our 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. We 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 we intend 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 allowance for loan losses. 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 and are therefore included in the periodic valuation adjustments based on lower of cost or fair value less disposal cost.

ADC Arrangements

We provide loans to third party developers for the acquisition, development and construction of real estate. Under an ADC arrangement, we participate in the expected residual profits of the project through the sale, refinancing or other use of the property. We evaluate 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.

Credit Losses

The current expected credit loss ("CECL") reserve for our 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 us 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, current and stabilized property value, stabilized net operating income, as well as internal or external information relating to past events, current conditions and reasonable and supportable forecasts.

The 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, we measure the 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, we evaluate whether it is appropriate to continue to keep the financial instrument in its existing pool or evaluate it individually.

In measuring the CECL reserve for financial instruments that share similar risk characteristics, we primarily apply 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"). Our model principally utilizes historical loss rates derived from a commercial mortgage backed securities database with historical losses from 1998 through December 2020 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 financial instruments assessed outside of the PD/LGD model on an individual basis, including when it is probable that we will be unable to collect the full payment of principal and interest on the instrument, we apply a discounted cash flow ("DCF") methodology. For financial instruments where the borrower is experiencing financial difficulty based on our assessment at the reporting date and the repayment is expected to be provided substantially through the operation or sale of the collateral, we may elect to use as a practical expedient the fair value of the collateral at the reporting date when determining the provision for loan losses.

In developing the CECL reserve for its loans and preferred equity held for investment, we consider 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, our 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 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 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.

We also consider 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.

We have 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 against the provision for loan losses when all or a portion of the principal amount is determined to be uncollectible.

Changes in the CECL reserve for our financial instruments are recorded in provision for loan losses on the consolidated statements 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 our consolidated balance sheets.

Troubled Debt Restructuring ("TDR")—We classify an individual financial instrument as a TDR when it has a reasonable expectation that the financial instrument's contractual terms will be modified in a manner that grants concession to the borrower who is experiencing financial difficulty. Concessions could include term extensions, payment deferrals, interest rate reductions, principal forgiveness, forbearance, or other actions designed to maximize our collection on the financial instrument. We determine the CECL reserve for financial instruments that are TDRs individually.

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. 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

<u>Real Estate Held for Investment</u>

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)	7 to 48 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

Real Estate Held for Investment

Impairment-We evaluate our real estate held for investment for impairment periodically or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. We evaluate real estate for impairment generally on an individual property basis. If an impairment indicator exists, we evaluate 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, we 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, we consider, 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 our assumption about the highest and best use of our real estate investments and our 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 we shorten its expected hold period, this may result in the recognition of impairment losses.

Real estate held for sale

Classification as 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, we decide 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 we decide not to sell.

Foreclosed properties

We receive 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 provision for loan loss and the cumulative loss allowance on the loan is charged off. We periodically evaluate 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

We classify our 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 other comprehensive income ("OCI") in the consolidated statements of equity. However, we have elected the fair value option for the assets and liabilities of our investments in securitization financing entities ("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. As of December 31, 2020, we held subordinate tranches of two securitization trusts, which represent our retained interest in the securitization trusts, which we consolidate under U.S. GAAP. Refer to Note 5, "Real Estate Securities, Available for Sale" to Part IV, Item 15, "Exhibits and Financial Statement Schedules" 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 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).

Equity Method Investments

We account for investments under the equity method of accounting if they have the ability to exercise significant influence over the operating and financial policies of an entity, but do not have a controlling financial interest. The equity method investment is initially recorded at cost and adjusted each period for capital contributions, distributions and our share of the entity's net income or loss as well as other comprehensive income or loss. Our 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, we record our 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.

At December 31, 2020, our investments in unconsolidated joint ventures consisted of investments in PE Investments, senior loans, mezzanine loans and preferred equity held in joint ventures, as well as ADC arrangements accounted for as equity method investments.

Impairment

Evaluation of impairment applies to equity method investments and equity investments under the measurement alternative. If indicators of impairment exist, we will first estimate the fair value of its investment. In assessing fair value, we generally consider, 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 unconsolidated joint ventures, 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 OTTI involves management judgment, including, but not limited to, consideration of the investee's financial condition, operating results, business prospects and creditworthiness, our 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 we 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) for investments under the measurement alternative.

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 we have 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 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) we do not maintain effective control over the transferred asset through an agreement that provides for (a) both an entitlement and an obligation by us to repurchase or redeem the asset before its maturity, (b) our unilateral ability to reclaim the asset and a more than trivial benefit attributable to that ability, or (c) the transferee requiring us 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.

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 IV, Item 15, "Exhibits and Financial Statement Schedules."

Item 7A. 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, with each risk heightened as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic. As stated in the "Impact of COVID-19" section in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," we and our Manager are taking steps to mitigate certain risks associated with COVID-19, however the extent to which the COVID-19 pandemic impacts us, our business, our borrowers and our tenants will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic efforts of the pandemic and containment measures, among others.

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 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 LIBOR may affect the amount of interest income we earn on our floating rate borrowings and interest expense we incur on borrowings indexed to LIBOR, 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 December 31, 2020, a hypothetical 100 basis point increase in the applicable interest rate benchmark on our loan portfolio would decrease interest income by $12.2 million annually, net of interest expense.

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 the impact of COVID-19 on their business. Our Manager's 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 due to the impact of the COVID-19 pandemic 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 COVID-19 pandemic 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 their 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 their decisions on the amount, timing and terms of their 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 disruption caused by the COVID-19 pandemic 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. We have timely met margin calls, primarily under our CMBS Credit 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.

We continue to explore similar solutions with financing counterparties to strengthen our financing arrangements, with the understanding that any existing or future amendments may not be sufficient to fully address the impacts of COVID-19 on our business or 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 December 31, 2020, we had approximately NOK 766.3 million and €144.2 million or a total of $266.4 million, in net investments in our European subsidiaries. A 1.0% change in these foreign currency rates would result in a $2.7 million increase or decrease in translation gain or loss included in other comprehensive income in connection with our European subsidiaries.

A summary of the foreign exchange contracts in place at December 31, 2020, including notional amount and key terms, is included in Note 15, “Derivatives,” to Part IV, Item 15, “Exhibits and Financial Statement Schedules.” 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 December 31, 2020, we do not expect any counterparty to default on its obligations.

Item 8. Financial Statements

The financial statements and the supplementary financial data required by this item appear in Item 6 and Item 15 of this Annual Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. 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 December 31, 2020, 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.

Management Report or Attestation Report Regarding Internal Control

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in 13a-15(f) and 15d-15(f) of the Exchange Act). Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, we evaluated the effectiveness of our internal control over financial reporting using the criteria set forth in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013 framework). Our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Our internal control system was designed to provide reasonable assurance to management and our Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Ernst & Young LLP, our independent registered accounting firm, has audited our financial statements included in this Annual Report and has issued an attestation report on the effectiveness of our internal control over financial reporting, which is included in this Form 10-K.

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.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Colony Credit Real Estate, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Colony Credit Real Estate, Inc.'s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control─Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Colony Credit Real Estate, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Colony Credit Real Estate, Inc. as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and financial statement schedules listed in the Index at Item 15 and our report dated February 25, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

New York, New York
February 25, 2021

Item 9B. Other Information

Master Repurchase Facility - Morgan Stanley Bank, N.A. - Omnibus Amendment to Transaction Documents

On April 23, 2019, MS Loan NT-I, LLC, MS Loan NT-II, LLC, CLNC Credit 1, LLC, CLNC Credit 2, LLC, CLNC Credit 1EU, LLC and CLNC Credit 1UK, LLC (collectively, "MS Seller"), each an indirect subsidiary of the Company, entered into a Second Amended and Restated Master Repurchase and Securities Contract Agreement (the "MS Repurchase Agreement") with Morgan Stanley Bank, N.A. ("Morgan Stanley"). As described in more detail in the Repurchase Agreement documentation, the Repurchase Agreement provided up to $600.0 million to finance first mortgage loans, senior loan participations and other commercial mortgage loan debt instruments secured by commercial real estate: $500 million for commercial real estate that may be located in the United States, and $100 million for commercial real estate that may be located in Belgium, France, Germany, Ireland, Luxembourg, the Netherlands, the United Kingdom, Spain, or any other jurisdiction approved by Morgan Stanley. The transactions contemplated under the Repurchase Agreement may be denominated in U.S. Dollars, Pounds Sterling, Euro or any other currency approved by Morgan Stanley.

In connection with the MS Repurchase Agreement, the Operating Partnership, as guarantor, MS Seller and Morgan Stanley entered into a Ratification, Reaffirmation and Confirmation of Transaction Documents (the "MS Ratification Agreement"), which ratified the Operating Partnership's obligations under an Amended and Restated Guaranty Agreement with Morgan Stanley (the "MS Guaranty"), under which the Operating Partnership agreed to a partial recourse guaranty of MS Seller's payment and performance obligations under the MS Repurchase Agreement.

On May 7, 2020, the Operating Partnership and Morgan Stanley entered into an Omnibus Amendment to Transaction Documents (the "MS TNW Amendment"), under which Morgan Stanley agreed to reduce the minimum consolidated tangible net worth of the Operating Partnership from $2.105 billion to $1.5 billion, plus 75% of the net cash proceeds of any equity issuance thereafter received by the Operating Partnership.

On February 22, 2021, the MS Seller, the Operating Partnership and Morgan Stanley entered into a Fourth Omnibus Amendment (the "MS Fourth Amendment"), under which MS Seller has two successive one (1) year extension options from the then current facility termination date, permitting an outside extension term to April 20, 2023. In addition, the parties agreed to LIBOR replacement provisions (including benchmark transition events and SOFR replacement terms) and to remove foreign assets as eligible assets for financing consideration under the Transaction Documents.

The foregoing summary does not purport to be a complete description and is qualified in its entirety by reference to (i) the MS Fourth Amendment, which is filed as an exhibit to this Form 10-K, (ii) the MS TNW Amendment, which is filed as an exhibit to the Company's Form 10-Q filed on May 8, 2020, (iii) the MS Repurchase Agreement and MS Ratification Agreement, which are filed as exhibits to the Company's Current Report on Form 8-K filed on April 26, 2019, and (iv) the MS Guaranty, which is filed as an exhibit to the Company's Current Report on Form 8-K filed on April 25, 2018.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a discussion of certain material U.S. federal income tax considerations relating to our qualification and taxation as a REIT and the acquisition, holding, and disposition of our Class A common stock (for purposes of this section only "stock"). As used in this section, references to the terms "Company," "we," "our," and "us" mean only Colony Credit Real Estate, Inc. and not its subsidiaries or other lower-tier entities, except as otherwise indicated. This summary is based upon the Internal Revenue Code of 1986, as amended (the "Code), the regulations promulgated by the U.S. Treasury Department ("Treasury Regulations"), rulings and other administrative interpretations and practices of the Internal Revenue Service (the "IRS") (including administrative interpretations and practices expressed in private letter rulings which are binding on the IRS only with respect to the particular taxpayers who requested and received those rulings), and judicial decisions, all as currently in effect, and all of which are subject to differing interpretations or to change, possibly with retroactive effect. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. Credit RE Operating Company, LLC (the "Operating Partnership") has not sought and will not seek an advance ruling from the IRS regarding any matter discussed in this section. The summary is also based upon the assumption that we have operated and will operate the Operating Partnership and its subsidiaries and affiliated entities in accordance with their applicable organizational documents and various statements made in that section as to our intended method of operation. This summary is for general information only, and does not purport to discuss all aspects of U.S. federal income taxation that may be important to a particular investor in light of its investment or tax circumstances, or to investors subject to special tax rules, including:

- insurance companies;

- tax-exempt organizations (except to the extent discussed in “Considerations Relating to Colony Credit Real Estate Inc.’s Class A Common Stock-Taxation of Holders of Class A Common Stock-Taxation of Tax-Exempt Holders” below);
- financial institutions or broker-dealers;
- non-U.S. individuals and non-U.S. corporations (except to the extent discussed in “Considerations Relating to Colony Credit Real Estate Inc.’s Class A Common Stock-Taxation of Holders of Class A Common Stock-Taxation of Non-U.S. Holders” below);
- U.S. expatriates;
- persons who mark-to-market our stock;
- subchapter S corporations;
- U.S. holders, as defined below, whose functional currency is not the U.S. dollar;
- regulated investment companies;
- REITs;
- trusts and estates;
- holders who receive our stock through the exercise of employee stock options or otherwise as compensation;
- persons holding our stock as part of a “straddle,” “hedge,” “conversion transaction,” “synthetic security” or other integrated investment;
- persons subject to the alternative minimum tax provisions of the Code;
- persons holding our stock through a partnership or similar pass-through entity or arrangement; and
- persons holding a 10% or more (by vote or value) beneficial interest in our stock.

The CARES Act

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) (P.L. 116-136) that was signed into law on March 27, 2020 includes several significant tax provisions. These changes include:

- the elimination of the taxable income limit for net operating losses (“NOLs”) for all taxable years beginning after December 31, 2017 and before January 1, 2021, thereby permitting corporate taxpayers to use NOLs to fully offset taxable income (although as a REIT, we will continue to only be able to use NOLs against taxable income remaining after taking into account any dividends-paid deduction);
- allowing our TRSs to carry back NOLs arising in 2018, 2019, and 2020 to the five taxable years preceding the taxable year of the loss;
- an increase to the business interest limitation under Section 163(j) of the Code, from 30 percent to 50 percent for taxable years 2019 and 2020 and the addition of an election by taxpayers to use their 2019 adjusted taxable income as their adjusted taxable income in 2020 for purposes of applying the limitation; and
- a “technical correction” amending Section 168(e)(3)(E) of the Code to add “qualified improvement property” to “15-year property” and assigning a class life of 20 years under Section 168(g)(3)(B) of the Code to qualified improvement property under Section 168(e)(3)(E)(vii) of the Code.

The Tax Cuts and Jobs Act

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (the “TCJA”), which generally took effect for taxable years beginning on or after January 1, 2018. The following discussion takes into account the TCJA. The TCJA made major changes to the Code, including several provisions of the Code that may affect the taxation of REITs and their holders of stock. The most significant of these provisions are described below. The individual and collective impact of these changes on REITs and their holders of stock may not become evident for some period. Investors should consult their tax advisors regarding the implications of the TCJA on their investments.

This summary assumes that holders hold shares of our stock as capital assets for U.S. federal income tax purposes, which generally means property held for investment.

The statements in this section are based on the current U.S. federal income tax laws, are for general information purposes only and are not tax advice. We cannot assure you that new laws, interpretations of law or court decisions, any of which may take effect retroactively, will not cause any statement in this section to be inaccurate.

THE U.S. FEDERAL INCOME TAX TREATMENT OF US AS A REIT AND OF YOU AS A HOLDER OF OUR STOCK DEPENDS IN SOME INSTANCES ON DETERMINATIONS OF FACT AND INTERPRETATIONS OF COMPLEX PROVISIONS OF U.S. FEDERAL INCOME TAX LAW FOR WHICH NO CLEAR PRECEDENT OR AUTHORITY MAY BE AVAILABLE. IN ADDITION, THE TAX CONSEQUENCES TO ANY PARTICULAR HOLDER OF OUR STOCK WILL DEPEND ON SUCH HOLDER'S PARTICULAR TAX CIRCUMSTANCES.

YOU SHOULD CONSULT YOUR TAX ADVISOR REGARDING THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE OWNERSHIP AND SALE OF OUR STOCK AND OF ITS INTENDED ELECTION TO BE TAXED AS A REIT. SPECIFICALLY, YOU SHOULD CONSULT YOUR TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, NON-U.S. AND OTHER TAX CONSEQUENCES OF SUCH OWNERSHIP, SALE AND ELECTION, AND REGARDING POTENTIAL CHANGES IN APPLICABLE TAX LAWS.

U.S. Holders and Non-U.S. Holders

For purposes of this discussion, a ''U.S. holder'' is a beneficial holder of stock who is:

- a citizen or resident of the United States;
- a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the U.S. or a political subdivision thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust if (1) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) it has a valid election in place to be treated as a U.S. person.

For purposes of this discussion, a ''non-U.S. holder'' is a beneficial holder of stock who is neither a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) nor a U.S. holder.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds stock, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner as a U.S. holder or non-U.S. holder and the activities of the partnership. A partner of a partnership holding stock should consult its own tax advisor regarding the U.S. federal income tax consequences to the partner of the acquisition, ownership and disposition of stock by the partnership.

CONSIDERATIONS RELATING TO OUR CLASS A COMMON STOCK

Taxation of Colony Credit Real Estate, Inc.

We elected to be taxed as a REIT under the U.S. federal income tax laws commencing with our taxable year ended December 31, 2018. We believe that we are organized and have operated, and we intend to continue to operate, in a manner so as to qualify for taxation as a REIT under the Code. This section discusses the laws governing the U.S. federal income tax treatment of a REIT and its holders. These laws are highly technical and complex.

Qualification and taxation as a REIT depends on our ability to meet on a continuing basis, through actual operating results, distribution levels, and diversity of ownership by holders of our securities and asset ownership, and various other qualification requirements imposed upon REITs by the Code. In addition, our ability to qualify as a REIT may depend in part upon the operating results, organizational structure and entity classification for U.S. federal income tax purposes of certain entities or arrangements in which we invest. Our ability to qualify as a REIT also requires that we satisfy certain asset tests, some of which depend upon the fair market values of assets that we own directly or indirectly. Such values may not be susceptible to a precise determination, whether for past, current, or future periods, and based upon the types of assets that we own and intend to own, such values can vary rapidly, significantly and unpredictably. Accordingly, no assurance can be given that the actual results of our operations for any taxable year will satisfy such requirements for qualification and taxation as a REIT. Similarly, the income we earn from our assets may not be earned when or in the proportions anticipated. For example, we may encounter situations in which a relatively small investment generates a higher than expected return in a particular year (or vice versa). A discussion of the tax consequences of the failure to qualify as a REIT and certain alternatives is included below in the section entitled "—Failure to Qualify."

As indicated above, our qualification and taxation as a REIT depends upon our ability to meet, on a continuing basis, various qualification requirements imposed upon REITs by the Code. The material qualification requirements are summarized below under "— Requirements for Qualification." While we intend to operate so that we qualify as a REIT, no assurance can be given that the IRS will not challenge our qualification, or that we have been or will be able to operate in accordance with the REIT requirements in the future. See "— Requirements for Qualification-Failure to Qualify."

Taxation of REITs in General

Provided that we qualify as a REIT, we will be entitled at the REIT level to a deduction from our taxable income for dividends that we pay and, therefore, will not be subject to U.S. federal corporate income tax at the REIT level on our taxable income that is currently distributed to holders of our securities. This treatment substantially eliminates the "double taxation" at the corporate and holder levels that generally results from an investment in a non-REIT C corporation. A non-REIT C corporation is a corporation that generally is required to pay tax at the corporate level. Double taxation means taxation once at the corporate level when income is earned and once again at the holder level when the income is distributed. In general, the income that we generate is taxed only at the holder level upon a distribution of dividends to our holders.

U.S. holders generally will be subject to taxation on dividends distributed by us (other than designated capital gain dividends and "qualified dividend income") at rates applicable to ordinary income, instead of at lower capital gain rates. For taxable years beginning after December 31, 2017, and before January 1, 2026, generally, U.S. holders that are individuals, trusts or estates may deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations. Capital gain dividends and qualified dividend income will continue to be subject to a maximum 20% rate. See "-Taxation of Holders of Class A Common Stock—Taxation of Taxable U.S. Holders—Taxation of U.S. Holders on Distributions of Our Stock."

Any net operating losses, foreign tax credits and other tax attributes of a REIT generally do not pass through to holders, subject to special rules for certain items such as the capital gains that we recognize. See "-Taxation of Holders of Class A Common Stock--Taxation of Taxable U.S. Holders."

Even if the Company qualifies for taxation as a REIT, the Company will be subject to U.S. federal tax in the following circumstances:

- the Company will pay U.S. federal income tax on any taxable income, including net capital gain, that we do not distribute to holders during, or within a specified time period after, the calendar year in which the income is earned.
- the Company will pay income tax at the highest corporate rate on:
  - net income from the sale or other disposition of property acquired through foreclosure, or foreclosure property, that we hold primarily for sale to customers in the ordinary course of business; and
  - other non-qualifying income from foreclosure property.
- the Company will pay a 100% tax on net income earned from sales or other dispositions of property, other than foreclosure property, by an entity other than a taxable REIT subsidiary, or a TRS, if such property is held primarily for sale to customers in the ordinary course of business.
- if the Company fails to satisfy one or both of the 75% gross income test or the 95% gross income test, as described below in the section entitled "—Requirements for Qualification-Gross Income Tests," and nonetheless continues to qualify as a REIT because we meet other requirements, we will pay a 100% tax on: the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, multiplied, in either case, by
  - a fraction intended to reflect its profitability.
- if the Company fails any of the asset tests (other than a de minimis failure of the 5% asset test or the 10% vote or value test, as described below in the section entitled "—Requirements for Qualification-Asset Tests"), as long as the failure was due to reasonable cause and not to willful neglect, we file a description of each asset that caused such failure with the IRS, and we dispose of the assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify such failure, we will pay a tax equal to the greater of $50,000 or the highest U.S. federal income tax rate then applicable to U.S. corporations (currently 21%) on the net income from the non-qualifying assets during the period in which we failed to satisfy the asset tests in order to remain qualified as a REIT.
- if the Company fails to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, and such failure is due to reasonable cause and not to willful neglect, we will be required to pay a penalty of $50,000 for each such failure in order to remain qualified as a REIT.
- if the Company fails to distribute during a calendar year at least the sum of: (i) 85% of its REIT ordinary income for the year; (ii) 95% of its REIT capital gain net income for the year; and (iii) any undistributed taxable income required to be distributed from earlier periods, we will pay a 4% nondeductible excise tax on the excess of the required

distribution over the amount it actually distributed, plus any retained amounts on which income tax has been paid at the corporate level.

- the Company may elect to retain and pay income tax on our net long-term capital gain. In that case, to the extent that we made a timely designation of such gain, a U.S. holder would be taxed on its proportionate share of our undistributed long-term capital gain and would receive a credit or refund for its proportionate share of the tax we paid.

- the Company will be subject to a 100% excise tax on transactions with a TRS that are not conducted on an arm's-length basis.

- if the Company acquires any asset from a non-REIT C corporation in a merger or other transaction in which we acquire a basis in the asset that is determined by reference either to the non-REIT C corporation's basis in the asset or to another asset, we will pay tax at the highest regular corporate rate applicable if we recognize a gain on the sale or disposition of the asset during the five-year period after we acquire the asset, provided no election is made for the transaction to be taxable on a current basis. This tax will generally apply to gain recognized with respect to assets that we hold as of the effective date of our REIT election if such gain is recognized during the five-year period following such effective date or it may apply if we were to engage in (or, potentially, become a successor to an entity that had engaged in) a tax-free spin-off transaction under Section 355 of the Code within five years of such effective date. The amount of gain on which we would pay tax in the foregoing circumstances is the lesser of:

  - the amount of gain that the Company recognizes at the time of the sale or disposition (or would have recognized if, at the time of a spin-off transaction described above, we had disposed of the applicable asset); and

  - the amount of gain that the Company would have recognized if we had sold the asset at the time we acquired it, assuming that the non-REIT C corporation will not elect in lieu of this treatment an immediate tax when the asset is acquired.

- the Company may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet recordkeeping requirements intended to monitor our compliance with rules relating to the composition of a REIT's holders, as described below in the section entitled "—Requirements for Qualification-Recordkeeping Requirements."

- the earnings of the Company's lower-tier entities that are subchapter C corporations, excluding any qualified REIT subsidiaries, or QRSs, but including domestic TRSs, are subject to U.S. federal corporate income tax.

- if the Company owns a residual interest in a real estate mortgage investment conduit, or a REMIC, we will be taxable at the highest corporate rate on the portion of any excess inclusion income that it derives from the REMIC residual interests equal to the percentage of our stock that is held in record name by "disqualified organizations." Although the law is unclear, IRS guidance indicates that similar rules may apply to a REIT that owns an equity interest in a taxable mortgage pool. To the extent that we own a REMIC residual interest or a taxable mortgage pool through a TRS, we will not be subject to this tax. For a discussion of "excess inclusion income," refer below to the section entitled "—Requirements for Qualification—Taxable Mortgage Pools." A "disqualified organization" includes:

  - the United States;

  - any state or political subdivision of the United States;

  - any foreign government;

  - any international organization;

  - any agency or instrumentality of any of the foregoing;

  - any other tax-exempt organization, other than a farmer's cooperative described in Section 521 of the Code, that is exempt both from income taxation and from taxation under the unrelated business taxable income provisions of the Code; and

  - any rural electrical or telephone cooperative.

In addition, the Company and its subsidiaries may be subject to a variety of taxes, including payroll taxes and state, local and non-U.S. income, property and other taxes on its assets and operations. The Company could also be subject to tax in situations and on transactions not presently contemplated. Moreover, as described further below, the Company's TRSs will be subject to U.S. federal, state and local corporate income tax on their taxable income.

Requirements for Qualification

A REIT is a corporation, trust or association that meets each of the following requirements:

1. It is managed by one or more trustees or directors.
2. Its beneficial ownership is evidenced by transferable shares or by transferable certificates of beneficial interest.
3. It would be taxable as a domestic corporation but for the REIT provisions of the U.S. federal income tax laws.
4. It is neither a financial institution nor an insurance company subject to special provisions of the U.S. federal income tax laws.
5. At least 100 persons are beneficial owners of its shares or ownership certificates.
6. Not more than 50% in value of its outstanding shares or ownership certificates is owned, directly or indirectly, by five or fewer individuals, which the Code defines to include certain entities, during the last half of any taxable year.
7. It elects to be a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status.
8. It meets certain other qualification tests, described below, regarding the nature of its income and assets and the amount of its distributions to holders.
9. It uses a calendar year for U.S. federal income tax purposes.

The Company must meet requirements 1 through 4, 8 and 9 during its entire taxable year and must meet requirement 5 during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Requirements 5 and 6 began applying to the Company with its 2019 taxable year. If the Company complies with all the requirements for ascertaining the ownership of its outstanding shares in a taxable year and has no reason to know that it violated requirement 6, it will be deemed to have satisfied requirement 6 for that taxable year. For purposes of determining share ownership under requirement 6, an "individual" generally includes a supplemental unemployment compensation benefits plan, a private foundation or a portion of a trust permanently set aside or used exclusively for charitable purposes. An "individual," however, generally does not include a trust that is a qualified employee pension or profit-sharing trust under the U.S. federal income tax laws, and beneficiaries of such a trust will be treated as holding our stock in proportion to their actuarial interests in the trust for purposes of requirement 6. The Company expects to issue sufficient stock with sufficient diversity of ownership to satisfy requirements 5 and 6. In addition, the Company's charter restricts the ownership and transfer of our stock so that it should continue to satisfy these requirements. To monitor compliance with the stock ownership requirements, we are generally required to maintain records regarding the actual ownership of our stock. To do so, we must demand written statements each year from the record holders of significant percentages of our stock pursuant to which the record holders must disclose the actual owners of the stock (i.e., the persons required to include in gross income the dividends paid by us). We must maintain a list of those persons failing or refusing to comply with this demand as part of our records. We could be subject to monetary penalties if we fail to comply with these record-keeping requirements. A holder that fails or refuses to comply with the demand is required by Treasury Regulations to submit a statement with its tax return disclosing the actual ownership of our stock and other information. For purposes of requirement 9, we have adopted December 31 as our year end, and thereby satisfy this requirement.

Relief from Violations; Reasonable Cause

The Code provides relief from violations of the REIT gross income requirements, as described below under "—Requirements for Qualification—Gross Income Tests," in cases where a violation is due to reasonable cause and not to willful neglect, and other requirements are met, including the payment of a penalty tax that is based upon the magnitude of the violation. In addition, certain Code provisions extend similar relief in the case of certain violations of the REIT asset requirements (see "—Requirements for Qualification—Asset Tests" below) and other REIT requirements, again provided that the violation is due to reasonable cause and not willful neglect, and other conditions are met, including the payment of a penalty tax. If we did not have reasonable cause for a failure, we would fail to qualify as a REIT. Whether we would have reasonable cause for any such failure cannot be known with certainty because the determination of whether reasonable cause exists depends on the facts and circumstances at the time and we cannot provide any assurance that we in fact would have reasonable cause for a particular failure or that the IRS would not successfully challenge our view that a failure was due to reasonable cause. Moreover, we may be unable to actually rectify a failure and restore asset test compliance within the required timeframe due to the inability to transfer or otherwise dispose of assets, including as a result of restrictions on transfer imposed by our lenders or undertakings with our co-investors and/or the inability to acquire additional qualifying assets due to transaction risks, access to additional capital or other considerations. If we fail to satisfy any of the various REIT requirements, there can be no assurance that these relief provisions would be available to enable us to maintain our qualification as a REIT, and, if such relief provisions are available, the amount of any resultant penalty tax could be substantial.

Effect of Subsidiary Entities

Qualified REIT Subsidiaries. A corporation that is a QRS is not treated as a corporation separate from its parent REIT. All assets, liabilities and items of income, deduction and credit of a QRS are treated as assets, liabilities and items of income, deduction and credit of the REIT. A QRS is a corporation, other than a TRS, all the stock of which is owned by the REIT. Thus, in applying the requirements described herein, any QRS that the Company owns will be ignored, and all assets, liabilities and items of income, deduction and credit of such subsidiary will be treated as the Company's assets, liabilities and items of income, deduction and credit.

Other Disregarded Entities and Partnerships. An unincorporated domestic entity, such as a partnership or limited liability company, that has a single owner for U.S. federal income tax purposes generally is not treated as an entity separate from its owner for U.S. federal income tax purposes. An unincorporated domestic entity with two or more owners is generally treated as a partnership for U.S. federal income tax purposes. In the case of a REIT that is a partner in a partnership that has other partners, the REIT is treated as owning its proportionate share of the assets of the partnership and as earning its allocable share of the gross income of the partnership for purposes of the applicable REIT qualification tests. Thus, the Company's proportionate share of the assets, liabilities and items of income of the Operating Partnership, and any other partnership, joint venture or limited liability company that is treated as a partnership for U.S. federal income tax purposes in which it has acquired or will acquire an interest, directly or indirectly, or a subsidiary partnership, will be treated as its assets and gross income for purposes of applying the various REIT qualification requirements. For purposes of the 10% value test (described in the section entitled "— Asset Tests"), the Company's proportionate share is based on its proportionate interest in the equity interests and certain debt securities issued by the partnership. For all of the other asset and income tests, the Company's proportionate share is based on its proportionate interest in the capital of the partnership.

The Company, through its Operating Partnership, holds and expects to acquire limited partner or non-managing member interests in partnerships and limited liability companies that are joint ventures or investment funds. If a partnership or limited liability company in which the Company owns a direct or indirect interest takes or expects to take actions that could jeopardize its qualification as a REIT or require it to pay tax, the Company may be forced to dispose of its interest in such entity. In addition, it is possible that a partnership or limited liability company could take an action which could cause the Company to fail a REIT gross income or asset test, and that the Company would not become aware of such action in time to dispose of its interest in the partnership or limited liability company or take other corrective action on a timely basis. In that case, the Company could fail to qualify as a REIT unless it was able to qualify for a statutory REIT "savings" provision, which may require it to pay a significant penalty tax to maintain its REIT qualification.

Taxable REIT Subsidiaries. A REIT may own up to 100% of the stock of one or more TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by its parent REIT or through a disregarded or partnership subsidiary. The subsidiary corporation and the REIT must jointly elect to treat the subsidiary as a TRS. Any corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS.

A REIT is not treated as holding the assets of a TRS or as receiving any income that the TRS earns. Rather, the stock issued by the TRS is an asset in the hands of the parent REIT and the REIT recognizes as income the dividends, if any, that it receives from the TRS. This treatment can affect the income and asset test calculations that apply to the REIT. Because a parent REIT does not include the assets and income of such TRSs in determining the parent REIT's compliance with the REIT requirements, TRSs may be used by the parent REIT to undertake indirectly activities that the REIT rules might otherwise preclude it from doing directly or through pass-through subsidiaries (for example, activities that give rise to certain categories of income such as management fees). Other than activities relating to the operation or management of lodging and healthcare facilities, a TRS may generally engage in any business, including the provision of customary or non-customary services to tenants without causing the parent REIT to receive impermissible tenant service income under the REIT gross income tests.

Domestic TRSs are subject to U.S. federal income tax, and state and local income tax, where applicable, on their taxable income. To the extent that a domestic TRS is required to pay taxes, it will have less cash available for distribution to the Company. If dividends are paid to the Company by its domestic TRSs, then the dividends it pays to our holders who are taxed at individual rates, up to the amount of dividends it receives from its domestic TRSs, will generally be eligible to be taxed at the reduced 20% rate applicable to qualified dividend income.

The TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. Further, the rules impose a 100% excise tax on transactions between a TRS and its parent REIT or the REIT's tenants that are not conducted on an arm's-length basis. See "—New Interest Deduction Limitation Enacted by the TCJA."

The Company is subject to the limitation that securities in TRSs may not represent more than 20% of the value of the Company's total assets. There can be no assurance that we will be able to comply with the 20% limitation.

In general, the Company intends that any loans that are originated or acquired with an intention of selling such loans in a manner that might expose us to a 100% tax on "prohibited transactions" if originated or acquired by us directly, will instead be originated or acquired by a TRS. Refer to the section entitled "—Gross Income Tests—Prohibited Transactions." It is possible that such a TRS through which sales of securities are made may be treated as a "dealer" for U.S. federal income tax purposes. As a dealer, a TRS would generally mark all the securities it holds on the last day of each taxable year to their market value, and will recognize ordinary income or loss on such securities with respect to such taxable year as if they had been sold for that value on that day. In addition, a TRS may further elect to be subject to the mark-to-market regime described above in the event that the TRS is properly classified as a "trader" as opposed to a "dealer" for U.S. federal income tax purposes.

Subsidiary REITs. We own interests (directly or indirectly) in one or more entities that qualify as REITs. We believe that each such REIT has operated, and will continue to operate, in a manner to permit us to qualify for taxation as a REIT for U.S. federal income tax purposes and that stock in any such REIT will thus be a qualifying asset for purposes of the 75% asset test. However, if any such REIT fails to qualify as a REIT then (i) the entity would become subject to regular corporate income tax, as described herein (refer below to the section entitled "—Failure to Qualify") and (ii) the Company's equity interest in such entity would cease to be a qualifying real estate asset for purposes of the 75% asset test and, if our protective TRS elections were ineffective, would become subject to the 5% asset test and the 10% vote or value test generally applicable to the Company's ownership in corporations other than REITs, QRSs or TRSs (refer below to the section entitled "—Asset Tests"). If such an entity failed to qualify as a REIT, it is possible that we would not meet the 75% asset test, the 5% asset test, and/or the 10% vote or value test with respect to its interest in such entity, in which event we would fail to qualify as a REIT, unless we qualify for certain relief provisions.

Taxable Mortgage Pools. An entity, or a portion of an entity, may be classified as a taxable mortgage pool, or a TMP under the Code if:

- substantially all of its assets consist of debt obligations or interests in debt obligations;
- more than 50% of those debt obligations are real estate mortgages or interests in real estate mortgages as of specified testing dates;
- the entity has issued debt obligations that have two or more maturities; and
- the payments required to be made by the entity on its debt obligations "bear a relationship" to the payments to be received by the entity on the debt obligations that it holds as assets.

Under the Treasury Regulations, if less than 80% of the assets of an entity (or a portion of an entity) consists of debt obligations, these debt obligations are considered not to comprise "substantially all" of its assets and therefore the entity would not be treated as a TMP. Financing arrangements entered into, directly or indirectly, by the Company may give rise to TMPs, with the consequences described in the next paragraph.

A TMP generally is treated as a corporation for U.S. federal income tax purposes. However, special rules apply to a REIT, a portion of a REIT, or a QRS that is a TMP. If a REIT owns directly, or indirectly through one or more QRSs or other entities that are disregarded as separate entities for U.S. federal income tax purposes, 100% of the equity interests in the TMP, the TMP will be a QRS and, therefore, ignored as an entity separate from the REIT for U.S. federal income tax purposes and would not generally affect the tax qualification of the REIT.

If the Company has an investment in an arrangement that is classified as a TMP, that TMP arrangement will be subject to tax as a separate corporation unless the Company owns 100% of the equity in such TMP arrangement so that it is treated as a QRS, as discussed above. Whether an arrangement is or is not a TMP may not be susceptible to precise determination. If an investment in which the Company owns an interest is characterized as a TMP and thus as a separate corporation, the Company will satisfy the 100% ownership requirement only so long as it owns all classes of securities that for tax purposes are characterized as equity, which is often an uncertain factual issue and in any event is unlikely in the Company's case given that it generally holds its assets through the Company's Operating Partnership. Accordingly, if an investment in which the Company owns an interest is characterized as a TMP that does not qualify as a QRS, the Company may be unable to comply with the REIT asset tests that restrict its ability to own most corporations. In addition, a portion of the REIT's income from a TMP arrangement that is not taxed as a separate corporation, which might be non-cash accrued income, could be treated as "excess inclusion income." The manner in which excess inclusion income is calculated is not clear under current law. However, as required by IRS guidance, the Company intends to make such determinations based on what it believes to be a reasonable method. Under the IRS guidance, a REIT's excess inclusion income, including any excess inclusion income from a residual interest in a REMIC, must be allocated among its holders in proportion to dividends paid. A REIT is required to notify holders of the amount of "excess inclusion income" allocated to them. A holder's share of excess inclusion income:

- cannot be offset by any net operating losses otherwise available to the holder;
- in the case of a holder that is a REIT, a regulated investment company or a common trust fund or other pass-through entity, is considered excess inclusion income of such entity;
- is subject to tax as unrelated business taxable income in the hands of most types of holders that are otherwise generally exempt from U.S. federal income tax;
- results in the application of U.S. federal income tax withholding at the maximum rate (30%), without reduction for any otherwise applicable income tax treaty or other exemption, to the extent allocable to most types of non-U.S. holders; and
- is taxable (at the highest corporate tax rate, currently 21%) to the REIT, rather than its holders, to the extent allocable to the REIT's stock held in record name by holders that are disqualified organizations (generally, tax-exempt entities not subject to unrelated business income tax, including governmental organizations), in which case such disqualified organization could be obligated to reimburse the Company for that tax.

Tax-exempt investors, regulated investment company or REIT investors, non-U.S. investors and taxpayers with net operating losses should carefully consider the tax consequences described above, and are urged to consult their tax advisors.

Gross Income Tests

The Company must satisfy two gross income tests annually to qualify as a REIT. First, at least 75% of the Company's gross income for each taxable year must consist of defined types of income that it derives, directly or indirectly, from investments relating to real property or mortgages on real property or qualified temporary investment income. Qualifying income for purposes of the 75% gross income test generally includes:

- rents from real property;
- interest on debt secured by mortgages on real property or on interests in real property (including certain types of mortgage backed securities);
- dividends or other distributions on, and gain from the sale of, shares in other REITs;
- gain from the sale of real estate assets;
- income and gain derived from foreclosure property;
- income derived from a REMIC in proportion to the real estate assets held by the REMIC, unless at least 95% of the REMIC's assets are real estate assets, in which case all of the income derived from the REMIC; and
- income derived from the temporary investment of new capital that is attributable to the issuance of our stock or a public offering of our debt with a maturity date of at least five years that is received during the one-year period beginning on the date on which the Company received such new capital.

Although a debt instrument issued by a "publicly offered REIT" (i.e., a REIT that is required to file annual and periodic reports with the SEC under the Exchange Act) is treated as a "real estate asset" for purposes of the asset tests, the interest income and gain from the sale of such debt instruments is not treated as qualifying income for the 75% gross income test unless the debt instrument is secured by real property or an interest in real property.

Second, in general, at least 95% of the Company's gross income for each taxable year must consist of income that is qualifying income for purposes of the 75% gross income test, other types of interest and dividends, gain from the sale or disposition of stock or securities or any combination of these. For purposes of the 95% gross income test, gain from the sale of securities includes gain from the sale of a debt instrument issued by a "publicly offered REIT" even if not secured by real property or an interest in real property. Gross income from the sale of property that the Company holds primarily for sale to customers in the ordinary course of business and cancellation of indebtedness, or COD income is excluded from both the numerator and the denominator in both income tests. Income and gain from "qualified hedging transactions," as defined below in "—Hedging

Transactions,” that are clearly and timely identified as such are excluded from both the numerator and the denominator for purposes of the 75% and 95% gross income tests. In addition, certain foreign currency gains are excluded from gross income for purposes of one or both of the gross income tests. Refer below to the section entitled “—Foreign Currency Gain.” The following paragraphs discuss the specific application of the gross income tests to the Company.

Rents from Real Property

Rent that the Company receives from its real property will qualify as “rents from real property” which is qualifying income for purposes of the 75% and 95% gross income tests, only if the following conditions are met:

- First, the rent must not be based, in whole or in part, on the income or profits of any person. However, an amount received or accrued generally will not be excluded from rents from real property solely by reason of being based on fixed percentages of receipts or sales.
- Second, rents the Company receives from a “related party tenant” will not qualify as rents from real property in satisfying the gross income tests unless the tenant is a TRS, and either: (i) at least 90% of the property is leased to unrelated tenants and the rent paid by the TRS is substantially comparable to the rent paid by the unrelated tenants for comparable space; or (ii) the TRS leases a qualified lodging facility or qualified health care property and engages an eligible independent contractor, as defined above in “—Taxable REIT Subsidiaries,” to operate such facility or property on its behalf. A tenant is a related party tenant if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns 10% or more of the tenant.
- Third, if rent attributable to personal property leased in connection with a lease of real property is 15% or less of the total rent received under the lease, then the rent attributable to personal property will qualify as rents from real property. However, if the 15% threshold is exceeded, the rent attributable to personal property will not qualify as rents from real property.
- Fourth, the Company generally must not operate or manage its real property or furnish or render services to its tenants, other than through an “independent contractor” who is adequately compensated and from whom the Company does not derive revenue. However, the Company may provide services directly to tenants if the services are “usually or customarily rendered” in connection with the rental of space for occupancy only and are not considered to be provided for the tenants’ convenience. In addition, the Company may directly provide a minimal amount of “noncustomary” services to the tenants of a property as long as its income from the services (valued at not less than 150% of the Company’s direct cost of performing such services) does not exceed 1% of its income from the related property in which case only the amounts for noncustomary services are not treated as rents from real property. If, however, the gross income from such noncustomary services exceeds this 1% threshold, none of the gross income derived from the relevant property will qualify as rents from real property. Furthermore, the Company may own up to 100% of the stock of a TRS that provides customary and noncustomary services to its tenants without tainting the rental income for the related properties. Refer to the section entitled “—Taxable REIT Subsidiaries.”

Unless the Company determines that the resulting non-qualifying income under any of the following circumstances, taken together with all other non-qualifying income earned by it in the taxable year, will not jeopardize its qualification as a REIT, the Company does not intend to:

- derive rental income attributable to personal property other than personal property leased in connection with the lease of real property, the amount of which is less than 15% of the total rent received under the lease;
- rent any property to a related party tenant, including, except with respect to qualified health care properties and qualified lodging facilities, a TRS;
- charge rent for any property that is based in whole or in part on the income or profits of any person, except by reason of being based on a fixed percentage or percentages of receipts or sales, as described above; or
- directly or indirectly perform services considered to be noncustomary or provided for the tenant’s convenience other than through a TRS or independent contractor.

Interest

The term “interest,” as defined for purposes of both gross income tests, generally excludes any amount that is based, in whole or in part, on the income or profits of any person. However, interest generally includes the following:

- an amount that is based on a fixed percentage or percentages of receipts or sales; and

- an amount that is based on the income or profits of a debtor, as long as the debtor derives substantially all of its income from the real property securing the debt from leasing substantially all of its interest in the property and only to the extent that the amounts received by the debtor would be qualifying "rents from real property" if received directly by a REIT.

If a loan contains a provision that entitles a REIT to a percentage of the borrower's gain upon the sale of the real property securing the loan or a percentage of the appreciation in the property's value as of a specific date, income attributable to that loan provision will be treated as gain from the sale of the property securing the loan, which generally is qualifying income for purposes of both gross income tests, provided that the property is not inventory or dealer property in the hands of the borrower or the REIT.

Interest on debt secured by mortgages on real property or on interests in real property (including, in the case of a loan secured by real property and personal property, such personal property to the extent that it does not exceed 15% of the total fair market value of all such property securing the loan), including, for this purpose, prepayment penalties, loan assumption fees and late payment charges that are not compensation for services, generally is qualifying income for purposes of the 75% gross income test. In general, under applicable Treasury Regulations, if a loan is secured by real property and other property and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan determined as of: (i) the date the Company agreed to acquire or originate the loan; or (ii) as discussed further below, in the event of a "significant modification," the date the Company modified the loan, then a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. The portion of the interest income that will not be qualifying income for purposes of the 75% gross income test will be equal to the portion of the principal amount of the loan that is not secured by real property-that is, the amount by which the loan exceeds the value of the real property that is security for the loan. As discussed further below, IRS guidance provides that the Company does not need to redetermine fair market value of the real property securing the loan in connection with a loan modification that is occasioned by a borrower default or made at a time when the Company reasonably believes that the modification to the loan will substantially reduce a significant risk of default on the loan.

The Company invests in loans secured by real property that is under construction or being significantly improved, in which case the value of the real estate that is security for the loan will be the fair market value of the land plus the reasonably estimated cost of the improvements or developments (including, in the case of a loan secured by real property and personal property, such personal property to the extent that it does not exceed 15% of the total fair market value of all such property securing the loan) which will secure the loans and which are to be constructed from proceeds of the loan.

The Company holds certain mezzanine loans and may originate or acquire other mezzanine loans. Mezzanine loans are loans secured by equity interests in an entity that directly or indirectly owns real property, rather than by a direct mortgage of the real property. In Revenue Procedure 2003-65, the IRS established a safe harbor under which loans secured by a first priority security interest in ownership interests in a partnership or limited liability company owning real property will be treated as real estate assets for purposes of the REIT asset tests described below, and interest derived from those loans will be treated as qualifying income for both the 75% and 95% gross income tests, provided several requirements are satisfied.

Although Revenue Procedure 2003-65 provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. Moreover, the Company expects that some of its mezzanine loans may not meet all of the requirements for reliance on the safe harbor. To the extent any mezzanine loans that the Company originates or acquires do not qualify for the safe harbor described above, the interest income from the loans will be qualifying income for purposes of the 95% gross income test, but there is a risk that such interest income will not be qualifying income for purposes of the 75% gross income test. We believe that we currently invest in mezzanine loans, and intend to continue to invest in mezzanine loans, in a manner that will enable us to satisfy the REIT gross income and asset tests.

The Company and its subsidiaries hold certain participation interests, or subordinated mortgage interests, in mortgage loans and mezzanine loans originated by other lenders. A subordinated mortgage interest is an interest created in an underlying loan by virtue of a participation or similar agreement, to which the originator of the loan is a party, along with one or more participants. The borrower on the underlying loan is typically not a party to the participation agreement. The performance of a participant's investment depends upon the performance of the underlying loan and if the underlying borrower defaults, the participant typically has no recourse against the originator of the loan. The originator often retains a senior position in the underlying loan and grants junior participations, which will be a first loss position in the event of a default by the borrower. The Company expects that its (and its subsidiaries') participation interests generally will qualify as real estate assets for purposes of the REIT asset tests described below and that interest derived from such investments generally will be treated as qualifying interest for purposes of the 75% gross income test. The appropriate treatment of participation interests for U.S. federal income tax purposes is not entirely certain, however, and no assurance can be given that the IRS will not challenge the Company's treatment of its participation interests.

Many of the terms of the mortgage loans, mezzanine loans and subordinated mortgage interests and the loans supporting the MBSs that the Company holds or expects to acquire have been modified and may in the future be modified. Under the Code, if the terms of a loan are modified in a manner constituting a "significant modification," such modification triggers a deemed exchange of the original loan for the modified loan. Revenue Procedure 2014-51 provides a safe harbor pursuant to which the Company will not be required to redetermine the fair market value of the real property securing a loan for purposes of the gross income and asset tests in connection with a loan modification that is: (i) occasioned by a borrower default; or (ii) made at a time when the Company reasonably believes that the modification to the loan will substantially reduce a significant risk of default on the original loan. No assurance can be provided that all of the Company's loan modifications will qualify for the safe harbor in Revenue Procedure 2014-51. To the extent the Company significantly modifies loans in a manner that does not qualify for that safe harbor, it will be required to redetermine the value of the real property securing the loan at the time it was significantly modified. In determining the value of the real property securing such a loan, the Company generally will not obtain third-party appraisals but rather will rely on internal valuations. No assurance can be provided that the IRS will not successfully challenge the Company's internal valuations. If the terms of the Company's mortgage loans, mezzanine loans and subordinated mortgage interests and loans supporting its MBSs are significantly modified in a manner that does not qualify for the safe harbor in Revenue Procedure 2014-51 and the fair market value of the real property securing such loans has decreased significantly, the Company could fail the 75% gross income test, the 75% asset test and/or the 10% value test.

The Company and its subsidiaries also hold, and may in the future, acquire distressed mortgage loans. Revenue Procedure 2014-51 provides that the IRS will treat distressed mortgage loans acquired by a REIT that are secured by real property and other property as producing in part non-qualifying income for the 75% gross income test. Specifically, Revenue Procedure 2014-51 indicates that interest income on such a distressed mortgage loan will be treated as qualifying income based on the ratio of: (i) the fair market value of the real property securing the debt determined as of the date the REIT committed to acquire the loan; and (ii) the face amount of the loan (and not the purchase price or current value of the debt). The face amount of a distressed mortgage loan will typically exceed the fair market value of the real property securing the mortgage loan on the date the REIT commits to acquire the loan. It is unclear how the safe harbor in Revenue Procedure 2014-51 is affected by the recent legislative changes regarding the treatment of personal property securing a mortgage loan. The Company intends to invest in distressed mortgage loans in a manner that consistent with qualifying as a REIT.

The Company and its subsidiaries have entered into certain sale and repurchase agreements under which it nominally sells certain mortgage assets to a counterparty and simultaneously enters into an agreement to repurchase the sold assets. Based on positions the IRS has taken in analogous situations, the Company believes that it will be treated for purposes of the REIT gross income and asset tests (refer below to the section entitled "—Asset Tests") as the owner of the mortgage assets that are the subject of any such agreement notwithstanding that record ownership of the assets is transferred to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that the Company does not own the mortgage assets during the term of the sale and repurchase agreement, in which case its ability to qualify as a REIT could be adversely affected.

The Company may invest in other agency securities that are pass-through certificates. The Company expects that any such agency securities will be treated as either interests in a grantor trust or as interests in a REMIC for U.S. federal income tax purposes and that all interest income from such agency securities will be qualifying income for the 95% gross income test. In the case of agency securities treated as interests in grantor trusts, the Company would be treated as owning an undivided beneficial ownership interest in the mortgage loans held by the grantor trust. The interest on such mortgage loans would be qualifying income for purposes of the 75% gross income test to the extent that such loan is secured by real property, as discussed above. In the case of agency securities treated as interests in a REMIC, income derived from such REMIC interests generally will be treated as qualifying income for purposes of the 75% gross income test. As discussed above, however, if less than 95% of the assets of the REMIC are real estate assets then only a proportionate part of the income derived from the Company's interest in the REMIC will qualify for purposes of the 75% gross income tests. To the extent that a REMIC interest includes an imbedded interest swap or cap contract or other derivative instrument, such derivative instrument could produce non-qualifying income for purposes of the 75% gross income test. The Company expects that substantially all of its income from agency securities will be qualifying income for purposes of the 75% and 95% gross income tests.

Dividends; Subpart F Income

The Company's share of any dividends received from any corporation (including any TRS, but excluding any REIT) in which it owns an equity interest will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. The Company's share of any dividends received from any other REIT in which it owns an equity interest, including any subsidiary REIT, will be qualifying income for purposes of both gross income tests.

In addition, the Company may be required to include in gross income its share of "Subpart F income" of one or more foreign (non-U.S.) corporations in which it invests, including its foreign TRSs, regardless of whether it receives distributions from such corporations. Pursuant to Revenue Procedure 2018-48, the Company will treat certain income inclusions received with respect to equity investments in foreign TRSs as qualifying income for purposes of the 95% gross income test but not the 75% gross income test.

Fee Income

The Company expects to receive various fees in connection with its operations. Fee income will be qualifying income for purposes of both the 75% and 95% gross income tests if it is received in consideration for entering into an agreement to make a loan secured by mortgages on or interests in real property, and the fees are not determined by the income and profits of any person. Other fees, such as origination and servicing fees, fees for acting as a broker-dealer and fees for managing investments for third parties, are not qualifying income for purposes of either gross income test. Any fees earned by a TRS are not included for purposes of the gross income tests.

Hedging Transactions

From time to time, the Company and its subsidiaries expect to enter into hedging transactions with respect to one or more of its assets or liabilities. The Company's hedging activities may include entering into interest rate swaps, caps and floors, options to purchase such items and futures and forward contracts. Income and gain from "qualified hedging transactions" are excluded from gross income for purposes of the 75% and 95% gross income tests. A "qualified hedging transaction" includes: (i) any transaction entered into in the normal course of the Company's trade or business primarily to manage the risk of interest rate, price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets; (ii) any transaction entered into primarily to manage the risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% gross income test (or any property which generates such income or gain); and (iii) any transaction entered into to "offset" a transaction described in (i) or (ii) if a portion of the hedged indebtedness is extinguished or the related property disposed of. The Company will be required to clearly identify any such hedging transaction before the close of the day on which it was acquired, originated or entered into and to satisfy other identification requirements in order to be treated as a qualified hedging transaction. The Company intends to structure any hedging transactions in a manner that does not jeopardize its qualification as a REIT.

COD Income

From time to time, the Company and its subsidiaries may recognize COD income, in connection with repurchasing debt at a discount. COD income is excluded from gross income for purposes of both the 75% and 95% gross income tests.

Foreign Currency Gain

Certain foreign currency gain is excluded from gross income for purposes of one or both of the gross income tests. "Real estate foreign exchange gain" is excluded from gross income for purposes of the 75% gross income test. Real estate foreign exchange gain generally includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 75% gross income test, foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations and certain foreign currency gain attributable to certain "qualified business units" of a REIT. "Passive foreign exchange gain" is excluded from gross income for purposes of the 95% gross income test. Passive foreign exchange gain generally includes real estate foreign exchange gain as described above and also includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 95% gross income test and foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations secured by mortgages on real property or on interests in real property. Because passive foreign exchange gain includes real estate foreign exchange gain, real estate foreign exchange gain is excluded from gross income for purposes of both the 75% and 95% gross income tests. These exclusions for real estate foreign exchange gain and passive foreign exchange gain do not apply to certain foreign currency gain derived from dealing, or engaging in substantial and regular trading, in securities, which is treated as non-qualifying income for purposes of both the 75% and 95% gross income tests.

Prohibited Transactions

A REIT will incur a 100% tax on the net income derived from any sale or other disposition of property, other than foreclosure property, that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. The Company believes that none of its assets are held or will be held primarily for sale to customers and that a sale of any of its assets has not been, and will not be, in the ordinary course of its business. Whether a REIT holds an asset "primarily for sale to customers in the ordinary course of a trade or business" depends, however, on the facts and circumstances in effect from time to time, including those related to a particular asset. A safe harbor to the characterization of the sale of property by a REIT as a prohibited transaction and the 100% prohibited transaction tax is available if the following requirements are met:

- the REIT has held the property for not less than two years;

- the aggregate expenditures made by the REIT, or any partner of the REIT, during the two-year period preceding the date of the sale that are includable in the basis of the property do not exceed 30% of the net selling price of the property;
- either: (i) during the year in question, the REIT did not make more than seven sales of property other than foreclosure property or sales to which Section 1031 or 1033 of the Code applies; (ii) the aggregate adjusted bases of all such properties sold by the REIT during the year did not exceed 10% of the aggregate bases of all of the assets of the REIT at the beginning of the year; (iii) the aggregate fair market value of all such properties sold by the REIT during the year did not exceed 10% of the aggregate fair market value of all of the assets of the REIT at the beginning of the year; (iv)(A) the aggregate adjusted tax bases of all such properties sold by the REIT during the year did not exceed 20% of the aggregate adjusted bases of all property of the REIT at the beginning of the year and (B) the three-year average percentage of properties sold by the REIT compared to all the REIT's properties (measured by adjusted bases) taking into account the current and two prior years did not exceed 10%; or (v)(A) the aggregate fair market value of all such properties sold by the REIT during the year did not exceed 20% of the aggregate fair market value of all property of the REIT at the beginning of the year and (B) the three-year average percentage of properties sold by the REIT compared to all the REIT's properties (measured by fair market value) taking into account the current and two prior years did not exceed 10%;
- in the case of property not acquired through foreclosure or lease termination, the REIT has held the property for at least two years for the production of rental income; and
- if the REIT has made more than seven sales of non-foreclosure property during the taxable year, substantially all of the marketing and development expenditures with respect to the property were made through an independent contractor from whom the REIT derives no income or a TRS.

No assurance can be given that any property that the Company sells will not be treated as property held "primarily for sale to customers in the ordinary course of a trade or business" or that the Company will be able to comply with the safe harbor when disposing of assets. The 100% tax will not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be taxed to the corporation at regular corporate income tax rates. The Company intends to structure its activities to avoid transactions that would result in a material amount of prohibited transaction tax.

Foreclosure Property

The Company will be subject to tax at the maximum corporate rate on any income from foreclosure property, which includes certain foreign currency gains and related deductions recognized, other than income that otherwise would be qualifying income for purposes of the 75% gross income test, less expenses directly connected with the production of that income. However, gross income from foreclosure property will qualify under the 75% and 95% gross income tests. Foreclosure property is any real property, including interests in real property, and any personal property incident to such real property:

- that is acquired by a REIT as the result of the REIT having bid on such property at foreclosure or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or default was imminent on a lease of such property or on indebtedness that such property secured;
- for which the related loan was acquired by the REIT at a time when the default was not imminent or anticipated; and
- for which the REIT makes a proper election to treat the property as foreclosure property.

A REIT will not be considered to have foreclosed on a property where the REIT takes control of the property as a mortgagee-in-possession and cannot receive any profit or sustain any loss except as a creditor of the mortgagor. Property generally ceases to be foreclosure property at the end of the third taxable year following the taxable year in which the REIT acquired the property or longer if an extension is granted by the Secretary of the Treasury. However, this grace period terminates and foreclosure property ceases to be foreclosure property on the first day:

- on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for purposes of the 75% gross income test, or any amount is received or accrued, directly or indirectly, pursuant to a lease entered into on or after such day that will give rise to income that does not qualify for purposes of the 75% gross income test;
- on which any construction takes place on the property, other than completion of a building or any other improvement, where more than 10% of the construction was completed before default became imminent; or

- which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business which is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income or a TRS.

The Company may acquire properties as a result of foreclosure or otherwise reducing the property to ownership when default has occurred or is imminent and may make foreclosure property elections with respect to some or all of those properties if such election is available (which may not be the case with respect to acquired "distressed loans").

Cash/Income Differences/Phantom Income

Due to the nature of the assets in which the Company invests, the Company may be required to recognize taxable income from those assets in advance of its receipt of cash flow on or proceeds from disposition of such assets, and may be required to report taxable income in early periods that exceeds the economic income ultimately realized on such assets.

The Company may acquire debt instruments in the secondary market for less than their face amount. The amount of such discount generally will be treated as "market discount" for U.S. federal income tax purposes. The Company may elect to include in taxable income accrued market discount as it accrues rather than as it is realized for economic purposes, resulting in phantom income. Principal payments on certain loans are made monthly, and consequently accrued market discount may have to be included in income each month as if the debt instrument were assured of ultimately being collected in full. If the Company collects less on the debt instrument than its purchase price plus the market discount it had previously reported as income, it may not be able to benefit from any offsetting loss deductions.

The Company may acquire MBSs that have been issued with original issue discount. In general, the Company will be required to accrue original issue discount based on the constant yield to maturity of the MBS, and to treat it as taxable income in accordance with applicable U.S. federal income tax rules even though smaller or no cash payments are received on such debt instrument. As in the case of the market discount discussed in the preceding paragraph, the constant yield in question will be determined and the Company will be taxed based on the assumption that all future payments due on the MBS in question will be made. If all payments on the MBSs are not made, the Company may not be able to benefit from any offsetting loss deductions.

In addition, pursuant to its investment strategy, the Company may acquire distressed debt instruments and subsequently modify such instruments by agreement with the borrower. If the amendments to the outstanding debt are "significant modifications" under the applicable Treasury Regulations, the modified debt may be considered to have been reissued to the Company in a debt-for-debt exchange with the borrower. In that event, the Company may be required to recognize income to the extent the principal amount of the modified debt exceeds its adjusted tax basis in the unmodified debt, and would hold the modified loan with a cost basis equal to its principal amount for U.S. federal tax purposes. To the extent that such modifications are made with respect to a debt instrument held by a TRS treated as a dealer, as described above, such a TRS would be required at the end of each taxable year, including the taxable year in which such modification was made, to mark the modified debt instrument to its fair market value as if the debt instrument were sold. In that case, the TRS generally would recognize a loss at the end of the taxable year in which the modifications were made to the extent the fair market value of such debt instrument were less than its principal amount after the modification.

In addition, in the event that any debt instruments or MBSs acquired by the Company are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular debt instrument are not made when due, the Company may nonetheless be required to continue to recognize the unpaid interest as taxable income. Similarly, the Company may be required to accrue interest income with respect to subordinate MBSs at the stated rate regardless of whether corresponding cash payments are received.

The Company may also be required under the terms of indebtedness that it incurs to private lenders or otherwise to use cash received from interest payments to make principal payments on that indebtedness, with the effect of recognizing income but not having a corresponding amount of cash available for distribution to holders of its securities.

Due to each of these potential timing differences between income recognition or expense deduction and cash receipts or disbursements, there is a significant risk that the Company may have substantial taxable income in excess of cash available for distribution. In that event, the Company may need to borrow funds or take other action to satisfy the REIT distribution requirements for the taxable year in which this "phantom income" is recognized. Refer below to the section entitled "—Distribution Requirements."

Failure to Satisfy the Gross Income Tests

If the Company fails to satisfy one or both of the gross income tests for any taxable year, it nevertheless may qualify as a REIT for that year if it qualifies for relief under certain provisions of the U.S. federal income tax laws. Those relief provisions are available if:

- the Company's failure to meet those tests is due to reasonable cause and not to willful neglect; and
- following such failure for any taxable year, the Company files a schedule of the sources of its income with the IRS.

The Company cannot predict, however, whether in all circumstances it would qualify for the relief provisions. In addition, as discussed above in the section entitled "—Taxation of Colony Credit Real Estate, Inc." even if the relief provisions apply, the Company would incur a 100% tax on the gross income attributable to the greater of the amount by which it fails the 75% or 95% gross income test, in each case, multiplied by a fraction intended to reflect its profitability.

Asset Tests

To qualify as a REIT, the Company also must satisfy the following asset tests at the end of each quarter of each taxable year. First, at least 75% of the value of its total assets must consist of:

- cash or cash items, including certain receivables and money market funds;
- government securities;
- interests in real property, including leaseholds, options to acquire real property and leaseholds, and personal property to the extent such personal property is leased in connection with real property and rents attributable to such personal property are treated as "rents from real property";
- interests in mortgage loans secured by real property;
- stock in other REITs and debt instruments issued by "publicly offered REITs";
- investments in stock or debt instruments during the one-year period following the Company's receipt of new capital that it raises through equity offerings or public offerings of debt with at least a five-year term; and
- regular or residual interests in a REMIC. However, if less than 95% of the assets of a REMIC consist of assets that are qualifying real estate-related assets under the U.S. federal income tax laws, determined as if the Company held such assets, the Company will be treated as holding directly its proportionate share of the assets of such REMIC.

Second, of the Company's investments not included in the 75% asset class, the value of its interest in any one issuer's securities may not exceed 5% of the value of its total assets, or the 5% asset test.

Third, of the Company's investments not included in the 75% asset class, it may not own more than 10% of the voting power or value of any one issuer's outstanding securities, or the 10% vote or value test.

Fourth, no more than 20% of the value of the Company's total assets may consist of the securities of one or more TRSs.

Fifth, no more than 25% of the value of the Company's total assets may consist of securities that are not qualifying assets for purposes of the 75% asset test described above, or the 25% securities test.

Sixth, no more than 25% of the value of the Company's total assets may consist of debt instruments issued by "publicly offered REITs" to the extent such debt instruments are not secured by real property or interests in real property.

For purposes of the 5% asset test, the 10% vote or value test and the 25% securities test, the term "securities" does not include stock in another REIT, debt of a "publicly offered REIT," equity or debt securities of a QRS or, in the case of the 5% asset test and 10% vote or value test, TRS debt or equity, mortgage loans or MBSs that constitute real estate assets, or equity interests in a partnership. The term "securities," however, generally includes debt securities issued by a partnership or another REIT (other than a "publicly offered REIT"), except, for purposes of the 10% value test, the term "securities" does not include:

- "Straight debt" securities, which is defined as a written unconditional promise to pay on demand or on a specified date a sum certain in money if: (i) the debt is not convertible, directly or indirectly, into equity; and (ii) the interest rate and interest payment dates are not contingent on profits, the borrower's discretion, or similar factors. "Straight debt" securities do not include any securities issued by a partnership or a corporation in which the Company or any TRS in which the Company owns more than 50% of the voting power or value of the shares hold non-"straight debt" securities that have an aggregate value of more than 1% of the issuer's outstanding securities. However, "straight debt" securities include debt subject to the following contingencies:

  - a contingency relating to the time of payment of interest or principal, as long as either: (i) there is no change to the effective yield of the debt obligation, other than a change to the annual yield that does not exceed the greater of 0.25% or 5% of the annual yield; or (ii) neither the aggregate issue price nor the aggregate face amount of the issuer's debt obligations held by the Company exceeds $1 million and no more than 12 months of unaccrued interest on the debt obligations can be required to be prepaid; and

  - a contingency relating to the time or amount of payment upon a default or prepayment of a debt obligation, as long as the contingency is consistent with customary commercial practice.

- Any loan to an individual or an estate;

- Any "section 467 rental agreement" other than an agreement with a related party tenant;

- Any obligation to pay "rents from real property";

- Certain securities issued by governmental entities;

- Any security issued by a REIT;

- Any debt instrument issued by an entity treated as a partnership for U.S. federal income tax purposes in which the Company is a partner to the extent of its proportionate interest in the equity and debt securities of the partnership; and

- Any debt instrument issued by an entity treated as a partnership for U.S. federal income tax purposes not described in the preceding bullet points if at least 75% of the partnership's gross income, excluding income from prohibited transactions, is qualifying income for purposes of the 75% gross income test described above in the section entitled "—Gross Income Tests."

For purposes of the 10% value test, the Company's proportionate share of the assets of a partnership is its proportionate interest in any securities issued by the partnership, without regard to the securities described in the last two bullet points above.

The Company's holdings of securities and other assets have complied, and will continue to comply, with the foregoing asset tests, and the Company intends to monitor its compliance on an ongoing basis. However, independent appraisals have not been obtained to support the Company's conclusions as to the value of its assets or the value of any particular security or securities. Moreover, values of some assets, including instruments issued in collateralized debt obligation transactions, may not be susceptible to a precise determination, and values are subject to change in the future.

Furthermore, the proper classification of an instrument as debt or equity for U.S. federal income tax purposes may be uncertain in some circumstances, which could affect the application of the asset tests. Accordingly, there can be no assurance that the IRS will not contend that the Company's interests in its subsidiaries or in the securities of other issuers will not cause a violation of the asset tests.

As described above, Revenue Procedure 2003-65 provides a safe harbor pursuant to which certain mezzanine loans secured by a first priority security interest in ownership interests in a partnership or limited liability company will be treated as qualifying assets for purposes of the 75% asset test (and therefore, are not subject to the 5% asset test and the 10% vote or value test). Refer to the section entitled "—Gross Income Tests." The Company expects that some of its mezzanine loans may not qualify for that safe harbor. To the extent that the Company determines that a mezzanine loan likely would not qualify for the safe harbor and also would not be excluded from the definition of securities for purposes of the 10% vote or value test or could cause the Company not to satisfy the 75% or 5% assets tests, it would hold that mezzanine loan through a TRS.

The Company owns stock in several REITS and expects to invest in the stock of other entities that intend to qualify as REITs in the future. The Company believes that any stock that it has acquired or will acquire in other REITs has been, or will be, qualifying assets for purposes of the 75% asset test. If a REIT in which the Company owns stock fails to qualify as a REIT in any year, however, the stock in such REIT will not be a qualifying asset for purposes of the 75% asset test. Instead, the Company would be subject to the 5% asset test, the 10% vote or value test and the 25% securities test described above with respect to its investment in such a disqualified REIT. Consequently, if a REIT in which the Company owns stock fails to qualify as a REIT, the Company could fail one or more of the asset tests described above. To the extent the Company invests in other REITs, it intends to do so in a manner that will enable it to continue to satisfy the REIT asset tests.

As discussed above in the section entitled "—Gross Income Tests," the Company and its subsidiaries may invest in distressed mortgage loans. In general, under the applicable Treasury Regulations, if a loan is secured by real property and other property and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of: (i) the date the Company agreed to acquire or originate the loan; or (ii) in the event of a significant modification, the date the Company modified the loan, then a portion of the interest income from such a loan will not be qualifying income for purposes of the 75% gross income test but will be qualifying income for purposes of the 95% gross income test. Although the law is not entirely clear, a portion of the loan will also likely be a non-qualifying asset for purposes of the 75% asset test. The non-qualifying portion of such a loan would be subject to, among other requirements, the 10% vote or value test. IRS Revenue Procedure 2014-51 provides a safe harbor under which the IRS has stated that it will not challenge a REIT's treatment of a loan as being, in part, a qualifying real estate asset in an amount equal to the lesser of: (i) the fair market value of the loan on the relevant quarterly REIT asset testing date; or (ii) the greater of (A) the fair market value of the real property securing the loan on the relevant quarterly REIT asset testing date or (B) the fair market value of the real property securing the loan determined as of the date the REIT committed to originate or acquire the loan. It is unclear how the safe harbor in Revenue Procedure 2014-51 is affected by the recent legislative changes regarding the treatment of loans secured by both real property and personal property where the fair market value of the personal property does not exceed 15% of the sum of the fair market values of the real property and the personal property securing the loan. There can be no assurance that later interpretations of or any clarifications to this Revenue Procedure will be consistent with how the Company currently is applying it to its REIT compliance analysis. The Company intends to invest in distressed mortgage loans in a manner consistent with qualifying as a REIT.

Also as discussed above, the Company intends to invest in agency securities that are pass-through certificates. The Company expects that the agency securities will be treated either as interests in grantor trusts or as interests in REMICs for U.S. federal income tax purposes. In the case of agency securities treated as interests in grantor trusts, the Company would be treated as owning an undivided beneficial ownership interest in the mortgage loans held by the grantor trust. Such mortgage loans generally will qualify as real estate assets to the extent that they are secured by real property. The Company expects that substantially all of its agency securities treated as interests in a grantor trust will qualify as real estate assets. In the case of agency securities treated as interests in a REMIC, such interests generally will qualify as real estate assets. If less than 95% of the assets of a REMIC are real estate assets, however, then only a proportionate part of the Company's interest in the REMIC will qualify as a real estate asset. To the extent that the Company holds mortgage participations or MBSs that do not represent interests in a grantor trust or REMIC interests, such assets may not qualify as real estate assets depending upon the circumstances and the specific structure of the investment.

Failure to Satisfy the Asset Tests

The Company has monitored, and will continue to monitor, the status of its assets for purposes of the various asset tests. If the Company fails to satisfy the asset tests at the end of a calendar quarter, it will not lose its REIT qualification if:

- the Company satisfied the asset tests at the end of the preceding calendar quarter; and
- the discrepancy between the value of the Company's assets and the asset test requirements arose from changes in the market values of its assets and was not wholly or partly caused by the acquisition of one or more non-qualifying assets.

If the Company does not satisfy the condition described in the second item, above, it still could avoid disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which it arose.

If at the end of any calendar quarter the Company violates the 5% asset test or the 10% vote or value test described above, it will not lose its REIT qualification if: (i) the failure is de minimis (up to the lesser of 1% of its assets or $10 million); and (ii) it disposes of assets causing the failure or otherwise complies with the asset tests within six months after the last day of the quarter in which it identifies such failure. In the event of a failure of any of the asset tests (other than de minimis failures described in the preceding sentence), as long as the failure was due to reasonable cause and not to willful neglect, the Company will not lose its REIT status if it: (i) disposes of assets or otherwise complies with the asset tests within six months after the last day of the quarter in which it identifies the failure; (ii) it files a description of each asset causing the failure with the IRS; and (iii) pays a tax equal to the greater of $50,000 or 35% of the net income from the non-qualifying assets during the period in which the Company failed to satisfy the asset tests.

Distribution Requirements

Each taxable year, the Company must distribute dividends, other than capital gain dividends and deemed distributions of retained capital gain, to our holders in an aggregate amount at least equal to the sum of:

- 90% of its "REIT taxable income," computed without regard to the dividends paid-deduction and its net capital gain or loss; and
- 90% of its after-tax net income, if any, from foreclosure property; minus
- the sum of certain items of non-cash income.

Generally, the Company must pay such distributions in the taxable year to which they relate, or in the following taxable year if: (i) the Company declares the distribution before it timely files its U.S. federal income tax return for the year and pays the distribution on or before the first regular dividend payment date after such declaration; or (ii) the Company declares the distribution in October, November or December of the taxable year, payable to holders of record on a specified day in any such month, and it actually pays the dividend before the end of January of the following year. The distributions under clause (i) are taxable to the holders in the year in which paid and the distributions in clause (ii) are treated as paid on December 31 of the prior taxable year in which they were declared. In both instances, these distributions relate to the Company's prior taxable year for purposes of the 90% distribution requirement.

Unless the Company qualifies as a "publicly offered REIT," in order for its distributions to be counted as satisfying the annual distribution requirement for REITs and to provide it with the REIT-level tax deduction, such distributions must not have been "preferential dividends." A dividend is not a preferential dividend if that distribution is: (i) pro rata among all outstanding shares within a particular class; and (ii) in accordance with the preferences among different classes of stock as set forth in the Company's organizational documents. The Company believes that it qualifies as "publicly offered REIT," and so long as it qualifies as a "publicly offered REIT," the preferential dividend rule will not apply to it.

The Company will pay U.S. federal income tax on taxable income, including net capital gain, that it does not distribute to holders. Furthermore, if the Company fails to distribute during a calendar year, or by the end of January following the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of:

- 85% of its REIT ordinary income for such year;
- 95% of its REIT capital gain income for such year; and
- any undistributed taxable income from prior periods,

The Company will incur a 4% nondeductible excise tax on the excess of such required distribution over the amounts it actually distributes and the amounts of income retained on which the Company has paid corporate income tax.

The Company may elect to retain and pay income tax on the net long-term capital gain it receives in a taxable year. If the Company so elects, it will be treated as having distributed any such retained amount for purposes of the 4% nondeductible excise tax described above. The Company intends to make timely distributions sufficient to satisfy the annual distribution requirements and to avoid corporate income tax and the 4% nondeductible excise tax.

It is possible that, from time to time, the Company may experience timing differences between the actual receipt of income and/or payment of deductible expenses and the inclusion of that income or deduction in arriving at its REIT taxable income. Refer to, for example, the discussion of excess inclusion income above in the section entitled "—Requirements for Qualification—Taxable Mortgage Pools." Other potential sources of non-cash taxable income include gain recognized on the deemed exchange of distressed debt that has been modified, real estate and securities that have been financed through securitization structures, such as the collateralized debt obligation structure, which require some or all of available cash flow to be used to service borrowings, loans or MBSs that the Company holds that have been issued at a discount and require the accrual of taxable economic interest in advance of its receipt in cash and distressed loans on which the Company may be required to accrue taxable interest income even though the borrower is unable to make current servicing payments in cash. Furthermore, under amendments to Section 451 of the Code made by the TCJA, subject to certain exceptions, the Company must accrue income for U.S. federal income tax purposes no later than when such income is taken into account as revenue in our financial statements, which could create additional differences between REIT taxable income and the receipt of cash attributable to such income. In addition, Section 162(m) of the Code places a per-employee limit of $1 million on the amount of compensation that a publicly held corporation may deduct in any one year with respect to its chief executive officer, chief financial officer and certain other highly compensated executive officers. Recent changes to Section 162(m) made by the TCJA expanded the individuals covered by Section 162(m)'s limits and eliminated an exception that formerly permitted certain performance-based compensation to be deducted even if in excess of $1 million, which may have the effect of increasing our REIT taxable income, and recently proposed regulations under Section 162(m) provide that, contrary to certain prior private letter rulings previously issued by the IRS to several UPREITs, compensation subject to the Section 162(m) limit includes a publicly held corporation's distributive share of a partnership's deduction for any compensation the partnership pays for services performed by a covered employee of the publicly held corporation, which may also have the effect of increasing our REIT taxable income. In the event that such timing differences occur, it might be necessary to arrange borrowings or other means of raising capital to meet the distribution requirements. Additionally, the Company may, if possible, pay taxable dividends of our stock or debt to meet the distribution requirements.

On August 11, 2017, the IRS issued Revenue Procedure 2017-45, authorizing elective stock dividends to be made by public REITs. Pursuant to this revenue procedure, effective for distributions declared on or after August 11, 2017, the IRS will treat the distribution of stock pursuant to an elective stock dividend as a distribution of property under Section 301 of the Code (i.e., as a dividend to the extent of our earnings and profits), as long as at least 20% of the total dividend is available in cash and certain other requirements outlined in the revenue procedure are met.

Under certain circumstances, the Company may be able to correct a failure to meet the distribution requirement for a year by paying "deficiency dividends" to our holders in a later year. The Company may include such deficiency dividends in its deduction for dividends paid for the earlier year. Although the Company may be able to avoid income tax on amounts distributed as deficiency dividends, it will be required to pay interest to the IRS based upon the amount of any deduction it takes for deficiency dividends.

In addition, a REIT is required to distribute all accumulated earnings and profits attributable to non-REIT years by the close of its first taxable year in which it has non-REIT earnings and profits to distribute.

Interest Deduction Limitation Enacted by the TCJA

Commencing in taxable years beginning after December 31, 2017, Section 163(j) of the Code, as amended by the TCJA, limits the deductibility of net interest expense paid or accrued on debt properly allocable to a trade or business to 30% of "adjusted taxable income," subject to certain exceptions. Any deduction in excess of the limitation is carried forward and may be used in a subsequent year, subject to the 30% limitation. Adjusted taxable income is determined without regard to certain deductions, including those for net interest expense, net operating loss carryforwards and, for taxable years beginning before January 1, 2022, depreciation, amortization and depletion. Provided the taxpayer makes a timely election (which is irrevocable), the 30% limitation does not apply to a trade or business involving real property development, redevelopment, construction, reconstruction, rental, operation, acquisition, conversion, disposition, management, leasing or brokerage, within the meaning of Section 469(c)(7)(C) of the Code. If this election is made, depreciable real property (including certain improvements) held by the relevant trade or business must be depreciated under the alternative depreciation system under the Code, which is generally less favorable than the generally applicable system of depreciation under the Code. If we do not make the election or if the election is determined not to be available with respect to all or certain of our business activities, this interest deduction limitation could result in us having more REIT taxable income and thus increase the amount of distributions we must make to comply with the REIT requirements and avoid incurring corporate level tax. Similarly, the limitation could cause our TRSs to have greater taxable income and thus potentially greater corporate tax liability.

Recordkeeping Requirements

The Company is required to maintain certain records under the REIT rules. In addition, to avoid a monetary penalty, the Company must request on an annual basis information from our holders designed to disclose the actual ownership of its outstanding shares of beneficial interest. The Company intends to continue to comply with these requirements.

Foreign Investments

The Company and its subsidiaries have acquired, and expect to acquire in the future, investments in foreign countries that will require it to pay taxes to foreign countries. Taxes that the Company pays in foreign jurisdictions may not be passed through to, or used by, our holders as a foreign tax credit or otherwise. The Company could be subject to U.S. federal income tax rules intended to prevent or minimize the value of the deferral of the recognition by it of passive-type income of foreign entities in which it owns a direct or indirect interest. As a result, the Company could be required to recognize taxable income for U.S. federal income tax purposes prior to receiving cash distributions with respect to that income or, in certain circumstances, pay an interest charge on U.S. federal income tax that it is deemed to have deferred. The Company's foreign investments might also generate foreign currency gains and losses. Certain foreign currency gains may be excluded from gross income for purposes of one or both of the gross income tests, as discussed above. Refer above to the section entitled "—Requirements for Qualification—Gross Income Tests."

Failure to Qualify

If the Company fails to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, it could avoid disqualification if its failure is due to reasonable cause and not to willful neglect and the Company pays a penalty of $50,000 for each such failure. In addition, there are relief provisions for a failure of the gross income tests and asset tests, as described in the sections entitled "—Gross Income Tests—Failure to Satisfy the Gross Income Tests" and "—Asset Tests—Failure to Satisfy the Asset Tests."

If the Company fails to qualify as a REIT in any taxable year, and no relief provision applies, it would be subject to U.S. federal income tax on its taxable income at regular corporate rates. In calculating its taxable income in a year in which it fails to qualify as a REIT, the Company would not be able to deduct amounts paid out to holders. In fact, the Company would not be required to distribute any amounts to holders in that year. In such event, to the extent of the Company's current and accumulated earnings and profits, distributions to most holders taxed at individual rates would generally be taxable at capital gains tax rates. For taxable years beginning after December 31, 2017, and before January 1, 2026, generally U.S. holders that are individuals, trusts or estates may deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations. Alternatively, such dividends paid to U.S. holders that are individuals, trusts and estates may be taxable at the preferential income tax rates (i.e., the 20% maximum U.S. federal rate) for qualified dividends. In addition, subject to the limitations of the Code, corporate distributees may be eligible for the dividends-received deduction.

Unless the Company qualified for relief under specific statutory provisions, it also would be disqualified from taxation as a REIT for the four taxable years following the year during which it ceased to qualify as a REIT. The Company cannot predict whether in all circumstances it would qualify for such statutory relief.

Taxation of Holders of Class A Common Stock

Taxation of Taxable U.S. Holders.

The following is a summary of certain U.S. federal income tax considerations related to the ownership and disposition of stock applicable to U.S. holders**.**

Taxation of U.S. Holders on Distributions on Our Stock

As long as the Company qualifies as a REIT, a taxable U.S. holder must generally take into account as ordinary income distributions made out of the Company's current or accumulated earnings and profits that the Company does not designate as capital gain dividends or retained long-term capital gain. However, for tax years prior to 2026, generally U.S. holders that are individuals, trusts or estates may deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations. For purposes of determining whether a distribution is made out of its current or accumulated earnings and profits, the Company's earnings and profits will be allocated first to its preferred stock dividends and then to its common stock dividends.

Dividends paid to U.S. holders will not qualify for the dividends-received deduction generally available to corporations. In addition, dividends paid to a U.S. holder generally will not qualify for the 20% tax rate for qualified dividend income. The maximum tax rate for qualified dividend income is 20%. Qualified dividend income generally includes dividends paid to U.S. holders taxed at individual rates by domestic C corporations and certain qualified foreign corporations. Because the Company will not generally be subject to U.S. federal income tax on the portion of its REIT taxable income distributed to our holders (refer above to the section entitled "—Taxation of Colony Credit Real Estate, Inc."), its dividends generally will not be eligible for the 20% rate on qualified dividend income. As a result, the Company's ordinary REIT dividends will be taxed at the higher tax rate applicable to ordinary income, which is currently a maximum rate of 37%. However, the 20% tax rate for qualified dividend income will apply to the Company's ordinary REIT dividends to the extent attributable: (i) to income retained by it in a prior non-REIT taxable year in which it or a predecessor was subject to corporate income tax (less the amount of tax); (ii) to dividends received by it from non-REIT corporations, such as domestic TRSs; and (iii) to the extent attributable to income upon which it has paid corporate income tax (e.g., to the extent that the Company distributes less than 100% of its net taxable income). In general, to qualify for the reduced tax rate on qualified dividend income, a holder must hold our stock for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which our stock becomes ex-dividend. In addition, dividends paid to certain individuals, trusts and estates whose income exceeds certain thresholds are subject to a 3.8% Medicare tax.

A U.S. holder generally will take into account as long-term capital gain any distributions that the Company designates as capital gain dividends without regard to the period for which the U.S. holder has held our stock. The Company generally will designate its capital gain dividends as either 20% or 25% rate distributions. Refer below to the section entitled "—Capital Gains and Losses." A corporate U.S. holder, however, may be required to treat up to 20% of certain capital gain dividends as ordinary income.

The Company may elect to retain and pay income tax on the net long-term capital gain that it receives in a taxable year. In that case, to the extent that the Company designates such amount in a timely notice to such holder, a U.S. holder would be treated as receiving its proportionate share of the Company's undistributed long-term capital gain and would receive a credit for its proportionate share of the tax the Company paid. The U.S. holder would increase the basis in its stock by the amount of its proportionate share of the Company's undistributed long-term capital gain, minus its share of the tax the Company paid.

To the extent that the Company makes a distribution in excess of its current and accumulated earnings and profits, such distribution will not be taxable to a U.S. holder to the extent that it does not exceed the adjusted tax basis of the U.S. holder's stock. Instead, such distribution will reduce the adjusted tax basis of such stock. To the extent that the Company makes a distribution in excess of both its current and accumulated earnings and profits and the U.S. holder's adjusted tax basis in its stock, such holder will recognize long-term capital gain or short-term capital gain if the stock has been held for one year or less, assuming the stock is a capital asset in the hands of the U.S. holder. In addition, if the Company declares a distribution in October, November or December of any year that is payable to a U.S. holder of record on a specified date in any such month, such distribution shall be treated as both paid by the Company and received by the U.S. holder on December 31 of such year, provided that the Company actually pays the distribution during January of the following calendar year.

Holders may not include in their individual income tax returns any of the Company's net operating losses or capital losses. Instead, the Company would carry over such losses for potential offset against the Company's future income. Under amendments made by the TCJA to Section 172 of the Code, the Company's deduction for any net operating loss carryforwards arising from losses it sustains in taxable years beginning after December 31, 2017, is limited to 80% of its REIT taxable income (determined without regard to the deduction for dividends paid), and any unused portion of losses arising in taxable years ending after December 31, 2017, may not be carried back, but may be carried forward indefinitely.

Taxable distributions from the Company and gain from the disposition of our stock will not be treated as passive activity income, and, therefore, holders generally will not be able to apply any "passive activity losses," such as losses from certain types of limited partnerships in which the holder is a limited partner, against such income. In addition, taxable distributions from the Company and gain from the disposition of our stock generally may be treated as investment income for purposes of the investment interest limitations (although any capital gains so treated will not qualify for the lower 20% tax rate applicable to capital gains of U.S. holders taxed at individual rates). The Company will notify holders after the close of the Company's taxable year as to the portions of its distributions attributable to that year that constitute ordinary income, return of capital and capital gain.

If excess inclusion income from a TMP or REMIC residual interest is allocated to any U.S. holder, that income will be taxable in the hands of the U.S. holder and would not be offset by any net operating losses of the U.S. holder that would otherwise be available. Refer to the section entitled "—Requirements for Qualification—Taxable Mortgage Pools." As required by IRS guidance, the Company intends to notify its U.S. holders if a portion of a dividend paid by it is attributable to excess inclusion income.

Taxation of U.S. Holders on the Disposition of Colony Credit Real Estate Inc.'s Stock

In general, a U.S. holder will realize gain or loss upon the sale, redemption or other taxable disposition of our stock in an amount equal to the difference between the sum of the fair market value of any property and the amount of cash received in such disposition and the U.S. holder's adjusted tax basis in the common stock at the time of the disposition. In general, a U.S. holder who is not a dealer in securities must treat any gain or loss realized upon a taxable disposition of our stock as long-term capital gain or loss if the U.S. holder has held the stock for more than one year and otherwise as short-term capital gain or loss. However, a U.S. holder must treat any loss upon a sale or exchange of stock held by such holder for six months or less as a long-term capital loss to the extent of any actual or deemed distributions from the Company that such U.S. holder previously has characterized as long-term capital gain. All or a portion of any loss that a U.S. holder realizes upon a taxable disposition of the stock may be disallowed if the U.S. holder purchases other substantially identical shares of our stock within 30 days before or after the disposition (in which case, the basis of the shares acquired would be adjusted to reflect the disallowed loss).

Capital Gains and Losses

A taxpayer generally must hold a capital asset for more than one year for gain or loss derived from its sale or exchange to be treated as long-term capital gain or loss. The highest marginal individual income tax rate is currently 37%. However, the maximum tax rate on long-term capital gain applicable to U.S. holders taxed at individual rates is 20%. The maximum tax rate on long-term capital gain from the sale or exchange of "Section 1250 property," or depreciable real property, is 25% computed on the lesser of the total amount of the gain or the accumulated Section 1250 depreciation. In addition, capital gains recognized by certain individuals, trusts and estates whose income exceeds certain thresholds are subject to a 3.8% Medicare tax. With respect to distributions that the Company designates as capital gain dividends and any retained capital gain that it is deemed to distribute, the Company generally may designate whether such a distribution is taxable to its U.S. holders taxed at individual rates at a 20% or 25% rate. Thus, the tax rate differential between capital gain and ordinary income for those taxpayers may be significant. In addition, the characterization of income as capital gain or ordinary income may affect the deductibility of capital losses. A non-corporate taxpayer may deduct capital losses not offset by capital gains against its ordinary income only up to a maximum annual amount of $3,000. A non-corporate taxpayer may carry forward unused capital losses indefinitely. A corporate taxpayer must pay tax on its net capital gain at ordinary corporate rates. A corporate taxpayer may deduct capital losses only to the extent of capital gains, with unused losses being carried back three years and forward five years.

Expansion of Medicare Tax

The Health Care and Reconciliation Act of 2010 requires that, in certain circumstances, certain U.S. holders that are individuals, estates, and trusts pay a 3.8% tax on "net investment income," which includes, among other things, dividends on and gains from the sale or other disposition of REIT shares. The temporary 20% deduction allowed by Section 199A of the Code, as added by the TCJA, with respect to ordinary REIT dividends received by non-corporate taxpayers is allowed only for purposes of Chapter 1 of the Code and thus is apparently not allowed as a deduction allocable to such dividends for purposes of determining the amount of net investment income subject to the 3.8% Medicare tax, which is imposed under Chapter 2A of the Code. Prospective investors should consult their own tax advisors regarding this legislation.

Taxation of Tax-Exempt Holders

Tax-exempt entities, including qualified employee pension and profit-sharing trusts and individual retirement accounts and annuities, generally are exempt from U.S. federal income taxation. However, they are subject to taxation on their unrelated business taxable income, or UBTI. While many investments in real estate generate UBTI, the IRS has issued a published ruling that dividend distributions from a REIT to an exempt employee pension trust do not constitute UBTI, provided that the exempt employee pension trust does not otherwise use the shares of the REIT in an unrelated trade or business of the pension trust. Based on that ruling, amounts that the Company distributes to tax-exempt holders generally should not constitute UBTI. However, if a tax-exempt holder were to finance its investment in our stock with debt, a portion of the income that it receives from the Company would constitute UBTI pursuant to the "debt-financed property" rules. In addition, the Company's dividends that are attributable to excess inclusion income will constitute UBTI in the hands of most tax-exempt holders. Refer to the section entitled "— Requirements for Qualification—Taxable Mortgage Pools." Furthermore, social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans that are exempt from taxation under special provisions of the U.S. federal income tax laws are subject to different UBTI rules, which generally will require them to characterize distributions that they receive from the Company as UBTI. Finally, in certain circumstances, a qualified employee pension or profit-sharing trust that owns more than 10% of our stock is required to treat a percentage of the dividends that it receives from the Company as UBTI if the Company is a "pension-held REIT." Such percentage is equal to the gross income that the Company derives from an unrelated trade or business, determined as if the Company were a pension trust, divided by the Company's total gross income for the year in which the Company pays the dividends. That rule applies to a pension trust holding more than 10% of our stock only if:

- the percentage of the Company's dividends that the tax-exempt trust would be required to treat as UBTI is at least 5%;
- the Company qualifies as a REIT by reason of the modification of the rule requiring that no more than 50% of our stock be owned by five or fewer individuals that allows the beneficiaries of the pension trust to be treated as holding our stock in proportion to its actuarial interests in the pension trust (refer to the section entitled "—Requirements for Qualification"); and
- either: (i) one pension trust owns more than 25% of the value of our stock; or (ii) a group of pension trusts individually holding more than 10% of the value of our stock collectively owns more than 50% of the value of our stock.

Taxation of Non-U.S. Holders

The rules governing U.S. federal income taxation of non-U.S. holders of stock are complex. This section is only a summary of such rules. Non-U.S. holders are urged to consult their tax advisors to determine the impact of U.S. federal, state, local and foreign income tax laws on the ownership of our stock, including any reporting requirements.

A non-U.S. holder that receives a distribution that is not attributable to gain from the Company's sale or exchange of a United States Real Property Interests, or USRPI, and that the Company does not designate as a capital gain dividend or retained capital gain, will recognize ordinary income to the extent that the Company pays such distribution out of its current or accumulated earnings and profits. A withholding tax equal to 30% of the gross amount of the distribution ordinarily will apply to such distribution unless an applicable tax treaty reduces or eliminates the tax. The Company's dividends that are attributable to excess inclusion income will be subject to the 30% withholding tax, without reduction for any otherwise applicable income tax treaty. Refer to the section entitled "—Requirements for Qualification—Taxable Mortgage Pools." If a distribution is treated as effectively connected with the non-U.S. holder's conduct of a U.S. trade or business, the non-U.S. holder generally will be subject to U.S. federal income tax on the distribution at graduated rates, in the same manner as U.S. holders are taxed with respect to such distribution, and a non-U.S. holder that is a corporation also may be subject to the 30% branch profits tax with respect to the distribution. The Company plans to withhold U.S. income tax at the rate of 30% on the gross amount of any such distribution paid to a non-U.S. holder unless either:

- a lower treaty rate applies and the non-U.S. holder provides an IRS Form W-8BEN or W-8BEN-E to the Company evidencing eligibility for that reduced rate; or

- the non-U.S. holder files an IRS Form W-8ECI with the Company claiming that the distribution is effectively connected income.

A non-U.S. holder will not incur tax on a distribution in excess of the Company's current and accumulated earnings and profits if the excess portion of such distribution does not exceed the holder's adjusted basis of its stock. Instead, the excess portion of such distribution will reduce the adjusted basis of such stock. A non-U.S. holder will be subject to tax on a distribution that exceeds both the Company's current and accumulated earnings and profits and the holder's adjusted basis of its stock, if the non-U.S. holder otherwise would be subject to tax on gain from the sale or disposition of its stock, as described below. Because the Company generally cannot determine at the time it makes a distribution whether the distribution will exceed its current and accumulated earnings and profits, the Company normally will withhold tax on the entire amount of any distribution at the same rate as it would withhold on a dividend. However, a non-U.S. holder may claim a refund of amounts that the Company withholds if the Company later determines that a distribution in fact exceeded the Company's current and accumulated earnings and profits.

If the Company is treated as a "United States real property holding corporation," as described below, it will be required to withhold 15% of any distribution that exceeds its current and accumulated earnings and profits. Consequently, although the Company intends to withhold at a rate of 30% on the entire amount of any distribution, to the extent that it does not do so, the Company may withhold at a rate of 15% on any portion of a distribution not subject to withholding at a rate of 30%.

For any year in which the Company qualifies as a REIT, a non-U.S. holder will incur tax on distributions that are attributable to gain from the Company's sale or exchange of a USRPI under Foreign Investment in Real Property, or FIRPTA. A USRPI includes certain interests in real property and stock in "United States real property holding corporations," which are corporations at least 50% of whose assets consist of interests in real property. Under FIRPTA, a non-U.S. holder is taxed on distributions attributable to gain from sales of USRPIs as if such gain were effectively connected with a U.S. business of the non-U.S. holder. A non-U.S. holder thus would be taxed on such a distribution at the normal capital gains rates applicable to U.S. holders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual. A non-U.S. corporate holder not entitled to treaty relief or an exemption also may be subject to the 30% branch profits tax on such a distribution. The Company must withhold 21% of any distribution that it could designate as a capital gain dividend. A non-U.S. holder may receive a credit against its tax liability for the amount the Company withholds.

Capital gain distributions to a non-U.S. holder that are attributable to the Company's sale of real property will be treated as ordinary dividends rather than as gain from the sale of a USRPI, as long as: (i) (A) such class of our stock is "regularly traded" on an established securities market in the United States; and (B) the non-U.S. holder did not own more than 10% of the applicable class of our stock at any time during the one-year period prior to the distribution; or (ii) the non-U.S. holder was treated as a "qualified shareholder" as discussed below. As a result, non-U.S. holders owning 10% or less of the applicable class of our stock that is "regularly traded" generally will be subject to withholding tax on such capital gain distributions in the same manner as they are subject to withholding tax on ordinary dividends. If a class of our stock is not regularly traded on an established securities market in the United States or the non-U.S. holder owned more than 10% of our stock at any time during the one-year period prior to the distribution, capital gain distributions that are attributable to the Company's sale of real property would be subject to tax under FIRPTA, as described in the preceding paragraph. Moreover, if a non-U.S. holder disposes of our stock during the 30-day period preceding a dividend payment, and such non-U.S. holder (or a person related to such non-U.S. holder) acquires or enters into a contract or option to acquire our stock within 61 days of the first day of the 30-day period described above, and any portion of such dividend payment would, but for the disposition, be treated as a USRPI capital gain to such non-U.S. holder, then such non-U.S. holder shall be treated as having USRPI capital gain in an amount that, but for the disposition, would have been treated as USRPI capital gain.

Although the law is not clear on the matter, it appears that amounts the Company designates as retained capital gains in respect of the stock held by U.S. holders generally should be treated with respect to non-U.S. holders in the same manner as actual distributions by the Company of capital gain dividends. Under this approach, a non-U.S. holder would be able to offset as a credit against its U.S. federal income tax liability its proportionate share of the tax paid by the Company on such retained capital gains, and to receive from the IRS a refund to the extent the non-U.S. holder's proportionate share of such tax paid by the Company exceeds its actual U.S. federal income tax liability, provided that the non-U.S. holder furnishes required information to the IRS on a timely basis, which may require the filing of a tax return with the IRS.

A non-U.S. holder generally will not incur tax under FIRPTA with respect to gain realized upon a disposition of our stock as long as the Company: (i) is not a "United States real property holding corporation" during a specified testing period; or (ii) is a domestically controlled qualified investment entity. A domestically controlled qualified investment entity includes a REIT, less than 50% of the value of which is held directly or indirectly by foreign persons at all times during a specified testing period. The Company believes that it will be a domestically controlled qualified investment entity, but because our stock will be publicly traded, it cannot assure you that it in fact will be a domestically controlled qualified investment entity. However, even if the Company was a "United States real property holding corporation" and it was not a domestically controlled qualified investment entity, a non-U.S. holder that owned, actually or constructively, 10% or less of the applicable class of our stock at all times during a specified testing period would not incur tax under FIRPTA if that class of our stock is "regularly traded" on an established securities market. Because the Company's common and preferred stock will be regularly traded on an established securities market, a non-U.S. holder will not incur tax under FIRPTA with respect to any such gain unless it owns, actually or constructively, more than 10% of the applicable class of our stock. If the gain on the sale of our stock were taxed under FIRPTA, a non-U.S. holder would be taxed in the same manner as U.S. holders with respect to such gain, subject to applicable alternative minimum tax or a special alternative minimum tax in the case of nonresident alien individuals. Furthermore, a non-U.S. holder will incur tax on gain not subject to FIRPTA if: (i) the gain is effectively connected with the non-U.S. holder's U.S. trade or business, in which case the non-U.S. holder will be subject to the same treatment as U.S. holders with respect to such gain; or (ii) the non-U.S. holder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, in which case the non-U.S. holder will incur a 30% tax on his capital gains.

Qualified Shareholders

Subject to the exception discussed below, any distribution to a "qualified shareholder," as defined below, who holds our stock directly or indirectly (through one or more partnerships) will not be subject to U.S. tax as income effectively connected with a U.S. trade or business and thus will not be subject to special withholding rules under FIRPTA. While a "qualified shareholder" will not be subject to FIRPTA withholding on REIT distributions, certain investors of a "qualified shareholder" (i.e., non-U.S. persons who hold interests in the "qualified shareholder" (other than interests solely as a creditor), and hold more than 10% of our stock (whether or not by reason of the investor's ownership in the "qualified shareholder")) may be subject to FIRPTA withholding.

In addition, a sale of our stock by a "qualified shareholder" who holds such stock directly or indirectly (through one or more partnerships) will not be subject to U.S. federal income taxation under FIRPTA. As with distributions, certain investors of a "qualified shareholder" (i.e., non-U.S. persons who hold interests in the "qualified shareholder" (other than interests solely as a creditor), and hold more than 10% of our stock (whether or not by reason of the investor's ownership in the "qualified shareholder")) may be subject to FIRPTA withholding on a sale of our stock.

A "qualified shareholder" is a foreign person that: (i) either is eligible for the benefits of a comprehensive income tax treaty which includes an exchange of information program and whose principal class of interests is listed and regularly traded on one or more recognized stock exchanges (as defined in such comprehensive income tax treaty), or is a foreign partnership that is created or organized under foreign law as a limited partnership in a jurisdiction that has an agreement for the exchange of information with respect to taxes with the United States and has a class of limited partnership units representing greater than 50% of the value of all the partnership units that are regularly traded on the NYSE or NASDAQ markets; (ii) is a qualified collective investment vehicle, as defined below; and (iii) maintains records on the identity of each person who, at any time during the foreign person's taxable year, is the direct owner of 5% or more of the class of interests or units, as applicable, described in (i), above.

A qualified collective investment vehicle is a foreign person that: (i) would be eligible for a reduced rate of withholding under the comprehensive income tax treaty described above, even if such entity holds more than 10% of the stock of such REIT; (ii) is publicly traded, is treated as a partnership under the Code, is a withholding foreign partnership, and would be treated as a "United States real property holding corporation" if it were a domestic corporation; or (iii) is designated as such by the Secretary of the Treasury and is either (A) fiscally transparent within the meaning of Section 894 of the Code or (B) required to include dividends in its gross income, but is entitled to a deduction for distributions to its investors.

Qualified Foreign Pension Funds

Any distribution to a "qualified foreign pension fund" (or an entity all of the interests of which are held by a "qualified foreign pension fund") who holds our stock directly or indirectly (through one or more partnerships) will not be subject to U.S. tax as income effectively connected with a U.S. trade or business and thus will not be subject to special withholding rules under FIRPTA. In addition, a sale of our stock by a "qualified foreign pension fund" that holds such stock directly or indirectly (through one or more partnerships) will not be subject to U.S. federal income taxation under FIRPTA.

A qualified foreign pension fund is any trust, corporation or other organization or arrangement: (i) which is created or organized under the law of a country other than the United States; (ii) which is established to provide retirement or pension benefits to participants or beneficiaries that are current or former employees (or persons designated by such employees) of one or more employers in consideration for services rendered; (iii) which does not have a single participant or beneficiary with a right to more than 5% of its assets or income; (iv) which is subject to government regulation and provides annual information reporting about its beneficiaries to the relevant tax authorities in the country in which it is established or operates; and (v) with respect to which, under the laws of the country in which it is established or operates, (A) contributions to such organization or arrangement that would otherwise be subject to tax under such laws are deductible or excluded from the gross income of such entity or taxed at a reduced rate or (B) taxation of any investment income of such organization or arrangement is deferred or such income is taxed at a reduced rate.

FATCA Withholding

Under the Foreign Account Tax Compliance Act, or FATCA, a U.S. withholding tax at a 30% rate will be imposed on dividends paid on our stock received by certain non-U.S. holders if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. In addition, if those disclosure requirements are not satisfied, a U.S. withholding tax at a 30% rate will be imposed on proceeds from the sale of our stock received after December 31, 2018 by certain non-U.S. holders (subject to the proposed Treasury Regulations discussed below). If payment of withholding taxes is required, non-U.S. holders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding taxes with respect to such dividends and proceeds will be required to seek a refund from the IRS to obtain the benefit of such exemption or reduction. The Company will not pay any additional amounts in respect of any amounts withheld.

While withholding under FATCA would have applied to payments of gross proceeds from the sale or disposition of our stock received after December 31, 2018, proposed Treasury Regulations eliminate FATCA withholding on payments of gross proceeds entirely. Taxpayers generally may rely on these proposed Treasury Regulations until final Treasury Regulations are issued.

Information Reporting Requirements and Backup Withholding; Shares Held Offshore

The Company will report to its holders and to the IRS the amount of distributions it pays during each calendar year, and the amount of tax it withholds, if any. Under the backup withholding rules, a holder may be subject to backup withholding at a rate of 28% with respect to distributions unless the holder:

- is a corporation or qualifies for certain other exempt categories and, when required, demonstrates this fact; or
- provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with the applicable requirements of the backup withholding rules.

A holder who does not provide the Company with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the holder's income tax liability. In addition, the Company may be required to withhold a portion of capital gain distributions to any U.S. holders who fail to certify their non-foreign status to the Company.

Backup withholding will generally not apply to payments of dividends made by the Company or its paying agents, in their capacities as such, to a non-U.S. holder, provided that the non-U.S. holder furnishes to the Company or its paying agent the required certification as to its non-U.S. status, such as providing a valid IRS Form W-8BEN, W-8BEN-E or W-8ECI, or certain other requirements are met. Notwithstanding the foregoing, backup withholding may apply if either the Company or its paying agent has actual knowledge, or reason to know, that the holder is a U.S. person that is not an exempt recipient. Payments of the net proceeds from a disposition or a redemption effected outside the United States by a non-U.S. holder made by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) generally will apply to such a payment if the broker has certain connections with the U.S. unless the broker has documentary evidence in its records that the beneficial owner is a non-U.S. holder and specified conditions are met or an exemption is otherwise established. Payment of the net proceeds from a disposition by a non-U.S. holder of our stock made by or through the U.S. office of a broker is generally subject to information reporting and backup withholding unless the non-U.S. holder certifies under penalties of perjury that it is not a U.S. person and satisfies certain other requirements or otherwise establishes an exemption from information reporting and backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the holder's U.S. federal income tax liability if certain required information is furnished to the IRS. Holders are urged to consult their own tax advisors regarding application of backup withholding to them and the availability of, and procedure for obtaining an exemption from, backup withholding.

Under FATCA, a U.S. withholding tax at a 30% rate will be imposed on dividends paid on our stock received by U.S. holders who own their stock through foreign accounts or foreign intermediaries if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. The Company will not pay any additional amounts in respect of any amounts withheld.

Other Tax Consequences

Tax Aspects of Colony Credit Real Estate Inc.'s Investments in the Operating Partnership and the Subsidiary Partnerships

The following discussion summarizes certain U.S. federal income tax considerations applicable to the Company's direct or indirect investments in the Company's Operating Partnership and any subsidiary partnerships or limited liability companies that the Company forms or acquires interests in and that are treated as partnerships for U.S. federal income tax purposes (individually, "Partnership" and, collectively, as the "Partnerships"). The discussion does not cover state or local tax laws or any U.S. federal tax laws other than income tax laws. The Company will include in its income its proportionate share of Partnership items of income, gain, loss, deduction or credit for purposes of the REIT income tests, and will include its proportionate share of assets held by the Partnerships based on its capital interest in such partnerships (other than for purposes of the 10% value test, for which the determination of our interest in partnership assets will be based on our proportionate interest in any securities issued by the partnership, other than certain securities specifically excluded under the Code). The Company's interest in a Partnership is calculated based on either the Company's percentage ownership of the capital of the Partnership or based on the allocations provided in the applicable partnership or limited liability company agreement, using the more conservative calculation. Consequently, to the extent that the Company holds an equity interest in a Partnership, the Partnership's assets and operations may affect its ability to qualify as a REIT, even though the Company may have no control, or have only limited influence, over the Partnership.

Classification as Partnerships. The Company is entitled to include in its income its distributive share of each Partnership's income and to deduct its distributive share of each Partnership's losses only if such Partnership is classified for U.S. federal income tax purposes as a partnership (or an entity that is disregarded for U.S. federal income tax purposes if the entity has only one owner or member) rather than as a corporation or an association taxable as a corporation. An unincorporated domestic entity with at least two owners or members will be classified as a partnership, rather than as a corporation, for U.S. federal income tax purposes if it:

- is treated as a partnership under the Treasury Regulations relating to entity classification or the check-the-box regulations, as described below; and
- is not a "publicly traded" partnership, as defined below.

Under the check-the-box regulations, an unincorporated domestic entity with at least two owners or members may elect to be classified either as an association taxable as a corporation or as a partnership. If such an entity fails to make an election, it generally will be treated as a partnership (or as an entity that is disregarded for U.S. federal income tax purposes if the entity has only one owner or member) for U.S. federal income tax purposes. Each Partnership intends to be classified as a partnership for U.S. federal income tax purposes and no Partnership will elect to be treated as an association taxable as a corporation under the check-the-box regulations.

A publicly traded partnership is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof. A publicly traded partnership will not, however, be treated as a corporation for any taxable year if, for each taxable year beginning after December 31, 1987 in which it was classified as a publicly traded partnership, 90% or more of the partnership's gross income for such year consists of certain passive-type income, including real property rents, gains from the sale or other disposition of real property, interest and dividends, or the 90% passive income exception. Treasury Regulations provide additional limited safe harbors from the definition of a publicly traded partnership. Pursuant to the private placement exclusion safe harbor, interests in a partnership will not be treated as readily tradable on a secondary market or the substantial equivalent thereof if: (i) all interests in the partnership were issued in a transaction or transactions that were not required to be registered under the Securities Act; and (ii) the partnership does not have more than 100 partners at any time during the partnership's taxable year. In determining the number of partners in a partnership, a person owning an interest in a partnership, grantor trust or S corporation that owns an interest in the partnership is treated as a partner in such partnership only if: (i) substantially all of the value of the owner's interest in the entity is attributable to the entity's direct or indirect interest in the partnership; and (ii) a principal purpose of the use of the entity is to permit the partnership to satisfy the 100-partner limitation. Each Partnership is expected to qualify for treatment as a partnership for U.S. federal income tax purposes pursuant to the 90% passive income exception or the private placement safe harbor. The Company has not requested, and does not intend to request, a ruling from the IRS that the Partnerships will be classified as partnerships for U.S. federal income tax purposes.

If, for any reason, a Partnership in which the Company owned more than 10% of the equity were taxable as a corporation, rather than as a partnership, for U.S. federal income tax purposes, the Company likely would not be able to qualify as a REIT unless it qualified for certain relief provisions. Refer to the sections entitled "—Requirements for Qualification—Gross Income Tests" and "—Requirements for Qualification—Asset Tests." In addition, any change in a Partnership's status for tax purposes might be treated as a taxable event, in which case the Company might incur tax liability without any related cash distribution. Refer to the section entitled "—Requirements for Qualification—Distribution Requirements." Further, items of income and deduction of such Partnership would not pass through to its partners, and its partners would be treated as holders for tax purposes. Consequently, such Partnership would be required to pay income tax at corporate rates on its net income and distributions to its partners would constitute dividends that would not be deductible in computing such Partnership's taxable income.

Income Taxation of the Partnerships and their Partners

Partners, Not the Partnerships, Subject to Tax. A partnership generally is not a taxable entity for U.S. federal income tax purposes. Rather, the Company is required to take into account its allocable share of each Partnership's income, gains, losses, deductions and credits for any taxable year of such Partnership ending within or with the Company's taxable year, without regard to whether the Company has received or will receive any distribution from such Partnership. For taxable years beginning after December 31, 2017, however, the tax liability for adjustments to a Partnership's tax returns made as a result of an audit by the IRS will be imposed on the Partnership itself in certain circumstances absent an election to the contrary.

Partnership Allocations. Although a partnership agreement generally will determine the allocation of income and losses among partners, such allocations will be disregarded for tax purposes if they do not comply with the provisions of the U.S. federal income tax laws governing partnership allocations. If an allocation is not recognized for U.S. federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. Each Partnership's allocations of taxable income, gain and loss are intended to comply with the requirements of the U.S. federal income tax laws governing partnership allocations.

Tax Allocations With Respect to Contributed Properties. Income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in a tax-deferred transaction or contributed property in exchange for an interest in the partnership must be allocated in a manner such that the contributing partner is charged with, or benefits from, respectively, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of such unrealized gain or unrealized loss, or built-in gain or built-in loss, respectively, is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of such property at the time of contribution, or a book-tax difference. Such allocations are solely for U.S. federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners. The U.S. Treasury Department has issued regulations requiring partnerships to use a "reasonable method" for allocating items with respect to which there is a book-tax difference and outlining several reasonable allocation methods.

Basis in Partnership Interest. The Company's adjusted tax basis in any Partnership generally is equal to:

- the amount of cash and the basis of any other property contributed by the Company to the Partnership;
- increased by the Company's allocable share of the Partnership's income and its allocable share of indebtedness of the Partnership; and
- reduced, but not below zero, by the Company's allocable share of the Partnership's loss and the amount of cash distributed to the Company and by constructive distributions resulting from a reduction in the Company's share of indebtedness of the Partnership.

If the allocation of the Company's distributive share of the Partnership's loss would reduce the adjusted tax basis of the Company's partnership interest below zero, the recognition of such loss will be deferred until such time as the recognition of such loss would not reduce the Company's adjusted tax basis below zero. To the extent that the Partnership's distributions or any decrease in the Company's share of the indebtedness of the Partnership, which is considered a constructive cash distribution to the partners, would reduce the Company's adjusted tax basis below zero, such distributions or decreases will constitute taxable income to the Company. Such distributions and constructive distributions normally will be characterized as long-term capital gain.

Depreciation Deductions Available to Partnerships. The initial tax basis of property is the amount of cash and the basis of property given as consideration for the property. The Partnership's initial basis in contributed properties acquired in exchange for units of the Partnership should be the same as the transferor's basis in such properties on the date of acquisition. Although the law is not entirely clear, the Partnership generally will depreciate such property for U.S. federal income tax purposes over the same remaining useful lives and under the same methods used by the transferors. The Partnership's tax depreciation deductions will be allocated among the partners in accordance with their respective interests in the Partnership, except to the extent that the Partnership is required under the U.S. federal income tax laws governing partnership allocations to use another method for allocating tax depreciation deductions attributable to contributed or revalued properties, which could result in the Company receiving a disproportionate share of such deductions.

Legislative or Other Actions Affecting REITs

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. The Company cannot give you any assurances as to whether, or in what form, any proposals affecting REITs or their holders will be enacted. Changes to the U.S. federal tax laws and interpretations thereof could adversely affect an investment in the Company's stock. Holders should consult their tax advisors regarding the effect of potential changes to the U.S. federal tax laws and on an investment in our stock.

State, Local and Foreign Taxes

The Company and/or you may be subject to taxation by various states, localities and foreign jurisdictions, including those in which the Company or a holder transacts business, owns property or resides. The state, local and foreign tax treatment may differ from the U.S. federal income tax treatment described above. Consequently, you are urged to consult your tax advisors regarding the effect of state, local and foreign tax laws upon an investment in our stock.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 is hereby incorporated by reference to the definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after our fiscal year ended December 31, 2020.

Item 11. Executive Compensation.

The information required by Item 11 is hereby incorporated by reference to the definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after our fiscal year ended December 31, 2020.

Item 12. Security Ownership of Certain Beneficial Owners and Management Related Stockholder Matters.

The information required by Item 12 is hereby incorporated by reference to the definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after our fiscal year ended December 31, 2020.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 is hereby incorporated by reference to the definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after our fiscal year ended December 31, 2020.

Item 14. Principal Accounting Fees and Services

The information required by Item 13 is hereby incorporated by reference to the definitive proxy statement to be filed with the SEC pursuant to Regulation 14A within 120 days after our fiscal year ended December 31, 2020.

PART IV

Item 15. Exhibits and Financial Statement Schedules
(a)(1) and (2). Financial Statement and Schedules of Colony Credit Real Estate, Inc.

All other schedules are omitted because they are not applicable, or the required information is included in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Colony Credit Real Estate, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Colony Credit Real Estate, Inc. (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and financial statement schedules listed in the Index at Item 15 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control─ Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 25, 2021 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for credit losses in the year ended December 31, 2020 due to adoption of Accounting Standard Update, or ASU, 2016-13 "Financial Instruments – Credit Losses – Measurement of Credit Losses on Financial Instruments (Topic 326)". See below for discussion of our related critical audit matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses

Description of the Matter

As of December 31, 2020, the Company's loans and preferred equity held for investment portfolio and the associated allowance for loan loss totaled $2.2 billion and $37.2 million, respectively. These investments are typically collateralized by commercial real estate. As discussed above and in Note 2 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Accounting Standard Update No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The Company establishes a provision at origination or acquisition that reflects management's estimate of the total expected credit loss over the expected life of the loan or preferred equity investment. The Company reassess the allowance for loan losses for all the loans and preferred equity held for investment at each balance sheet date. In estimating the lifetime expected credit losses, management utilizes a probability of default and loss given default methodology, which considers projected economic conditions over the reasonable and supportable forecast period. The Company also considers qualitative factors in its determination of the allowance for loan losses.

Auditing the allowance for loan loss on loans and preferred equity held for investment portfolio was highly subjective due to the complexity of the models and the judgmental nature of the significant assumptions used in the determination of management's estimates including certain macro-economic variables, current and stabilized fair values and the stabilized net operating income of the underlying collateral. These assumptions have a significant effect on the allowance for loan loss.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's processes to estimate the allowance for loan losses on its loans and preferred equity held for investment, including management's review of the significant assumptions described above and the completeness and accuracy of key inputs used in the expected credit loss models.

To test the allowance for loan losses, we performed audit procedures that included, among others, evaluating the methodology and the significant assumptions described above and testing the completeness and accuracy of the data used. With the assistance of our internal specialists and other professionals, we evaluated the appropriateness of the probability of default and loss given default methodology used to estimate the allowance and assessed the underlying macroeconomic variables used in the model. We reviewed the sensitivity analyses prepared by management and compared management's significant assumptions to relevant information from external sources. For a sample of loans, we involved our internal real estate valuation professionals to assist us in performing procedures to corroborate the reasonableness of current and stabilized fair values and stabilized net operating income of the underlying collateral utilized in developing the allowance for loan losses. We also evaluated the reasonableness of qualitative adjustments made by management based on the fair value of the underlying collateral.

Impairment of Equity Method Investments

Description of the Matter

As of December 31, 2020, the Company's investments in joint ventures accounted for as equity method investments totaled $373.4 million. As described in Note 2 and Note 4 to the consolidated financial statements, the Company periodically assesses whether there are any indicators that the value of its investments in unconsolidated joint ventures may be impaired. An investment is impaired if management's estimate of the value of the investment is less than its carrying value and such decline in value is determined to be other than temporary. To the extent that an other than temporary impairment has occurred, the impairment loss is measured as the excess of the carrying amount of the investment over the value of the investment. During the year ended December 31, 2020, the Company recorded other than temporary impairment charges related to its investments in joint ventures of $160.3 million.

Auditing management's assessment of other than temporary impairment involved a high degree of subjectivity in the evaluation of whether events or changes in circumstances have occurred indicating that the Company's investments in unconsolidated joint ventures may be impaired and the measurement of any impairment recognized. If an impairment indicator exists, the fair value of the investment is estimated based on a number of assumptions including the estimated timing and probabilities of the future cash flows of the unconsolidated joint ventures, discount and capitalization rates that are forward looking and could be affected by future economic and market conditions. The estimated fair values of the investments in unconsolidated joint ventures were highly sensitive to relatively small changes in one or more of those assumptions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process to evaluate if other than temporary impairment indicators exist for its investments in unconsolidated joint ventures and the measurement and recognition of any related impairment. For example, we tested controls over management's review for the identification of impairment indicators and its review of the significant assumptions and key inputs utilized in the estimate of the fair value of the investments.

We performed audit procedures that included, among others, evaluating management's identification of indicators that the Company's investments in unconsolidated joint ventures may be impaired and its assessment as to whether such impairment was other than temporary. For investments with other than temporary impairment indicators, we performed audit procedures to evaluate the significant assumptions described above and test the clerical accuracy of the models used to determine the fair value of the investment. For example, we evaluated the reasonableness of management's estimates of the timing and probabilities of future cash flows from the investments as well as the reasonableness of the discount and capitalization rates by comparing them to the relevant industry and market data. In certain instances, we involved our internal real estate valuation professionals to assist in performing these procedures.

Recognition of Payment-in-Kind ("PIK") Interest

Description of the Matter	The Company holds certain loan investments that include a Payment-in-Kind ("PIK") interest income arrangement, either in total or in part. In addition, the Company holds certain loan investments that include PIK interest through unconsolidated joint ventures accounted for as equity method investments. As disclosed in Note 2 to the consolidated financial statements, the Company will recognize PIK interest on an accrual basis to the extent that management determines there is sufficient value in the assets securing the loan to support the accrual and that such amounts are expected to be collected. The Company evaluates its accrued PIK interest periodically or whenever events or changes in circumstances indicate that the carrying amounts may not be realized. If it is determined that there is insufficient value to support the realization of PIK interest or management does not expect the borrower to be able to pay all the principal and interest due at or before maturity, the Company will cease accruing PIK interest. Auditing the recognition of PIK interest including the Company's assessment that such amounts will be realized was especially challenging and involved a high degree of subjectivity as a result of the estimation uncertainty inherent in these evaluations. Specifically, there is significant judgment in the evaluation of the estimated projected future performance of the real estate development or operating real estate securing the loans due to the significant assumptions used in the estimation of the future net cash flows to determine whether PIK interest will be realized. The estimates of the future net cash flows to be derived from the real estate development or operating real estate securing the loan are based on significant assumptions including market rental rates and leasing trends, development costs, exit capitalization rates and discount rates. These assumptions are forward looking and could be affected by future economic and market conditions.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's PIK interest recognition process including its realization assessment. For example, we tested controls over management's assessment of the future performance of the underlying operating real estate described above including the significant assumptions used in estimating the expected future net cash flows of the properties. To test the recognition of PIK interest, we performed audit procedures that included, among others, testing the significant assumptions described above and the underlying data used by the Company in its analyses. For example, we assessed management's analysis of indicators that the carrying amounts of the loan investments that include PIK interest may not be recoverable, performed independent loan review procedures for a sample of loans, and evaluated management's expected future net cash flows estimates. In certain cases, we involved our internal real estate valuation professionals to assist in performing these procedures. We compared the significant assumptions used by management to current industry and economic trends and observable market-specific data as well as to the historical results of the properties.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2017.

New York, New York
February 25, 2021

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED BALANCE SHEETS
(in Thousands, Except Share and Per Share Data)

	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents	$ 474,817	$ 69,619
Restricted cash	65,213	126,065
Loans and preferred equity held for investment	2,220,688	2,848,956
Allowance for loan losses	(37,191)	(272,624)
Loans and preferred equity held for investment, net	2,183,497	2,576,332
Real estate securities, available for sale, at fair value	10,389	252,824
Real estate, net	839,257	1,484,796
Investments in unconsolidated ventures ($6,883 and $10,283 at fair value, respectively)	373,364	595,305
Receivables, net	37,375	46,456
Deferred leasing costs and intangible assets, net	75,700	112,762
Assets held for sale	323,356	189,470
Other assets	60,900	87,707
Mortgage loans held in securitization trusts, at fair value	1,768,069	1,872,970
Total assets	$ 6,211,937	$ 7,414,306
Liabilities		
Securitization bonds payable, net	$ 835,153	$ 833,153
Mortgage and other notes payable, net	1,022,757	1,256,112
Credit facilities	535,224	1,099,233
Due to related party (Note 10)	10,060	11,016
Accrued and other liabilities	96,578	140,424
Intangible liabilities, net	7,657	22,149
Liabilities related to assets held for sale	323	294
Escrow deposits payable	36,973	74,497
Dividends payable	—	13,164
Mortgage obligations issued by securitization trusts, at fair value	1,708,534	1,762,914
Total liabilities	4,253,259	5,212,956
Commitments and contingencies (Note 17)		
Equity		
Stockholders' equity		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively	—	—
Common stock, $0.01 par value per share		
Class A, 950,000,000 shares authorized, 128,564,930 and 128,538,703 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively	1,286	1,285
Additional paid-in capital	2,844,023	2,909,181
Accumulated deficit	(1,234,224)	(819,738)
Accumulated other comprehensive income	54,588	28,294
Total stockholders' equity	1,665,673	2,119,022
Noncontrolling interests in investment entities	253,225	31,631
Noncontrolling interests in the Operating Partnership	39,780	50,697
Total equity	1,958,678	2,201,350
Total liabilities and equity	$ 6,211,937	$ 7,414,306

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

COLONY CREDIT REAL ESTATE, 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.

	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents	$ 19,248	$ 14,109
Restricted cash	15,397	25,646
Loans and preferred equity held for investment, net	919,681	1,016,781
Real estate, net	413,057	381,608
Investments in unconsolidated ventures	252,384	—
Receivables, net	25,127	26,044
Deferred leasing costs and intangible assets, net	52,240	36,323
Assets held for sale	—	102,397
Other assets	21,984	26,463
Mortgage loans held in securitization trusts, at fair value	1,768,069	1,872,970
Total assets	$ 3,487,187	$ 3,502,341
Liabilities		
Securitization bonds payable, net	$ 835,153	$ 833,153
Mortgage and other notes payable, net	399,337	341,480
Credit facilities	—	23,882
Accrued and other liabilities	98,576	124,969
Intangible liabilities, net	7,657	20,230
Liabilities related to assets held for sale	—	251
Escrow deposits payable	3,591	10,485
Mortgage obligations issued by securitization trusts, at fair value	1,708,534	1,762,914
Total liabilities	$ 3,052,848	$ 3,117,364

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

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in Thousands, Except Per Share Data)

	Year Ended December 31,		
	2020	**2019**	**2018**
Net interest income			
Interest income	$ 156,851	$ 175,169	$ 151,653
Interest expense	(63,043)	(87,730)	(47,074)
Interest income on mortgage loans held in securitization trusts	92,461	120,203	143,371
Interest expense on mortgage obligations issued by securitization trusts	(83,952)	(109,964)	(132,411)
Net interest income	102,317	97,678	115,539
Property and other income			
Property operating income	175,037	253,955	178,339
Other income	1,836	2,333	3,651
Total property and other income	176,873	256,288	181,990
Expenses			
Management fee expense	29,739	42,390	43,190
Property operating expense	64,987	112,801	73,616
Transaction, investment and servicing expense	9,975	7,191	36,800
Interest expense on real estate	48,860	55,415	43,437
Depreciation and amortization	59,766	103,220	90,986
Provision for loan losses	78,561	220,572	113,911
Impairment of operating real estate	42,814	282,749	31,813
Administrative expense (including $4,367, $10,810 and $7,113 of equity-based compensation expense, respectively)	26,551	31,936	26,634
Total expenses	361,253	856,274	460,387
Other income (loss)			
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	(50,521)	4,090	5,003
Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	2,772	(3,447)
Other loss, net	(118,725)	(972)	(2,766)
Loss before equity in earnings of unconsolidated ventures and income taxes	(251,309)	(496,418)	(164,068)
Equity in earnings (loss) of unconsolidated ventures	(135,173)	36,942	23,774
Income tax benefit (expense)	10,898	(3,172)	(37,059)
Net loss	(375,584)	(462,648)	(177,353)
Net loss attributable to noncontrolling interests:			
Investment entities	13,924	38,208	4,771
Operating Partnership	8,361	9,928	4,084
Net loss attributable to Colony Credit Real Estate, Inc. common stockholders	$ (353,299)	$ (414,512)	$ (168,498)
Net loss per common share - basic and diluted (Note 19)	$ (2.75)	$ (3.25)	$ (1.41)
Weighted average shares of common stock outstanding - basic and diluted (Note 19)	128,548	128,391	120,677

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

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in Thousands)

	Year Ended December 31,		
	2020	**2019**	**2018**
Net income (loss)	$ (375,584)	$ (462,648)	$ (177,353)
Other comprehensive income (loss)			
Unrealized gain (loss) on real estate securities, available for sale	(16,319)	17,848	(1,327)
Change in fair value of net investment hedges	21,764	15,460	11,305
Foreign currency translation gain (loss)	23,397	(3,901)	(10,387)
Total other comprehensive income (loss)	28,842	29,407	(409)
Comprehensive income (loss)	(346,742)	(433,241)	(177,762)
Comprehensive (income) loss attributable to noncontrolling interests:			
Investment entities	11,731	38,208	4,771
Operating Partnership	8,008	9,214	4,094
Comprehensive income (loss) attributable to common stockholders	$ (327,003)	$ (385,819)	$ (168,897)

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

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED STATEMENTS OF EQUITY (Continued)
(in Thousands)

	Common Stock										
	Class A		Class B-3								
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Noncontrolling Interests in Investment Entities	Noncontrolling Interests in the Operating Partnership	Total Equity
Balance as of December 31, 2017	—	$ —	—	$ —	$ 821,031	$ 258,777	$ —	$ 1,079,808	$ 327,762	$ —	$ 1,407,570
Contributions	—	—	—	—	—	—	—	—	290	—	290
Distributions	—	—	—	—	—	—	—	—	(20,104)	—	(20,104)
Adjustments related to the Combination	82,484	825	44,399	444	2,072,865	(79,774)	—	1,994,360	(230,494)	73,626	1,837,492
Issuance and amortization of equity-based compensation	968	10	—	—	7,103	—	—	7,113	—	—	7,113
Other comprehensive loss	—	—	—	—	—	—	(399)	(399)	—	(10)	(409)
Dividends and distributions declared ($1.60 per share)	—	—	—	—	—	(203,832)	—	(203,832)	—	(4,905)	(208,737)
Shares canceled for tax withholding on vested stock awards	(42)	(1)	—	—	(659)	—	—	(660)	—	—	(660)
Reallocation of equity	—	—	—	—	(987)	—	—	(987)	—	987	—
Net income (loss)	—	—	—	—	—	(168,498)	—	(168,498)	(4,771)	(4,084)	(177,353)
Balance as of December 31, 2018	83,410	$ 834	44,399	$ 444	$ 2,899,353	$ (193,327)	$ (399)	$ 2,706,905	$ 72,683	$ 65,614	$ 2,845,202
Contributions	—	—	—	—	—	—	—	—	156	—	156
Distributions	—	—	—	—	—	—	—	—	(3,000)	—	(3,000)
Conversion of Class B-3 common stock to Class A common stock	44,399	444	(44,399)	(444)	—	—	—	—	—	—	—
Issuance and amortization of equity-based compensation	832	8	—	—	10,802	—	—	10,810	—	—	10,810
Other comprehensive income	—	—	—	—	—	—	28,693	28,693	—	714	29,407
Dividends and distributions declared ($1.65 per share)	—	—	—	—	—	(211,899)	—	(211,899)	—	(5,081)	(216,980)
Shares canceled for tax withholding on vested stock awards	(102)	(1)	—	—	(1,596)	—	—	(1,597)	—	—	(1,597)
Reallocation of equity	—	—	—	—	622	—	—	622	—	(622)	—
Net income (loss)	—	—	—	—	—	(414,512)	—	(414,512)	(38,208)	(9,928)	(462,648)
Balance as of December 31, 2019	128,539	$ 1,285	—	$ —	$ 2,909,181	$ (819,738)	$ 28,294	$ 2,119,022	$ 31,631	$ 50,697	$ 2,201,350
Contributions	—	—	—	—	—	—	—	—	200,960	—	200,960
Distributions	—	—	—	—	—	—	—	—	(36,397)	—	(36,397)
Issuance and amortization of equity-based compensation	237	2	—	—	4,365	—	—	4,367	—	—	4,367
Other comprehensive income	—	—	—	—	—	—	26,294	26,294	2,195	353	28,842
Dividends and distributions declared ($0.30 per share)	—	—	—	—	—	(38,543)	—	(38,543)	—	(922)	(39,465)
Shares canceled for tax withholding on vested stock awards	(211)	(1)	—	—	(1,742)	—	—	(1,743)	—	—	(1,743)
Reallocation of equity	—	—	—	—	1,445	—	—	1,445	—	(1,445)	—
Costs of noncontrolling equity	—	—	—	—	(466)	—	—	(466)	—	—	(466)
Investment by JV partner in consolidated JV and equity reallocation related to that partner's return (see Note 2)	—	—	—	—	(68,760)	—	—	(68,760)	68,760	—	—
Effect of CECL Adoption (see Note 2)	—	—	—	—	—	(22,644)	—	(22,644)	—	(542)	(23,186)
Net income (loss)	—	—	—	—	—	(353,299)	—	(353,299)	(13,924)	(8,361)	(375,584)
Balance as of December 31, 2020	128,565	$ 1,286	—	$ —	$ 2,844,023	$ (1,234,224)	$ 54,588	$ 1,665,673	$ 253,225	$ 39,780	$ 1,958,678

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

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Thousands)

	Year Ended December 31, 2020	2019	2018
Cash flows from operating activities:			
Net income (loss)	$ (375,584)	$ (462,648)	$ (177,353)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in (earnings) losses of unconsolidated ventures	135,173	(36,942)	(23,774)
Depreciation and amortization	59,766	103,220	90,986
Straight-line rental income	(3,899)	(6,827)	(6,520)
Amortization of above/below market lease values, net	(409)	(2,904)	(44)
Amortization of premium/accretion of discount and fees on investments and borrowings, net	(9,485)	(13,109)	(7,907)
Amortization of deferred financing costs	12,133	9,657	4,794
Amortization of right-of-use lease assets and operating lease liabilities	86	101	—
Paid-in-kind interest added to loan principal, net of interest received	1,446	(7,784)	(5,837)
Distributions of cumulative earnings from unconsolidated ventures	13,429	65,136	43,481
Unrealized (gain) loss on mortgage loans and obligations held in securitization trusts, net	50,521	(4,090)	(5,003)
Realized loss on mortgage loans and obligations held in securitization trusts, net	—	(2,772)	3,447
Realized loss on securities from write-down to fair value	32,606	—	—
Realized loss on sale of real estate securities, available for sale	42,153	—	—
Realized gain on sale of real estate	(14,599)	—	—
Realized loss on sale of loans receivable	1,457	—	—
Provision for loan losses	78,561	220,572	113,911
Impairment of operating real estate	42,814	282,749	31,813
Amortization of equity-based compensation	4,367	10,810	7,113
Mortgage notes above/below market value amortization	(666)	400	(576)
Deferred income tax (benefit) expense	(172)	(4,652)	28,354
Other (gain) loss, net	23,524	9,678	114
Changes in assets and liabilities:			
Receivables, net	13,243	(9,136)	11,062
Deferred costs and other assets	12,935	(14,871)	(27,931)
Due to related party	(957)	(4,003)	5,710
Other liabilities	(22,087)	4,591	14,882
Net cash provided by operating activities	96,356	137,176	100,722
Cash flows from investing activities:			
Acquisition, origination and funding of loans and preferred equity held for investment, net	(296,981)	(1,350,120)	(919,461)
Repayment on loans and preferred equity held for investment	434,677	465,647	626,622
Repayment on loans held for sale	137,132	—	
Proceeds from sale of real estate	454,589	85,389	167,877
Cash and restricted cash received in the Combination			328,454
Cash and restricted cash received related to foreclosure of loans held for investment	—	3,436	4,900
Cash deconsolidated			(26,112)
Acquisition of and additions to real estate, related intangibles and leasing commissions	(23,210)	(24,218)	(415,117)
Investments in unconsolidated ventures	(48,934)	(47,938)	(239,663)
Proceeds from sale of investments in unconsolidated ventures	108,367	115,298	—
Distributions in excess of cumulative earnings from unconsolidated ventures	25,221	212,611	98,501
Acquisition of real estate securities, available for sale	—	—	(58,665)
Repayment of real estate securities, available for sale, from sales	149,629	—	—
Repayment of real estate securities, available for sale, from cost recovery	3,579	—	—
Repayment of principal in mortgage loans held in securitization trusts	76,719	47,540	
Proceeds from sale of mortgage loans held in securitization trusts	—	39,848	—
Net receipts on settlement of derivative instruments	19,637	28,890	—
Deposit on investments	—	(372)	(29,423)
Change in escrow deposits	(37,683)	7,964	(5,618)
Net cash provided (used in) by investing activities	1,002,742	(416,025)	(467,705)
Cash flows from financing activities:			
Distributions paid on common stock	(51,707)	(217,721)	(185,291)
Distributions paid on common stock to noncontrolling interests	(922)	(5,081)	(4,460)
Shares canceled for tax withholding on vested stock awards	(1,743)	(1,596)	(659)
Borrowings from mortgage notes	18,618	93,582	246,365
Repayment of mortgage notes	(240,081)	(8,349)	(141,818)
Borrowings from credit facilities	298,583	1,443,118	1,716,362
Repayment of credit facilities	(862,592)	(1,709,802)	(999,312)
Borrowing from securitization bonds	—	840,423	—
Repayment of securitization bonds	—	(81,372)	(108,246)
Repayment of mortgage obligations issued by securitization trusts	(76,719)	(47,540)	—
Payment of deferred financing costs	(6,741)	(16,035)	(15,610)
Contributions from noncontrolling interests	200,494	156	290
Distributions to noncontrolling interests	(31,252)	(3,000)	(20,104)
Net cash provided by (used in) financing activities	(754,062)	286,783	487,517
Effect of exchange rates on cash, cash equivalents and restricted cash	(690)	287	(176)
Net increase (decrease) in cash, cash equivalents and restricted cash	344,346	8,221	120,358
Cash, cash equivalents and restricted cash - beginning of period	195,684	187,463	67,105
Cash, cash equivalents and restricted cash - end of period	$ 540,030	$ 195,684	$ 187,463

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

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(in Thousands)

	Year Ended December 31,		
	2020	2019	2018
Reconciliation of cash, cash equivalents, and restricted cash to consolidated balance sheets			
Beginning of the period			
Cash and cash equivalents	$ 69,619	$ 77,317	$ 25,204
Restricted cash	126,065	110,146	41,901
Total cash, cash equivalents and restricted cash, beginning of period	$ 195,684	$ 187,463	$ 67,105
End of the period			
Cash and cash equivalents	$ 474,817	$ 69,619	$ 77,317
Restricted cash	65,213	126,065	110,146
Total cash, cash equivalents and restricted cash, end of period	$ 540,030	$ 195,684	$ 187,463

	Year Ended December 31,		
	2020	2019	2018
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 111,688	$ 142,987	$ 81,683
Cash paid (received) for income taxes, net	$ (5,961)	$ (3,093)	$ 21,178
Supplemental disclosure of non-cash investing and financing activities:			
Assets acquired in the Combination	$ —	$ —	$ 6,651,614
Liabilities assumed in the Combination	—	—	4,821,133
Noncontrolling interests assumed in the Combination	—	—	82,542
Common stock issued for acquisition of NorthStar I and NorthStar II	—	—	2,021,373
Deconsolidation of certain CLNY Contributed Portfolio investments (Note 2)	—	—	287,021
Secured Financing	—	—	50,314
Noncontrolling interests in the Operating Partnership	—	—	73,626
Consolidation of securitization trust (VIE asset/liability additions)	—	—	211,778
Deconsolidation of securitization trust (VIE asset/liability reductions)	—	(1,239,627)	—
Deconsolidation of interest in joint ventures	(5,145)	—	—
Accrual of distribution payable	(13,164)	13,164	18,986
Foreclosure of loans held for investment, net of provision for loan losses	—	127,356	117,878
Right-of-use lease assets and operating lease liabilities	(1,393)	27,496	—
Debt assumed related to acquisition of real estate	—	—	200,153
Deferred tax liabilities assumed related to acquisition of real estate	—	—	35,958
Loans held for investment payoff received from servicer	—	—	10,201
Conversion of Class B-3 common stock to Class A common stock	—	444	—

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

1. Business and Organization

Colony Credit Real Estate, Inc. (together with its consolidated subsidiaries, 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 investments equity 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 also currently has investments in CRE debt securities primarily consisting of commercial mortgage-backed securities ("CMBS") (including "B-pieces" of a CMBS securitization pool) or CRE collateralized loan obligations ("CLOs") (including the junior tranches thereof, collateralized by pools of CRE debt investments).

The Company was organized in the state of Maryland on August 23, 2017. On January 31, 2018, the Company completed the transactions contemplated by that certain Master Combination Agreement, dated as of August 25, 2017, as amended and restated on November 20, 2017 (the "Combination Agreement," as further discussed below). The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), beginning with its taxable year ended December 31, 2018. Effective June 25, 2018, the Company changed its name from Colony NorthStar Credit Real Estate, Inc. to Colony Credit Real Estate, Inc. Also on June 25, 2018, Colony NorthStar, Inc. changed its name to Colony Capital, Inc. The Company conducts all of its activities and holds substantially all of its assets and liabilities through its operating subsidiary, Credit RE Operating Company, LLC (the "Operating Partnership" or "OP"). At December 31, 2020, the Company owned 97.7% of the OP, as its sole managing member. The remaining 2.3% is owned by an affiliate of the Company as noncontrolling interests.

The Company is externally managed and has no employees. The Company is managed by CLNC Manager, LLC (the "Manager"), a Delaware limited liability company and a wholly-owned and indirect subsidiary of Colony Capital Operating Company, LLC ("CLNY OP"), a Delaware limited liability company and the operating company of Colony Capital. Colony Capital manages capital on behalf of its stockholders, as well as institutional and retail investors in private funds, non-traded and traded REITs and registered investment companies.

<u>The Combination</u>

Pursuant to the Combination Agreement, (i) CLNY OP contributed and conveyed to the Company a select portfolio of assets and liabilities (the "CLNY OP Contributed Portfolio") of CLNY OP (the "CLNY OP Contribution"), (ii) NRF RED REIT Corp., a Maryland corporation and indirect subsidiary of CLNY OP ("RED REIT") contributed and conveyed to the OP a select portfolio of assets and liabilities (the "RED REIT Contributed Portfolio" and, together with the CLNY OP Contributed Portfolio, the "CLNY Contributed Portfolio") of RED REIT (the "RED REIT Contribution" and, together with the CLNY OP Contribution, the "CLNY Contributions"), (iii) NorthStar Real Estate Income Trust, Inc. ("NorthStar I"), a publicly registered non-traded REIT sponsored and managed by a subsidiary of Colony Capital, merged with and into the Company, with the Company surviving the merger (the "NorthStar I Merger"), (iv) NorthStar Real Estate Income II, Inc. ("NorthStar II"), a publicly registered non-traded REIT sponsored and managed by a subsidiary of Colony Capital, merged with and into the Company, with the Company surviving the merger (the "NorthStar II Merger" and, together with the NorthStar I Merger, the "Mergers"), and (v) immediately following the Mergers, the Company contributed and conveyed to the OP the CLNY OP Contributed Portfolio and the equity interests of each of NorthStar Real Estate Income Trust Operating Partnership, LP, a Delaware limited partnership and the operating partnership of NorthStar I, and NorthStar Real Estate Income Operating Partnership II, LP, a Delaware limited partnership and the operating partnership of NorthStar II, then-owned by the Company in exchange for units of membership interest in the OP (the "Company Contribution" and, collectively with the Mergers and the CLNY Contributions, the "Combination").

On January 18, 2018, the Combination was approved by the stockholders of NorthStar I and NorthStar II. The Combination closed on January 31, 2018 (the "Closing Date") and the Company's Class A common stock, par value $0.01 per share (the "Class A common stock"), began trading on the New York Stock Exchange ("NYSE") on February 1, 2018 under the symbol "CLNC."

The Combination is accounted for under the acquisition method for business combinations pursuant to Accounting Standards Codification ("ASC") Topic 805, *Business Combinations*, with the Company as the accounting acquirer.

Segment Realignment

During the third quarter of 2019, the Company realigned the business and reportable segment information to reflect how the Chief Operating Decision Makers ("CODM") regularly review and manage the business. Refer to Note 18, "Segment Reporting" for further detail.

Impact of COVID-19

Through the fourth quarter of 2020, countries around the world continue to face healthcare and economic challenges arising from the coronavirus disease 2019, or COVID-19. Efforts to address the pandemic, such as social distancing, closures or reduced capacity of retail and service outlets, hotels, factories and public venues, often mandated by governments, are having a significant impact on the global economy and financial markets across major industries, including many sectors of real estate. In particular, the Company's loans and preferred equity held for investment and real estate investments in the hospitality and retail sectors have experienced or anticipate a myriad of challenges, including, but not limited to: significant declines in operating cash flows of the Company's investments which in turn affect their ability to meet debt service and covenant requirements on investment-level debt (non-recourse to the Company); flexible lease payment terms sought by tenants; increased property operating costs such as labor and supplies as a result of COVID-19; potential payment defaults on the Company's loans and preferred equity held for investment; and a distressed market affecting real estate values in general. The COVID-19 crisis may also lead to heightened risk of litigation at the investment and corporate level, with an ensuing increase in litigation and related costs.

The volatility in equity and debt markets, and the economic fallout from COVID-19 continue to affect the valuation of the Company's financial assets, carried at fair value. The Company's consideration and assessment of impairment is discussed further in Note 3, "Loans and Preferred Equity Held for Investment, net," Note 5, "Real Estate Securities, Available for Sale," Note 6, "Real Estate, net and Real Estate Held for Sale" and Note 14, "Fair Value."

A prolonged economic downturn as a result of efforts to contain COVID-19 may continue to negatively affect the Company's financial condition and results of operations. While the extent and duration of the broad effects of COVID-19 on the global economy and the Company remain unclear, the Company believes it has materially addressed overall recoverability in value across its assets based upon external factors known to date and assumptions using the Company's best estimate at this time. The Company will continue to monitor the progress of the COVID-19 crisis and reassess its effects on the Company's results of operations and recoverability in value across its assets as conditions change.

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 consolidated financial statements include the results of operations of Colony Credit Real Estate, Inc. and certain consolidated investment entities contributed by Colony Capital (the "CLNY Investment Entities") for periods on or prior to the closing of the Combination on January 31, 2018 and the combined operations of Colony Credit Real Estate, Inc., NorthStar I and NorthStar II beginning February 1, 2018, following the closing of the Combination.

The assets and liabilities contributed by Colony Capital to the Company consisted of its ownership interests in the CLNY Investment Entities, ranging from 38% to 100%. The remaining interests in the CLNY Investment Entities are owned by investment vehicles sponsored by Colony Capital or third parties and were not contributed to the Company.

The CLNY Contributions were accounted for as a reorganization of entities under common control, since both the Company and the CLNY Investment Entities were under common control of Colony Capital at the time the contributions were made. Accordingly, the contributed assets and liabilities were recorded at carryover basis and the Company's financial statements for prior periods were recast to reflect the consolidation of the CLNY Investment Entities as if the contribution had occurred on the date of the earliest period presented. The assets, liabilities and noncontrolling interests of the CLNY Investment Entities in the consolidated financial statements for periods prior to the Combination were carved out of the books and records of Colony Capital at their historical carrying amounts. Accordingly, the historical consolidated financial statements were prepared giving consideration to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") and related guidance provided by the SEC Staff with respect to carve-out financial statements and reflect allocations of certain corporate costs from Colony Capital. These charges were based on either specifically identifiable costs incurred on behalf of the CLNY Investment Entities or an allocation of costs estimated to be applicable to the CLNY Investment Entities, primarily based on the relative assets under management of the CLNY Investment Entities to Colony Capital's total assets under management. Such costs do not necessarily reflect what the actual costs would have been if the Company had been operating as a separate stand-alone public entity for periods prior to the Combination.

Following the Combination, the Company reconsidered whether it was the primary beneficiary of certain variable interest entities ("VIEs"), which resulted in the deconsolidation of certain of the CLNY Investment Entities and the consolidation of certain securitization trusts in which NorthStar I or NorthStar II held an interest, as more fully described below. Accordingly, comparisons of financial information for periods prior to the Combination with subsequent periods may not be meaningful.

<u>The Combination</u>

The Combination is accounted for under the acquisition method for business combinations pursuant to ASC Topic 805, *Business Combinations*. In the Combination, the Company was considered to be the accounting acquirer so all of its assets and liabilities immediately prior to the closing of the Combination are reflected at their historical carrying values. The consideration transferred by the Company established a new accounting basis for the assets acquired, liabilities assumed and noncontrolling interests of NorthStar I and NorthStar II, which were measured at their respective fair values on the Closing Date.

<u>Use of Estimates</u>

The preparation of consolidated financial statements in conformity with U.S. 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.

<u>Principles of Consolidation</u>

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 December 31, 2020, the Company has identified certain consolidated and 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

The Company's operating subsidiary, the OP, is a limited liability company that has governing provisions that are the functional equivalent of a limited partnership. The Company holds the majority of membership interest in the OP, is the managing member of the OP and exercises full responsibility, discretion and control over the day-to-day management of the OP. The noncontrolling interests in the OP do not have substantive liquidation rights, substantive kick-out rights without cause, or substantive participating rights that could be exercised by a simple majority of noncontrolling interest members (including by such a member unilaterally). The absence of such rights, which represent voting rights in a limited partnership equivalent structure, would render the OP to be a VIE. The Company, as managing member, has the power to direct the core activities of the OP that most significantly affect the OP's performance, and through its majority interest in the OP, has both the right to receive benefits from and the obligation to absorb losses of the OP. Accordingly, the Company is the primary beneficiary of the OP and consolidates the OP. As the Company conducts its business and holds its assets and liabilities through the OP, the total assets and liabilities of the OP represent substantially all of the total consolidated assets and liabilities of the Company.

Other consolidated VIEs include the Investing VIEs (as defined and discussed below) and certain operating real estate properties that have noncontrolling interests. At December 31, 2020, 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 investments in securitization financing entities ("Investing VIEs") include subordinate first-loss tranches of securitization trusts, which represent interests in such VIEs. Investing VIEs are structured as pass through entities that receive principal and interest payments from the underlying debt collateral assets and distribute those payments to the securitization trust's certificate holders, including the most subordinate tranches of the securitization trust. Generally, a securitization trust designates the most junior subordinate tranche outstanding as the controlling class, which entitles the holder of the controlling class to unilaterally appoint and remove the special servicer for the trust, and as such may qualify as the primary beneficiary of the trust.

If it is determined that the Company is the primary beneficiary of an Investing VIE as a result of acquiring the subordinate first-loss tranches of the securitization trust, the Company would consolidate the assets, liabilities, income and expenses of the entire Investing VIE. The assets held by an Investing VIE are restricted and can only be used to fulfill its own obligations. The obligations of an Investing VIE have neither any recourse to the general credit of the Company as the consolidating parent entity of an Investing VIE, nor to any of the Company's other consolidated entities.

As of December 31, 2020, the Company held subordinate tranches of securitization trusts in two Investing VIEs for which the Company has determined it is the primary beneficiary because it has the power to direct the activities that most significantly impact the economic performance of the securitization trusts. The Company's subordinate tranches of the securitization trusts, which represent the retained interest and related interest income, are eliminated in consolidation. As a result, all of the assets, liabilities (obligations to the certificate holders of the securitization trusts, less the Company's retained interest from the subordinate tranches of the securitization trusts), income and expenses of the Investing VIEs are presented in the consolidated financial statements of the Company although the Company legally owns the subordinate tranches of the securitization trusts 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 trusts. Refer to Note 5, “Real Estate Securities, Available for Sale” for further discussion.

The Company elected the fair value option for the initial recognition of the assets and liabilities of its consolidated Investing VIEs. Interest income and interest expense associated with the Investing VIEs are presented separately on the consolidated statements of operations, and the assets and liabilities of the Investing VIEs 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 14, “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 VIEs, 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 VIEs 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 VIEs. Refer to Note 14, “Fair Value” for further discussion.

Unconsolidated VIEs

As of December 31, 2020, the Company identified unconsolidated VIEs related to its securities investments, indirect interests in real estate through real estate private equity funds (“PE Investments”) and CRE debt investments. Based on management’s analysis, the Company determined that it is not the primary beneficiary of the above VIEs. Accordingly, the VIEs are not consolidated in the Company’s financial statements as of December 31, 2020.

Assets of each of the VIEs 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.

The following table presents the Company’s classification, carrying value and maximum exposure of unconsolidated VIEs as of December 31, 2020 (dollars in thousands):

	Carrying Value	Maximum Exposure to Loss
Real estate securities, available for sale	$ 10,389	$ 10,188
Investments in unconsolidated ventures	298,554	323,608
Loans and preferred equity held for investment, net	18,141	18,141
Total assets	$ 327,084	$ 351,937

The Company did not provide financial support to the unconsolidated VIEs during the year ended December 31, 2020. As of December 31, 2020, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to the unconsolidated VIEs. The maximum exposure to loss of real estate securities, available for sale was determined as the amortized cost as of December 31, 2020. See Note 5, “Real Estate Securities, Available for Sale” for further discussion on fair value of the real estate securities. The maximum exposure to loss of investments in unconsolidated ventures and loans and preferred equity held for investment, net was determined as the carrying value plus any future funding commitments. Refer to Note 3, “Loans and Preferred Equity Held for Investment, net” and Note 17, “Commitments and Contingencies” for further discussion.

Noncontrolling Interests

Noncontrolling Interests in Investment Entities—This represents interests in consolidated investment entities held by third party joint venture partners and prior to the closing of the Combination, such interests held by private funds managed by Colony Capital. 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—This represents membership interests in the OP held by RED REIT. Noncontrolling interests in the OP are 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 have 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 is 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.

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 credit-worthiness.

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 PE Investments. The Company has also 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.

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 December 31, 2020 or December 31, 2019. 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 allowance for loan losses. 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 December 31, 2020, 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.

<u>Operating Real Estate</u>

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. 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)	7 to 48 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. During the year ended December 31, 2020, the Company recorded impairment related to its operating real estate of $42.8 million to reflect the net proceeds expected to be received based on executed purchase and sale agreements. See Note 6, "Real Estate, net and Real Estate Held for Sale" and Note 14, "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 December 31, 2020, the Company classified one property each in its Core and Legacy, Non-Strategic Portfolios as held for sale. See Note 6, "Real Estate, net and Real Estate Held for Sale," Note 18, "Segment Reporting" and Note 20, "Subsequent Events" for further detail.

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 provision for loan loss and the cumulative loss allowance 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. As of December 31, 2020, the Company held subordinate tranches of two securitization trusts, which represent the Company's retained interest in the securitization trusts, which the Company consolidates under U.S. GAAP. Refer to Note 5, "Real Estate Securities, Available for Sale" 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.

During the year ended December 31, 2020, the Company recorded an impairment loss of $32.6 million related to its CRE securities. The impairment loss is included in other loss, net in the Company's consolidated statements of operations. Refer to Note 5, "Real Estate Securities, Available for Sale" for further discussion.

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).

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.

At December 31, 2020 and December 31, 2019, the Company's investments in unconsolidated joint ventures consisted of investments in PE Investments, senior loans, mezzanine loans and preferred equity held in joint ventures, as well as ADC arrangements accounted for as equity method investments.

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 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) 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. An indefinite-lived intangible is not subject to amortization until such time that its useful life is determined to no longer be indefinite, at which point, it will be assessed for impairment and its adjusted carrying amount amortized over its remaining useful life. 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.

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 other liabilities on a gross basis on the 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 statement 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, dedesignates 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 15, "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 realized gain (loss) 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 are 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.

As of April 1, 2020, the Company placed its investment grade and non-investment grade rated CRE securities on cost recovery and as a result, ceased accretion of any discounts to expected maturity and applied any cash interest received against the CRE securities amortized cost basis. Refer to Note 5, "Real Estate Securities, Available for Sale" for further discussion.

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 both independent and non-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.

The compensation expense is adjusted for actual forfeitures upon occurrence. Equity-based compensation is classified within administrative expense 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 investments in Europe which are subject to tax in each 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 U.S. 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 U.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 benefit (expense) in the consolidated statements of operations.

The Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was passed on March 27, 2020. Among other things, the CARES Act temporarily removed the 80% limitation on the amount of taxable income that can be offset with a net operating loss ("NOL") for 2019 and 2020 and allowed for a carryback of net operating losses generated in years 2018 through 2020 to each of the preceding five years. During the year ended December 31, 2020, the Company completed its analysis of the impact of the CARES Act on its NOLs and recorded a de minimis adjustment in the consolidated statement of operations.

For the years ended December 31, 2020, 2019 and 2018, the Company recorded an income tax benefit of $10.9 million and income tax expense of $3.2 million and $37.1 million, respectively. The tax benefit recorded for the year ended December 31, 2020 is primarily the result of the Company finalizing its 2019 federal tax return and determining it would be able to carryback certain tax capital losses to prior years resulting in a projected refund of $11.3 million.

Accounting Standards Adopted in 2020

Credit Losses - In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses, which amends the credit impairment model for financial instruments. The Company adopted ASU 2016-13 using the modified retrospective method on January 1, 2020.

The prior incurred loss model has been replaced with a lifetime current expected credit loss ("CECL") model for financial instruments carried at amortized cost and off-balance sheet credit exposures, such as loans, loan commitments, held-to-maturity ("HTM") debt securities, financial guarantees, net investment in leases, reinsurance and trade receivables, which will generally result in earlier recognition of allowance for losses. For available-for-sale ("AFS") debt securities, unrealized credit losses are recognized as allowances rather than reductions in amortized cost basis and elimination of the OTTI concept will result in more frequent estimation of credit losses. The accounting model for purchased credit impaired loans and debt securities has been simplified, including elimination of some of the asymmetrical treatment between credit losses and credit recoveries, to be consistent with the CECL model for originated and purchased non-credit impaired assets. The existing model for beneficial interests that are not of high credit quality was amended to conform to the new impairment models for HTM and AFS debt securities.

Upon adoption of ASU 2016-13 on January 1, 2020 the Company recorded the following (dollars in thousands):

	Impact of ASU 2016-13 Adoption
Assets:	
CECL reserve on Loans and preferred equity held for investment, net	$ 21,093
Liabilities:	
CECL reserve on Accrued and other liabilities	2,093
Total Impact of ASU 2016-13 adoption on Accumulated deficit	$ 23,186

The following discussion highlights changes to the Company's accounting policies as a result of this adoption.

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 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 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 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 December 2020 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 financial instruments assessed outside of the PD/LGD model on an individual basis, including when it is probable that the Company will be unable to collect the full payment of principal and interest on the instrument, 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, the Company may elect to use as a practical expedient the fair value of the collateral at the reporting date when determining the provision for loan losses.

In developing the CECL reserve for its loans and preferred equity 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 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 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 against the provision for loan losses 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 provision for loan losses on the 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.

Troubled Debt Restructuring ("TDR")—The Company classifies an individual financial instrument as a TDR when it has a reasonable expectation that the financial instrument's contractual terms will be modified in a manner that grants concession to the borrower who is experiencing financial difficulty. Concessions could include term extensions, payment deferrals, interest rate reductions, principal forgiveness, forbearance, or other actions designed to maximize the Company's collection on the financial instrument. The Company determines the CECL reserve for financial instruments that are TDRs individually.

Fair Value Disclosures—In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurements*. The ASU requires new disclosures of changes in unrealized gains and losses in other comprehensive income for recurring Level 3 fair value measurements of instruments held at the balance sheet date, as well as the range and weighted average or other quantitative information, if more relevant, of significant unobservable inputs for recurring and nonrecurring Level 3 fair values. Certain previously required disclosures are eliminated, specifically around the valuation process required for Level 3 fair values, policy for timing of transfers between levels of the fair value hierarchy, as well as amounts and reason for transfers between Levels 1 and 2. Additionally, the new guidance clarifies or modifies certain existing disclosures, including clarifying that information about measurement uncertainty of Level 3 fair values should be as of the reporting date and requiring disclosures of the timing of liquidity events for investments measured under the NAV practical expedient, but only if the investee has communicated this information or has announced it publicly. The provisions on new disclosures and modification to disclosure of Level 3 measurement uncertainty are to be applied prospectively, while all other provisions are to be applied retrospectively. The Company adopted ASU No. 2018-13 on January 1, 2020.

Related Party Guidance for VIEs—In November 2018, the FASB issued ASU No. 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*. The ASU amends the VIE guidance to align, throughout the VIE model, the evaluation of a decision maker's or service provider's fee held by a related party whether or not they are under common control, in both the assessment of whether a fee qualifies as a variable interest and the determination of a primary beneficiary. Specifically, a decision maker or service provider considers interests in a VIE held by a related party under common control only if it has a direct interest in the related party under common control and considers such indirect interest in the VIE held by the related party under common control on a proportionate basis, rather than its entirety. Transition is generally on a modified retrospective basis, with the cumulative effect adjusted to retained earnings at the beginning of the earliest period presented. The Company adopted ASU No. 2018-17 on January 1, 2020, with no transitional impact upon adoption.

Reference Rate Reform-In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The guidance in Topic 848 is optional, the election of which provides temporary relief for the accounting effects on contracts, hedging relationships and other transactions impacted by the transition from interbank offered rates (such as London Interbank Offered Rate, or LIBOR) that are expected to be discontinued by the end of 2021 to alternative reference rates (such as Secured Overnight Financing Rate, or SOFR). Modification of contractual terms to effect the reference rate reform transition on debt, leases, derivatives and other contracts is eligible for relief from modification accounting and accounted for as a continuation of the existing contract. Topic 848 is effective upon issuance through December 31, 2022, and may be applied retrospectively to January 1, 2020. The Company has elected to apply the hedge accounting expedients related to probability and assessment of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives, which preserves existing derivative treatment and presentation. The Company may elect other practical expedients or exceptions as applicable over time as reference rate reform activities occur.

Revised Significance Tests-In May 2020, the SEC issued a new rule regarding the financial statement requirements for acquisitions and dispositions of a business, which included, among other things, amending (i) certain criteria in the significance tests for acquired or to-be-acquired businesses, (ii) related pro forma financial information requirements, including its form and content, and (iii) related disclosure requirements, including the number of acquiree financial statement periods to be presented in SEC filings. The final rule is effective for fiscal years beginning after December 31, 2020, with early application permitted. The Company adopted this SEC final rule, effective October 1, 2020.

Future Application of Accounting Standards

Income Tax Accounting—In December 2019, the FASB issued ASU No. 2019-12, *Simplifying Accounting for Income Taxes*. The ASU simplifies accounting for income taxes by eliminating certain exceptions to the general approach in ASC 740, Income Taxes, and clarifies certain aspects of the guidance for more consistent application. The simplifications relate to intraperiod tax allocations when there is a loss in continuing operations and a gain outside of continuing operations, accounting for tax law or tax rate changes and year-to-date losses in interim periods, recognition of deferred tax liability for outside basis difference when investment ownership changes, and accounting for franchise taxes that are partially based on income. The ASU also provides new guidance that clarifies the accounting for transactions resulting in a step-up in tax basis of goodwill, among other changes. Transition is generally prospective, other than the provision related to outside basis difference which is on a modified retrospective basis with the cumulative effect adjusted to retained earnings at the beginning of the period adopted, and franchise tax provision which is on either full or modified retrospective. ASU No. 2019-12 is effective January 1, 2021, with early adoption permitted in an interim period, to be applied to all provisions. The Company adopted this on January 1, 2021 and does not expect that this will have a material impact.

Accounting for Certain Equity Investments—In January 2020, the FASB issued ASU No. 2020-01, *Clarifying the Interactions between Topic 321 Investments-Equity Securities, Topic 323-Investments Equity Method and Joint Ventures, and Topic 815-Derivatives and Hedging*. The ASU clarifies that if as a result of an observable transaction, an equity investment under the measurement alternative is transitioned into equity method and vice versa, an equity method investment is transitioned into measurement alternative, the investment is to be remeasured immediately before and after the transaction, respectively. The ASU also clarifies that certain forward contracts or purchased options to acquire equity securities that are not deemed to be derivatives or in-substance common stock will generally be measured using the fair value principles of ASC 321 before settlement or exercise, and that an entity should not be considering how it will account for the resulting investments upon eventual settlement or exercise. ASU No. 2020-01 is to be applied prospectively, effective January 1, 2021, with early adoption permitted in an interim period. The Company adopted this on January 1, 2021 and does not expect that this will have a material impact.

Accounting for Convertible Instruments and Contracts on Entity's Own Equity— In August 2020, the FASB issued ASU No. 2020-06, Debt—Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity. The ASU (1) simplifies an issuer’s accounting for convertible instruments as a single unit of account; (2) allows more contracts on an entity’s own equity to qualify for equity classification and more embedded derivatives meeting the derivative scope exception; and (3) simplifies diluted earnings per share (“EPS”) computation.

- The guidance eliminates the requirement to separate embedded conversion features in convertible instruments, except for (1) a convertible instrument that contains features requiring bifurcation as a derivative under ASC 815 or (2) a convertible debt instrument that was issued at a substantial premium.
- Under the new guidance, certain conditions under Subtopic ASC 815-40 that may result in contracts being settled in cash rather than shares and therefore preclude (1) equity classification for contracts on an entity's own equity; and (2) embedded derivatives from qualifying for the derivative scope exception, have been removed; for example, the requirement that equity contracts permit settlement in unregistered shares unless such contracts explicitly require settlement in cash if registered shares are unavailable. The guidance also clarifies that freestanding contracts on an entity's own equity that do not qualify for equity classification under the indexation criteria (ASC 815-4015) or settlement criteria (ASC 815-40-25) are to be measured at fair value through earnings, even if they do not meet the definition of a derivative under ASC 815.
- The ASU also amends certain guidance on computation of diluted EPS for convertible instruments and contracts on an entity's own equity that results in a more dilutive EPS, including (1) requiring the if converted method to be applied for all convertible instruments (the treasury stock method is no longer available), and (2) removing the ability to rebut the presumption of share settlement for contracts that may be settled in cash or stock and that are not liability classified share based payments.
- Expanded disclosures are required, including but not limited to, (1) terms and features of convertible instruments and contracts on entity's own equity; and (2) information about events, conditions, and circumstances that could affect amount or timing of future cash flows related to these instruments or contracts; and in the period of adoption (3) nature of and reason for the change in accounting principle; and (4) effects of the change on EPS.

Upon adoption, a one-time election may be made to apply the fair value option for any liability-classified convertible securities.

Adoption of the new standard may be made either on a full retrospective approach or a modified retrospective approach, with cumulative effect adjustment recorded to beginning retained earnings. ASU No. 2020-06 is effective January 1, 2022, with early adoption permitted on beginning January 1, 2021. The Company is currently evaluating the effects of this new guidance.

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):

	December 31, 2020				December 31, 2019			
	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
Fixed rate								
Mezzanine loans	$ 155,803	$ 155,225	12.8 %	4.0	$ 223,395	$ 222,503	12.8 %	4.2
Preferred equity interests	18,680	18,681	15.0 %	2.7	115,384	115,313	12.5 %	6.9
Other loans[2]	—	—	— %	0.0	12,572	12,448	15.0 %	4.4
	174,483	173,906			351,351	350,264		
Variable rate								
Senior loans	1,029,760	1,026,846	5.4 %	3.4	1,462,467	1,457,738	6.0 %	3.8
Securitized loans[3]	1,006,495	1,004,698	5.1 %	3.4	1,006,495	1,002,696	5.2 %	4.2
Mezzanine loans	12,000	12,120	11.5 %	1.7	38,110	38,258	11.4 %	2.0
Preferred equity interests	3,118	3,118	5.3 %	0.0	—	—	—	—
	2,051,373	2,046,782			2,507,072	2,498,692		
Loans and preferred equity held for investment	2,225,856	2,220,688			2,858,423	2,848,956		
Allowance for loan losses	NA	(37,191)			NA	(272,624)		
Loans and preferred equity held for investment, net	$ 2,225,856	$ 2,183,497			$ 2,858,423	$ 2,576,332		

(1) Calculated based on contractual interest rate.
(2) Includes one corporate term loan secured by the borrower's limited partnership interests in a fund at December 31, 2019.
(3) Represents loans transferred into securitization trusts that are consolidated by the Company.

As of December 31, 2020, the weighted average maturity, including extensions, of loans and preferred equity investments was 3.4 years.

The Company had $7.0 million and $9.8 million of interest receivable related to its loans and preferred equity held for investment, net as of December 31, 2020 and December 31, 2019, 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):

	Year Ended December 31,	
	2020	2019
Balance at January 1	$ 2,576,332	$ 2,020,497
Acquisitions/originations/additional funding	296,981	1,350,120
Loan maturities/principal repayments	(476,335)	(460,147)
Foreclosure of loans held for investment	—	(174,048)
Transfer to loans held for sale	(154,370)	(5,016)
Discount accretion/premium amortization	7,766	6,319
Capitalized interest	(1,446)	12,486
Provision for loan losses(1)	(85,744)	(220,572)
Effect of CECL adoption(2)	(20,847)	—
Charge-off	41,160	46,693
Balance at December 31	$ 2,183,497	$ 2,576,332

(1) Provision for loan losses includes $5.2 million for a loan that was subsequently transferred to held for sale during the second quarter of 2020 and the net provision recorded upon loan repayment totaling $2.7 million during the year ended December 31, 2020. Additionally, provision for loan losses excludes $0.8 million determined by the Company's PD/LGD model for unfunded commitments reported on the consolidated statement of operations, with a corresponding offset to other liabilities recorded on the Company's consolidated balance sheets.
(2) Calculated by the Company's PD/LGD model upon CECL adoption on January 1, 2020. See Note 2, "Summary of Significant Accounting Polices" for further details.

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. At December 31, 2020, all loans and preferred equity held for investment remained current on interest payments.

During the year ended December 31, 2020, the following loans within the Core Portfolio were resolved:

- The Company placed one loan secured by a hotel in Bloomington, Minnesota ("Midwest Hospitality") on nonaccrual status due to a borrower default during the fourth quarter of 2019. During the three months ended March 31, 2020, the Company recognized a $2.3 million provision for loan loss on the Midwest Hospitality loan to reflect the estimated fair value of the collateral, which was based on feedback from the sales process and the estimated value to be recovered from the borrower following a potential sale. The Company had been sweeping cash from the hotel to amortize the unpaid principal balance of the loan. During the three months ended September 30, 2020, the hotel property securing this loan was sold and the Company received $24.5 million in gross proceeds and concurrently provided a bridge loan in the amount of $19.5 million to a new borrower, secured by Midwest Hospitality.

- Additionally, the Company had a total $20.9 million allowance for loan losses recorded as of March 31, 2020, which included an $8.8 million allowance for loan losses resulting from the adoption of CECL and an additional $12.1 million provision for loan losses recognition during the three months ended March 31, 2020, on one loan secured by six suburban office buildings ("Northeast Office Portfolio"). During the three months ended September 30, 2020, the Company received gross proceeds of $80.7 million in a discounted payoff of the Northeast Office Portfolio which was equal to the carrying value of the loan, net of current provision for loan losses. As such, no additional provision for loan losses were required at September 30, 2020.

- Also, during the three months ended June 30, 2020 the Company classified one loan secured by a hospitality asset in San Diego, California ("West Hospitality") as held for sale and recognized a net loss of $32.8 million to reflect the expected proceeds to be collected in a sale of the loan. The Company had recorded a $5.2 million allowance for loan losses as of March 31, 2020, which included a $2.6 million allowance for loan losses resulting from the adoption of CECL and an additional $2.6 million provision for loan losses recognized for West Hospitality during the three months ended March 31, 2020. In connection with transferring the loan to held for sale during the current quarter, the Company reversed out the $5.2 million from provision for loan losses line item and recorded a $38.0 million in other loss, net. During the three months ended September 30, 2020, the West Hospitality loan was sold. The Company received $105.2 million in gross proceeds and recognized an additional loss of $1.5 million.

- Furthermore, the Company had a total $1.6 million allowance for loan losses recorded as of September 30, 2020, which included a $0.1 million allowance for loan losses resulting from the adoption of CECL and an additional $1.5 million provision for loan losses recognition recorded during the first and second quarters of 2020, on one loan secured by the borrowers limited partner interests in a fund ("Corporate Term loan"). During the three months ended December 31, 2020, the Company received gross proceeds of $12.1 million in a discounted payoff of the Corporate Term loan which was equal to the carrying value of the loan, net of current provision for loan losses.

During the year ended December 31, 2020, the following loans within the Legacy, Non-Strategic Portfolio were resolved:

- In March 2018, the borrower on the Company's four NY hospitality loans failed to make all required interest payments and the loans were placed on nonaccrual status. These four loans are secured by the same collateral. During 2018, the Company recorded $53.8 million of provision for loan losses to reflect the estimated value to be recovered from the borrower following a sale. During 2019, the Company recorded an additional provision for loan loss of $154.3 million based on significant deterioration in the NY hospitality market, feedback from the sales process and the estimated value to be recovered from the borrower following a potential sale. During the three months ended March 31, 2020, the significant detrimental impact of COVID-19 on the U.S. hospitality industry further contributed to the deterioration of the Company's four NY hospitality loans and as such the Company recorded an additional provision for loan losses of $36.8 million. During the three months ended June 30, 2020, the Company completed a discounted payoff of the NY hospitality loans and related investment interests.

- The Company placed one loan secured by a regional mall ("Midwest Regional Mall") on nonaccrual status during 2019 as collectability of the principal was uncertain; as such, interest collected is recognized using the cost recovery method by applying interest collected as a reduction to loan carrying value. The Company recorded $10.6 million of impairment related to Midwest Regional Mall and transferred the loan to held for sale during 2019. During the three months ended June 30, 2020, the Midwest Regional Mall was sold. The Company received $8.3 million in gross proceeds and recognized a gain of $3.7 million.

- During 2018, the Company recorded $8.8 million of provision for loan losses on one loan secured by a regional mall ("Northeast Regional Mall B") to reflect the estimated fair value of the collateral. During 2019, the Company recognized additional provision for loan losses of $10.5 million on Northeast Regional Mall B. The additional provisions were based on then-current and prospective leasing activity to reflect the estimated fair value of the collateral. During the three months ended March 31, 2020, the Northeast Regional Mall was sold. The Company received $9.2 million in gross proceeds and recognized a gain of $1.8 million.

- Also, during 2019, the Company separately recognized provision for loan losses of $18.5 million on two loans secured by one regional mall ("West Regional Mall") to reflect the estimated fair value of the collateral. During the three months ended June 30, 2020, the West Regional Mall loan was sold. The Company received $23.5 million in gross proceeds and recognized a gain of $6.5 million.

- Furthermore, during 2019, the Company recognized a $26.7 million provision for loan losses on three loans to two separate borrowers ("South Regional Mall A" and "South Regional Mall B") to reflect the estimated fair value of the collateral. During the three months ended March 31, 2020, the Company accepted a discounted payoff of South Regional Mall A. The Company received $22.0 million in gross proceeds and recognized a loss of $1.6 million. Additionally, during the three months ended March 31, 2020, South Regional Mall B was sold. The Company received $13.5 million in gross proceeds and recognized a gain of $8.7 million.

The following table provides an aging summary of loans and preferred equity held for investment at carrying values before allowance for loan losses, if any (dollars in thousands):

	Current or Less Than 30 Days Past Due	30-59 Days Past Due(1)	60-89 Days Past Due	90 Days or More Past Due(2)	Total Loans
December 31, 2020	$ 2,220,688	$ —	$ —	$ —	$ 2,220,688
December 31, 2019	2,558,505	32,322	—	258,129	2,848,956

(1) At December 31, 2019, 30-59 days past due includes one loan (Midwest Hospitality) that was placed on nonaccrual status during the fourth quarter of 2019 following a borrower default. During the year ended December 31, 2020, Midwest Hospitality was repaid in a discounted payoff at which time the Company provided a bridge loan totaling $19.5 million to a new borrower.
(2) At December 31, 2019, 90 days or more past due loans includes four NY hospitality loans to the same borrower and secured by the same collateral with combined carrying value before allowance for loan losses of $258.1 million on nonaccrual status. All other loans in this table remain current on interest payments. The Company completed a discounted payoff of the four NY hospitality loans in April 2020.

Impaired Loans - 2019

Loans are identified as impaired when it is no longer probable that interest or principal will be collected according to the contractual terms of the original loan agreement. Impaired loans include predominantly loans under nonaccrual, performing and nonperforming TDRs, as well as loans in maturity default. The following table presents impaired loans at December 31, 2019 (dollars in thousands):

		Gross Carrying Value			
	Unpaid Principal Balance(1)	With Allowance for Loan Losses(2)	Without Allowance for Loan Losses	Total(2)	Allowance for Loan Losses
December 31, 2019	$ 408,058	$ 377,421	$ 32,322	$ 409,743	$ 272,624

(1) Includes four NY hospitality loans to the same borrower and secured by the same collateral with combined unpaid principal balance of $257.2 million and gross carrying value of $258.1 million on nonaccrual status. All other loans included in this table remain current on interest payments. The Company completed a discounted payoff of the four NY hospitality loans in April 2020.
(2) Includes unpaid principal balance plus any applicable exit fees less net deferred loan fees.

Upon adoption of ASU 2016-13 the incurred loss model has been replaced with a lifetime current expected credit loss model for the Company's loans carried at amortized cost, and as such all loans in the Company's portfolio maintain an allowance for loan losses at December 31, 2020. See Note 2, "Summary of Significant Accounting Policies—Accounting Standards Adopted in 2020—Credit Losses" for further details.

The average carrying value and interest income recognized on impaired loans were as follows (dollars in thousands):

	Year Ended December 31,	
	2019	2018
Average carrying value before allowance for loan losses	$ 434,343	$ 463,043
Interest income	11,469	21,105

Allowance for Loan Losses

As of December 31, 2019, the allowance for loan losses was $272.6 million related to $409.7 million in carrying value of loans.

Changes in allowance for loan losses on loans are presented below (dollars in thousands):

	Year Ended December 31,		
	2020	2019	2018
Allowance for loan losses at beginning of period	$ 272,624	$ 109,328	$ 517
Effect of CECL adoption(1)	21,093	—	—
Provision for loan losses(2)	85,497	220,572	109,328
Charge-off	(41,160)	(46,693)	—
Recoveries	—	—	(517)
Transfer to loans held for sale(4)	(300,863)	(10,583)	—
Allowance for loan losses at end of period(3)	$ 37,191	$ 272,624	$ 109,328

(1) Calculated by the Company's PD/LGD model upon CECL adoption on January 1, 2020. See Note 2, "Summary of Significant Accounting Policies" for further details.
(2) Provision for loan losses includes $5.2 million for a loan that was subsequently transferred to held for sale during the second quarter of 2020 and net provision recorded upon loan repayment totaling $2.7 million during the year ended December 31, 2020. Additionally, provision for loan losses excludes $0.8 million determined by the Company's PD/LGD model for unfunded commitments reported on the consolidated statement of operations, with a corresponding offset to other liabilities recorded on the Company's consolidated balance sheets.
(3) At December 31, 2020, includes $37.2 million related to the Company's PD/LGD model.
(4) At December 31, 2020, the Company did not classify any of its loans as held for sale.

Loans and Preferred Equity Held for Sale

At December 31, 2020, the Company did not classify any of its loans as held for sale. At December 31, 2019, the Company classified $5.0 million of loans and preferred equity as held for sale. There were no assets held for sale that constituted discontinued operations as of December 31, 2020 and December 31, 2019.

Credit Quality Monitoring

Loan and preferred equity investments are typically loans 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 loan and preferred equity investments 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 December 31, 2020, there were no loans and preferred equity investments past due and all loans were performing in accordance with the contractual terms of their governing documents and were categorized as performing loans. There were five loans held for investment with contractual payments past due as of December 31, 2019. For the year ended December 31, 2020, no debt investment contributed more than 10.0% of interest income.

The following table provides a summary by carrying values before any allowance for loan losses of the Company's loans and preferred equity held for investment by year of origination and credit quality risk ranking (dollars in thousands). Refer to Note 2, "Summary of Significant Accounting Policies—Accounting Standards Adopted in 2020—Credit Losses" for loans risk ranking definitions.

	2020	2019	2018	2017	2016	Prior	Total
Senior loans							
Risk Rankings:							
3	$ 176,851	$ 344,871	$ 260,391	$ 33,645	$ —	$ —	$ 815,758
4	—	812,255	403,531	—	—	—	1,215,786
Total Senior loans	176,851	1,157,126	663,922	33,645	—	—	2,031,544
Mezzanine loans							
Risk Rankings:							
4	—	92,261	62,964	12,120	—	—	167,345
Total Mezzanine loans	—	92,261	62,964	12,120	—	—	167,345
Preferred equity interests and other							
Risk Rankings:							
4	3,118	—	18,681	—	—	—	21,799
Total Preferred equity interests and other	3,118	—	18,681	—	—	—	21,799
Total Loans and preferred equity held for investment	$ 179,969	$ 1,249,387	$ 745,567	$ 45,765	$ —	$ —	$ 2,220,688

The Company considers several risk factors when assigning its risk ranking each quarter. Throughout 2020, average risk ranking was impacted by the current and potential future effects of the COVID-19 pandemic, resulting in a number of assets moving from average risk (3) to high risk (4).

For the three months ended December 31, 2020, the Company believes the extended impact of the COVID-19 pandemic remains uncertain, and therefore continues to represent a significant risk to the Company's portfolio. As such, the year-end average rating is 3.7, which is consistent with the Company's average risk ranking throughout 2020.

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 December 31, 2020, assuming the terms to qualify for future advances, if any, had been met, total gross unfunded lending commitments were $163.0 million. Refer to Note 17, "Commitments and Contingencies" for further details. At December 31, 2020, the Company recorded a $1.3 million allowance for lending commitments in accrued and other liabilities on its consolidated balance sheets in accordance with the credit losses accounting standard No. 2016-13. See Note 2, "Summary of Significant Accounting Policies" for further details.

4. Investments in Unconsolidated Ventures

Summary

The Company's investments in unconsolidated ventures represent noncontrolling equity interests in various entities, as follows (dollars in thousands):

	December 31, 2020	December 31, 2019
Equity method investments	$ 366,481	$ 585,022
Investments under fair value option	6,883	10,283
Investments in Unconsolidated Ventures	$ 373,364	$ 595,305

Equity Method Investments

Investment Ventures

Certain of the Company's equity method investments are structured as joint ventures with one or more private funds or other investment vehicles managed by Colony Capital with third party joint venture partners. These investment entities are generally capitalized through equity contributions from the members, although certain investments are leveraged through various financing arrangements.

The assets of the equity method investment entities may only be used to settle the liabilities of these entities and there is no recourse to the general credit of the Company nor the other investors for the obligations of these investment entities. Neither the Company nor the other investors are required to provide financial or other support in excess of their capital commitments. The Company's exposure to the investment entities is limited to its equity method investment balance as of December 31, 2020 and December 31, 2019, respectively.

The Company's investments accounted for under the equity method are summarized below (dollars in thousands):

		Carrying Value	
Investments	**Description**	**December 31, 2020**	**December 31, 2019**
ADC investments(1)(2)(3)	Interests in three acquisition, development and construction loans in which the Company participates in residual profits from the projects, and the risk and rewards of the arrangements are more similar to those associated with investments in joint ventures	$ 57,481	$ 59,576
Other investment ventures(1)(4)	Interests in six investments, each with less than $133.8 million carrying value at December 31, 2020	309,000	525,446

(1) The Company's ownership interest in ADC investments and other investment ventures varies and represents capital contributed to date and may not be reflective of the Company's economic interest in the entity because of provisions in operating agreements governing various matters, such as classes of partner or member interests, allocations of profits and losses, preferential returns and guaranty of debt. Each equity method investment has been determined to be a VIE for which the Company was not deemed to be the primary beneficiary or a voting interest entity in which the Company does not have the power to control through a majority of voting interest or through other arrangements.

(2) The Company owns varying levels of stated equity interests in certain ADC investments, as well as profit participation interests in real estate ventures without a stated ownership interest in other ADC investments.

(3) Includes two investments with a carrying value of $57.5 million that were contributed to a preferred financing arrangement. See Note 13, "Noncontrolling Interests," for further information.

(4) Includes four investments with a carrying value of $194.9 million that were contributed to a preferred financing arrangement. See Note 13, "Noncontrolling Interests," for further information.

Impairment

Within the Company's Legacy, Non-Strategic Portfolio:

- During 2019, the Company recognized its proportionate share of impairment loss totaling $14.7 million on one senior loan secured by a regional mall ("Southeast Regional Mall"). Southeast Regional Mall was sold during the three months ended March 31, 2020 and the Company received $13.4 million in gross sales proceeds and recognized a gain of $1.6 million.
- Also during 2019, the Company recorded its proportionate share of impairment loss totaling $16.1 million on two loans and an equity partnership interest secured by residential development projects as a result of revised property sales expectations.

The impairment recorded on each of these investments is included in equity in earnings of unconsolidated ventures on the Company's consolidated statements of operations.

Within the Company's Core Portfolio:

During 2019 the Company recorded a $17.6 million impairment loss related to an equity participation interest in a joint venture to reflect the estimated fair value of the collateral. During the three months ended June 30, 2020 the Company sold the related preferred equity investment at par and included one-third of the Company's equity participation in the sale and recognized a loss of $10.1 million. This is included in other loss, net on the Company's consolidated statements of operations.

Fair Value Measurement

At January 1, 2020, for loans and preferred equity investments included in the Company's equity method investments, the fair value option was elected. Under the fair value option, loans and preferred equity investments are measured each reporting period based on their exit values in an orderly transaction. Fair value adjustments recorded on each of these investments is included in equity in earnings of unconsolidated ventures on the Company's consolidated statements of operations.

Within the Company's Core Portfolio:

- The Company's mezzanine loan and preferred equity investment in a development project in Los Angeles County, which includes a hospitality and retail renovation and a new condominium tower construction (the "Mixed-use Project"), was converted into a mezzanine participation during the three months ended September 30, 2020. The Company's investment was made through a joint venture with affiliates of the Company's Manager (the "Colony Mezzanine Lender") in the form of a $574.0 million commitment to the Mixed-use Project, of which the Company's proportionate share of the commitment is $189.0 million.

  In April 2020, the senior mortgage lender notified the borrower developer that the Mixed-use Project loan funding was over budget, due to cost overruns from certain hard and soft costs and senior loan interest reserve shortfalls projected through completion. As a result, during the second quarter of 2020, the Company and its affiliates made two protective advances to the senior mortgage lender totaling $69.1 million, of which the Company's proportionate share was $28.5 million. During the three months ended June 30, 2020, the Company placed the mezzanine loan and preferred equity investment on nonaccrual status.

  In June 2020, the senior mortgage lender sought a third protective advance of $15.5 million of which the Company's proportionate share would have been $7.0 million. While the Company and its affiliates did not fund its proportionate share, the senior mortgage lender funded the full amount of the required June advances. The senior mortgage lenders funding did not relieve the Company and its affiliates from its commitment to fund. As a result during the three months ended June 30, 2020, the Mixed-use Project's recorded fair value losses totaling $250.0 million. The Company recognized its proportionate share of fair value losses equaling $89.3 million. The Mixed-use Project's fair value was based on a weighted average probability analysis of potential resolutions based on a number of factors which included the maturity default of the loan, cost overruns, COVID-19 related delays, lack of funding by the borrower and recent negotiations with the senior lender, the borrower and potential sources of additional mezzanine financing.

  In September 2020, in cooperation with the borrower and the EB-5 lender, the Colony Mezzanine Lender and senior mortgage lender secured $275 million of additional mezzanine financing from a third-party mezzanine lender (the "Senior Mezzanine Lender"). To consummate the new mezzanine financing, the Colony Mezzanine Lender simplified its investment interest by converting its existing preferred equity principal and accrued interest into the existing mezzanine loan, transferred the mezzanine loan to the Senior Mezzanine Lender, who subsequently increased the mezzanine loan amount by $275 million to a $821 million total mezzanine loan (the "Upsized Mezzanine Loan"). The Senior Mezzanine Lender holds a $275 million A-participation and the Colony Mezzanine Lender (including the Company's interest) continues to hold a $546 million B-participation interest in the Upsized Mezzanine Loan at the Mixed-use Project.

  Having recently completed the Upsized Mezzanine Loan refinancing, among other factors, for the three months ended September 30, 2020 and December 31, 2020, the Company continues to maintain the nonaccrual status and fair value loss adjustment on the proportionate share of the Colony Mezzanine Lender's B-participation investment.

- Also, during the three months ended June 30, 2020, the Company recognized its proportionate share of fair value losses totaling $7.0 million on one mezzanine loan secured by a mixed-use development project ("West Mixed-use"). West Mixed-use's decrease in fair value is a result of revised sale expectations. The Company previously placed West Mixed-use on nonaccrual status in January 2020.

- Additionally, the Company holds a $189.6 million co-lender interest (61%) in a senior mortgage loan in the amount of $310.9 million. The Company's investment interests are held through a joint venture that includes private investment vehicles managed by Colony Capital (the "Colony Senior Lenders"). The senior mortgage is Euro-denominated and is for a fully entitled land acquisition for a mixed-use development project in Dublin, Ireland (Project Dockland).

The land has planning permission for 420 apartments and approximately 380,000 square feet of offices, but the project borrower has applied for planning permission to increase these numbers to approximately 1,000 total residential units across two towers of 40 and 44 stories and 540,000 square feet of offices. These applications are currently under review by the planning authorities. Pre-letting discussions are ongoing in respect to the office building.

While the Project Dockland schedule had been extended by approximately six to nine months, as previously disclosed, the majority of enabling works commenced in July 2020 and were on track to be completed in January 2021. The enabling works are currently on hold due to new restrictions (closure of construction sites) imposed by the Irish government in early January 2021 and such restrictions are expected to last through at least through February 2021. The aforementioned delay and/or further delays may limit the ability of the borrower to obtain a senior secured development construction facility within the expected timeline as initially underwritten. The Company and its senior mortgage co-lenders regularly engage in discussions with the borrower to address continuing developments at the project.

The combination of project delays, the permitting process and uncertain market conditions as a result of COVID-19 (including adverse impacts on demand for office and residential space), continue to negatively impact the Colony Senior Lenders' investment interest and elevated concerns regarding the ability to secure an anchor tenant and realize the full amount of the existing senior mortgage loan. During the three months ended September 30, 2020, the Company placed the senior mortgage loan on nonaccrual status. During the three months ended December 31, 2020, the Company continues to maintain nonaccrual status and recorded its proportionate share of a fair value loss adjustment totaling $64.0 million, of which $57.7 million was allocated to the Company and $6.4 million was allocated to the Company's partner in the "*5-Investment Preferred Financing.*" Refer to "Liquidity and Capital Resources" section for further discussion.

Project Dockland's fair value was based on a weighted average probability analysis of potential resolutions based on a number of factors which included the inability to secure an anchor tenant in a timely manner or at all, the lack of clarity around the timing of entitlements and continuing uncertain market conditions as a result of COVID-19. The loan's initial maturity date was December 31, 2020, and we have extended the loan to June 2021. The Company is working with the borrower and evaluating options, however uncertainties regarding development, permitting, leasing, and exit strategies may continue to impact the investment.

During the second quarter of 2020, the Company completed an asset level preferred financing on five assets which included Project Dockland.

Refer to "Potential Sources of Liquidity" in "Liquidity and Capital Resources" for further discussion regarding the COVID-19 pandemic and its impact on our future operating results, liquidity and financial condition.

Investments under Fair Value Option

Private Funds

The Company elected to account for its limited partnership interests, which range from 1.0% to 17.4%, in PE Investments under the fair value option. The Company records equity in earnings for these investments based on a change in fair value of its share of projected future cash flows.

During the three months ended March 31, 2020, the Company received the final $1.8 million in proceeds related to the sale of its PE Investments.

Investments in Unconsolidated Ventures Held for Sale

During the fourth quarter of 2020, the Company accepted a discounted payoff on one investment in an unconsolidated venture secured by a land development loan ("West Land Development Loan") in its Legacy, Non-Strategic Portfolio with a carrying value of $11.0 million. In connection with this, the Company recognized a $2.6 million realized loss.

5. Real Estate Securities, Available for Sale

Investments in CRE Securities

CRE securities are composed of CMBS backed by a pool of CRE loans which are typically well-diversified by type and geography. The following table presents CMBS investments as of December 31, 2020 and December 31, 2019 (dollars in thousands):

					Cumulative Unrealized on Investments			Weighted Average	
As of Date:	Count	Principal Amount(1)	Total Discount	Amortized Cost	Gain	(Loss)	Fair Value	Coupon(2)	Unleveraged Current Yield(3)
December 31, 2020	2	$ 19,560	$ (9,371)	$ 10,189	$ 200	$ —	$ 10,389	3.35 %	— %
December 31, 2019	43	292,284	(55,981)	236,303	17,084	(563)	252,824	3.19 %	7.12 %

(1) CRE securities serve as collateral for financing transactions for the CMBS Credit Facilities (refer to Note 9, "Debt," for further detail). As of December 31, 2020, the Company has fully repaid its CMBS Credit Facility.
(2) All CMBS are fixed rate.
(3) The Company placed all of its CRE securities on cost recovery status as of April 1, 2020.

Consistent with the overall market, the Company's CRE securities, which it marks to fair value, lost significant value since the onset of the COVID-19 pandemic. While the company will evaluate selling its investment grade and non-investment grade rated CRE securities over the next twelve months, it is more likely than not that the company will sell before recovery. During the year ended December 31, 2020, the Company wrote down through earnings the amortized cost basis for securities in which the fair value dropped below the amortized cost basis, realizing a loss of $32.6 million. The loss is recorded in other gain (loss), net on the Company's consolidated statements of operations.

During the year ended December 31, 2020, the Company sold 41 CRE securities for a total gross sales price of $149.6 million and recognized a net loss of $42.2 million. The loss is recorded in other gain (loss), net on the Company's consolidated statements of operations. In connection with these sales, the Company fully repaid $104.0 million of debt on its CMBS Credit Facility. At December 31, 2020 the Company has two remaining CRE securities, which are on cost recovery, and as a result has ceased accretion of any discounts to expected maturity and applied any cash interest received against the CRE securities' carrying value. This decision was made given the inability to project future cash flows.

The Company recorded an unrealized loss in OCI of $16.3 million for the year ended December 31, 2020 and an unrealized gain in OCI of $17.8 million for the year ended December 31, 2019. As of December 31, 2020, the Company did not hold any securities in an unrealized loss position.

As of December 31, 2020, the weighted average contractual maturity of CRE securities was 28.4 years with an expected maturity of 5.5 years.

The Company had $0.7 million of interest receivable related to its real estate securities, available for sale as of December 31, 2019. This is included in receivables, net on the Company's consolidated balance sheets.

Investments in Investing VIEs

The Company is the directing certificate holder of two securitization trusts and has the ability to appoint and replace the special servicer on all mortgage loans. As such, U.S. GAAP requires the Company to consolidate the assets, liabilities, income and expenses of the securitization trusts as Investing VIEs. Refer to Note 2, "Summary of Significant Accounting Policies" for further discussion on Investing VIEs.

In July 2019, the Company sold its retained investments in the subordinate tranches of one securitization trust for $33.4 million in total proceeds. As a result of the sale, the Company deconsolidated one of the securitization trusts with gross assets and liabilities of approximately $1.2 billion and $1.2 billion, respectively.

Other than the securities represented by the Company's subordinate tranches of the securitization trusts, the Company does not have any claim to the assets or exposure to the liabilities of the securitization trusts. The original issuers, who are unrelated third parties, guarantee the interest and principal payments related to the investment grade securitization bonds in the securitization trusts, therefore these obligations do not have any recourse to the general credit of the Company as the consolidator of the securitization trusts. The Company's maximum exposure to loss would not exceed the carrying value of its retained investments in the securitization trusts, or the subordinate tranches of the securitization trusts.

As of December 31, 2020, the mortgage loans and the related mortgage obligations held in the securitization trusts had an unpaid principal balance of $1.7 billion and $1.6 billion, respectively. As of December 31, 2019, the mortgage loans and the related mortgage obligations held in the securitization trusts had an unpaid principal balance of $1.8 billion and $1.6 billion, respectively. As of December 31, 2020, across the two consolidated securitization trusts, the underlying collateral consisted of 114 underlying commercial mortgage loans, with a weighted average coupon of 4.5% and a weighted average loan to value ratio of 60.0%.

The following table presents the assets and liabilities recorded on the consolidated balance sheets attributable to the securitization trust as of December 31, 2020 and December 31, 2019 (dollars in thousands):

	December 31, 2020	December 31, 2019
Assets		
Mortgage loans held in a securitization trust, at fair value	$ 1,768,069	$ 1,872,970
Receivables, net	6,644	7,020
Total assets	$ 1,774,713	$ 1,879,990
Liabilities		
Mortgage obligations issued by a securitization trust, at fair value	$ 1,708,534	$ 1,762,914
Accrued and other liabilities	6,119	6,267
Total liabilities	$ 1,714,653	$ 1,769,181

The Company elected the fair value option to measure the assets and liabilities of the securitization trusts, which requires that changes in valuations of the securitization trusts be reflected in the Company's consolidated statements of operations.

The difference between the carrying values of the mortgage loans held in securitization trusts and the carrying value of the mortgage obligations issued by securitization trusts was $59.5 million and $110.1 million as of December 31, 2020 and December 31, 2019, respectively, and approximates the fair value of the Company's retained investments in the subordinate tranches of the securitization trusts, which are eliminated in consolidation. Refer to Note 14, "Fair Value" for a description of the valuation techniques used to measure fair value of assets and liabilities of the Investing VIEs.

The below table presents net income attributable to the Company's common stockholders for the years ended December 31, 2020, 2019 and 2018 generated from the Company's investments in the subordinate tranches of the securitization trusts (dollars in thousands):

	Year Ended December 31,		
	2020	2019	2018[(1)]
Statement of Operations			
Interest expense	$ (427)	$ (957)	$ —
Interest income on mortgage loans held in securitization trusts	92,461	120,203	143,371
Interest expense on mortgage obligations issued by securitization trusts	(83,952)	(109,964)	(132,411)
Net interest income	8,082	9,282	10,960
Administrative expense	(1,476)	(1,114)	(1,528)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	(50,521)	4,090	5,003
Realized gain on mortgage loans and obligations held in securitization trusts, net	—	2,772	(3,447)
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	$ (43,915)	$ 15,030	$ 10,988

(1) The net income attributable to the Company's stockholders for the year ended December 31, 2018 reflects eleven months of activity, as the Company's investments in the subordinate tranches of the securitization trusts were acquired from NorthStar I and NorthStar II in the Combination on February 1, 2018.

6. Real Estate, net and Real Estate Held for Sale

The following table presents the Company's net lease portfolio, net, as of December 31, 2020, and December 31, 2019 (dollars in thousands):

	December 31, 2020	December 31, 2019
Land and improvements	$ 134,180	$ 209,693
Buildings, building leaseholds, and improvements	503,648	899,889
Tenant improvements	15,897	25,077
Construction-in-progress	3,144	415
Subtotal	$ 656,869	$ 1,135,074
Less: Accumulated depreciation	(46,214)	(63,995)
Less: Impairment(1)	—	(23,911)
Net lease portfolio, net	$ 610,655	$ 1,047,168

(1) See Note 14, "Fair Value," for discussion of impairment of real estate.

The following table presents the Company's portfolio of real estate included in its Legacy, Non-Strategic Portfolio, including foreclosed properties, as of December 31, 2020 and December 31, 2019 (dollars in thousands):

	December 31, 2020	December 31, 2019
Land and improvements	$ 55,526	$ 91,997
Buildings, building leaseholds, and improvements	328,837	536,046
Tenant improvements	25,345	38,230
Furniture, fixtures and equipment	4,245	3,183
Construction-in-progress	1,398	6,325
Subtotal	$ 415,351	$ 675,781
Less: Accumulated depreciation	(35,942)	(46,079)
Less: Impairment(1)	(150,807)	(192,074)
Other portfolio, net	$ 228,602	$ 437,628

(1) See Note 14, "Fair Value," for discussion of impairment of real estate.

For the year ended December 31, 2020, the Company had no properties with rental and other income equal to or greater than 10.0% of total revenue.

At December 31, 2020 and December 31, 2019, the Company held foreclosed properties which are included in real estate, net with a carrying value of $26.2 million and $50.7 million, respectively. The Company held no foreclosed properties in assets held for sale at December 31, 2020. At December 31, 2019, the Company held foreclosed properties in assets held for sale of $57.9 million.

Depreciation Expense

Depreciation expense on real estate was $41.7 million, $72.9 million and $56.3 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Property Operating Income

For the year ended December 31, 2018, property operating income was composed of $160.7 million of total lease revenue and $17.5 million of hotel operating income, respectively. For the year ended December 31, 2020 and December 31, 2019 the components of property operating income were as follows (dollars in thousands):

	Year Ended December 31, 2020	Year Ended December 31, 2019
Lease revenues(1)		
Minimum lease revenue	$ 146,700	$ 180,734
Variable lease revenue	22,197	24,419
	$ 168,897	$ 205,153
Hotel operating income	5,720	45,898
	$ 174,617	$ 251,051

(1) Excludes net amortization expense related to above and below-market leases of $2.0 million and income of $2.5 million for the year ended December 31, 2020, respectively. Excludes net amortization expense related to above and below-market leases of $4.2 million and $7.1 million for the year ended December 31, 2019, respectively.

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 December 31, 2020 (dollars in thousands):

2021	$	77,716
2022		73,760
2023		66,137
2024		60,657
2025		55,152
2026 and thereafter		393,964
Total[(1)]	$	727,386

(1) Excludes minimum future rents for real estate that is classified as held for sale totaling $103.6 million through 2050.

The following table presents approximate future minimum rental income under noncancellable operating leases to be received over the next five years and thereafter as of December 31, 2019 (dollars in thousands):

2020	$	120,967
2021		113,170
2022		102,314
2023		85,367
2024		71,714
2025 and thereafter		448,812
Total	$	942,344

The rental properties owned at December 31, 2020 are leased under noncancellable operating leases with current expirations ranging from 2020 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.

Lease Concessions Related to COVID-19

As a result of the COVID-19 crisis, some tenants sought more flexible payment terms and the Company is currently engaged with affected tenants on a case-by-case basis to evaluate and respond to the current environment. For lease concessions resulting directly from the impact of COVID-19 that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee, for example, where total payments required by the modified contract will be substantially the same as or less than the original contract, the Company made a policy election to account for the concessions as though the enforceable rights and obligations for those concessions existed in the lease contracts, under a relief provided by the FASB. Under the relief, the concessions will not be treated as lease modifications that are accounted for over the remaining term of the respective leases, as the Company believes this would not accurately reflect the temporary economic effect of the concessions. Instead, (i) rent deferrals that meet the criteria will be treated as if no changes were made to the lease contract, with continued recognition of lease income and receivables under the original terms of the contract; and (ii) rent forgiveness that meets the criteria will be accounted for as variable lease payments in the affected periods.

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 2055. Rents on certain ground leases are paid directly by the tenants. Ground rent expense for the years ended December 31, 2020, 2019 and 2018 was $3.2 million, $3.1 million and $2.8 million, respectively.

Refer to Note 17, "Commitments and Contingencies" for the details of future minimum rental payments on noncancellable ground lease on real estate as of December 31, 2020.

Real Estate Asset Acquisitions

The following table summarizes the Company's real estate asset acquisitions for the year ended December 31, 2019 (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)	Furniture, Fixtures and Equipment	Lease Intangible Assets(2)	Other Assets	Other Liabilities
Year Ended December 31, 2019									
June	Retail - Massachusetts(3)	3	$ 21,919	$ 9,294	$ 6,598	$ —	$ 5,256	$ 1,538	$ (767)
January	Various - in U.S.(3)	28	105,437	38,145	66,413	—	879	3,223	(3,223)
			$ 127,356	$ 47,439	$ 73,011	$ —	$ 6,135	$ 4,761	$ (3,990)

(1) Dollar amounts of purchase price and allocation to assets acquired and liabilities assumed are translated using foreign exchange rate as of the respective dates of acquisitions, where applicable.
(2) Useful life of real estate acquired is 4 to 33 years for buildings, 1 to 20 years for site improvements, 1 to 27 years for tenant improvements, 5 to 7 years for furniture, fixtures and equipment, and 1 to 27 years for lease intangibles.
(3) Represents assets acquired by the Company through foreclosure.

The Company did not have any real estate acquisitions in 2020.

Real Estate Held for Sale

The following table summarizes the Company's assets and related liabilities held for sale related to real estate (dollars in thousands):

	December 31, 2020	December 31, 2019
Assets		
Real estate, net	$ 314,817	$ 178,564
Deferred leasing costs and intangible assets, net	8,539	5,890
Total assets held for sale	$ 323,356	$ 184,454
Liabilities		
Intangible liabilities, net	$ 323	$ 294
Total liabilities related to assets held for sale	$ 323	$ 294

During the year ended December 31, 2020, the Company classified one portfolio in its Net Leased Real Estate and one property in its Legacy, Non-Strategic Portfolio as held for sale.

There were no assets held for sale that constituted discontinued operations as of December 31, 2020 and December 31, 2019.

Real Estate Sales

During the year ended December 31, 2020, the Company completed the sale of 35 properties. Sales included 34 office, multifamily, retail, student housing, manufactured housing, hotel and industrial properties included in the Company's Legacy, Non-Strategic Portfolio for a total gross sales price of $344.6 million and a total loss on sale of $7.8 million. In addition, there was one sale of an industrial portfolio in the Company's Core Portfolio for a total gross sales price of $131.4 million and a total gain on sale of $9.3 million.

The real estate sold during the year ended December 31, 2020 did not constitute discontinued operations.

Subsequent to December 31, 2020, the Company completed the sale of an industrial portfolio in its Core Portfolio. Refer to Note 20, "Subsequent Events" for further detail on additional real estate sales.

7. 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 December 31, 2020 and December 31, 2019 are as follows (dollars in thousands):

	December 31, 2020		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Deferred Leasing Costs and Intangible Assets			
In-place lease values	$ 83,239	$ (28,558)	$ 54,681
Deferred leasing costs	29,052	(11,860)	17,192
Above-market lease values	10,468	(6,641)	3,827
	$ 122,759	$ (47,059)	$ 75,700
Intangible Liabilities			
Below-market lease values	$ 16,149	$ (8,492)	$ 7,657

	December 31, 2019		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Deferred Leasing Costs and Intangible Assets			
In-place lease values	$ 115,139	$ (39,093)	$ 76,046
Deferred leasing costs	42,345	(13,637)	28,708
Above-market lease values	14,318	(6,310)	8,008
	$ 171,802	$ (59,040)	$ 112,762
Intangible Liabilities			
Below-market lease values	$ 32,652	$ (10,503)	$ 22,149

The following table summarizes the amortization of deferred leasing costs, intangible assets and intangible liabilities for the years ended December 31, 2020, 2019 and 2018 (dollars in thousands):

	Year Ended December 31,		
	2020	2019	2018
Above-market lease values	$ (2,400)	$ (4,172)	$ (4,277)
Below-market lease values	2,815	7,076	4,329
Net increase to property operating income	$ 415	$ 2,904	$ 52
Below-market ground lease obligations(1)	$ —	$ —	$ 8
Increase to property operating expense	$ —	$ —	$ 8
In-place lease values	$ 12,045	$ 21,445	$ 27,239
Deferred leasing costs	5,968	8,400	7,343
Other intangibles	62	450	134
Amortization expense	$ 18,075	$ 30,295	$ 34,716

(1) Upon adopting the standard of ASU No. 2016-02, Leases on January 1, 2019 the below-market ground lease obligations are included in right-of-use lease assets.

The following table presents the amortization of deferred leasing costs, intangible assets and intangible liabilities, excluding those related to assets and liabilities held for sale, for each of the next five years and thereafter as of December 31, 2020 (dollars in thousands):

	2021	2022	2023	2024	2025	2026 and thereafter	Total
Above-market lease values	$ 1,331	$ 1,074	$ 584	$ 456	$ 278	$ 104	$ 3,827
Below-market lease values	(1,433)	(1,386)	(1,379)	(1,377)	(1,375)	(707)	(7,657)
Net increase (decrease) to property operating income	$ (102)	$ (312)	$ (795)	$ (921)	$ (1,097)	$ (603)	$ (3,830)
In-place lease values	$ 6,907	$ 6,181	$ 5,333	$ 5,033	$ 4,348	$ 26,879	$ 54,681
Deferred leasing costs	3,264	2,802	2,240	1,933	1,548	5,405	17,192
Amortization expense	$ 10,171	$ 8,983	$ 7,573	$ 6,966	$ 5,896	$ 32,284	$ 71,873

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

The following table presents a summary of restricted cash as of December 31, 2020 and December 31, 2019 (dollars in thousands):

	December 31, 2020	December 31, 2019
Restricted cash:		
Borrower escrow deposits	$ 36,973	$ 74,496
Real estate escrow reserves	13,807	18,020
Capital expenditure reserves	6,949	8,882
Tenant lockboxes	4,633	933
Working capital and other reserves	2,561	4,198
Margin pledged as collateral	290	19,536
Total	$ 65,213	$ 126,065

The following table presents a summary of other assets as of December 31, 2020 and December 31, 2019 (dollars in thousands):

	December 31, 2020	December 31, 2019
Other assets:		
Prepaid taxes, tax receivable and deferred tax assets	$ 26,294	$ 21,989
Right-of-use lease asset	22,056	25,480
Deferred financing costs, net - credit facilities	6,440	8,382
Prepaid expenses	4,272	5,311
Investment deposits and pending deal costs	801	20,779
Other assets	651	1,644
Derivative asset	386	4,122
Total	$ 60,900	$ 87,707

The following table presents a summary of accrued and other liabilities as of December 31, 2020 and December 31, 2019 (dollars in thousands):

	December 31, 2020	December 31, 2019
Accrued and other liabilities:		
Current and deferred tax liability	$ 32,569	$ 31,510
Operating lease liability	22,186	25,495
Accounts payable, accrued expenses and other liabilities	15,083	28,278
Interest payable	14,970	16,259
Prepaid rent and unearned revenue	9,082	16,744
Tenant security deposits	1,338	3,005
Unfunded CECL loan allowance	1,313	—
Derivative liability	37	19,133
Total	$ 96,578	$ 140,424

9. Debt

The following table presents debt as of December 31, 2020 and December 31, 2019 (dollars in thousands):

					December 31, 2020		December 31, 2019	
	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	LIBOR + 1.59%	$ 840,423	$ 835,153	$ 840,423	$ 833,153
Subtotal securitization bonds payable, net					840,423	835,153	840,423	833,153
Mortgage and other notes payable, net								
Net lease 6[4]		Non-recourse	Oct-27	4.45%	23,608	23,608	24,117	24,117
Net lease 5[5]		Non-recourse	Nov-26	4.45%	3,351	3,272	3,422	3,329
Net lease 4[5]		Non-recourse	Nov-26	4.45%	7,230	7,059	7,384	7,184
Net lease 3[5]		Non-recourse	Jun-21	4.00%	12,191	12,163	12,450	12,368
Net lease 6[5]		Non-recourse	Jul-23	LIBOR + 2.15%	1,364	1,333	1,658	1,615
Net lease 5[4]		Non-recourse	Aug-26	4.08%	31,244	31,004	31,821	31,539
Net lease 1[5][6]		Non-recourse	Nov-26	4.45%	18,196	17,765	18,579	18,076
Net lease 1[7]		Non-recourse	Mar-28	4.38%	12,021	11,584	12,221	11,758
Net lease 4[4][8]		Non-recourse	Apr-21	LIBOR + 2.50%	—	—	74,916	74,845
Net lease 1[4]		Non-recourse	Jul-25	4.31%	250,000	247,939	250,000	246,961
Net lease 2[4][9]		Non-recourse	Jun-25	3.91%	187,151	189,806	181,952	184,532
Net lease 3[4]		Non-recourse	Sep-33	4.77%	200,000	198,604	200,000	198,521
Other real estate 4[5][10]		Non-recourse	Dec-23	4.84%	—	—	42,925	43,407
Other real estate 2[5][11]		Non-recourse	Dec-23	4.94%	—	—	42,443	42,851
Other real estate 8[5][10]		Non-recourse	Jun-30	3.53%	—	—	15,819	16,324
Other real estate 10[5][10]		Non-recourse	Jun-30	3.53%	—	—	11,744	11,939
Other real estate 9[5][10]		Non-recourse	Nov-26	3.98%	—	—	23,885	23,133
Other real estate 1[5]		Non-recourse	Oct-24	4.47%	107,029	107,596	108,719	109,475
Other real estate 3[5]		Non-recourse	Jan-25	4.30%	73,905	73,341	75,256	74,554
Other real estate 5[5][11]		Non-recourse	Apr-23	LIBOR + 4.00%	—	—	33,498	32,801
Other real estate 6[5][12]		Non-recourse	Apr-24	LIBOR + 2.95%	22,788	22,306	21,500	20,825
Loan 9[13]		Non-recourse	Jun-24	LIBOR + 3.00%	75,377	75,377	65,958	65,958
Subtotal mortgage and other notes payable, net					1,025,455	1,022,757	1,260,267	1,256,112
Bank credit facility								
Bank credit facility	$ 450,000	Recourse	Feb-23 [14]	LIBOR + 2.25%	—	—	113,500	113,500
Subtotal bank credit facility					—	—	113,500	113,500
Master repurchase facilities								
Bank 1 facility 3	$ 400,000	Limited Recourse[15]	Apr-23[16]	LIBOR + 1.98% (17)	112,509	112,509	106,309	106,309
Bank 2 facility 3[18]	21,353	Limited Recourse[15]	Oct-22	LIBOR + 2.50% (17)	19,353	19,353	22,750	22,750
Bank 3 facility 3	600,000	Limited Recourse[15]	Apr-22[19]	LIBOR + 2.23% (17)	196,738	196,738	265,633	265,633
Bank 7 facility 1	500,000	Limited Recourse[15]	Apr-22[20]	LIBOR + 2.05% (17)	89,912	89,912	221,421	221,421
Bank 8 facility 1	250,000	Limited Recourse[15]	Jun-21[21]	LIBOR + 1.95% (17)	116,712	116,712	164,098	164,098
Bank 9 facility 1	300,000	(22)	Nov-23[23]	(24) (17)	—	—	—	—
Subtotal master repurchase facilities	$ 2,071,353				535,224	535,224	780,211	780,211

	Capacity ($)	Recourse vs. Non-Recourse(1)	Final Maturity	Contractual Interest Rate		December 31, 2020 Principal Amount(2)	December 31, 2020 Carrying Value(2)	December 31, 2019 Principal Amount(2)	December 31, 2019 Carrying Value(2)
CMBS credit facilities									
Bank 1 facility 1		Recourse	(25)	NA	(26)	—	—	20,375	20,375
Bank 1 facility 2		Recourse	(25)	NA	(26)	—	—	18,834	18,834
Bank 3 facility		Recourse	(25)	NA	(26)	—	—	—	—
Bank 4 facility		Recourse	(25)	NA	(26)	—	—	—	—
Bank 5 facility 1		Recourse	(25)	NA	(26)	—	—	—	—
Bank 5 facility 2		Recourse	(25)	NA	(26)	—	—	—	—
Bank 6 facility 1		Recourse	(25)	NA	(26)	—	—	83,584	83,584
Bank 6 facility 2		Recourse	(25)	NA	(26)	—	—	82,729	82,729
Subtotal CMBS credit facilities						—	—	205,522	205,522
Subtotal credit facilities						535,224	535,224	1,099,233	1,099,233
Total						$ 2,401,102	$ 2,393,134	$ 3,199,923	$ 3,188,498

(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) Represents a mortgage note collateralized by an investment in the Company's Core Portfolio.
(5) Represents a mortgage note collateralized by an investment in the Company's Legacy, Non-Strategic Portfolio.
(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 in the Company's Legacy, Non-Strategic Portfolio.
(8) Represents a mortgage note that was repaid during the third quarter of 2020 in connection with the sale of the collateralized property.
(9) As of December 31, 2020, the outstanding principal of the mortgage payable was NOK 1.6 billion, which translated to $187.2 million.
(10) During the fourth quarter of 2020, the Company sold its interest in the joint ventures and subsequently deconsolidated the joint ventures.
(11) Represents a mortgage note that was repaid during the first quarter of 2020 in connection with the sale of the collateralized properties.
(12) The current maturity of the mortgage payable is April 2022, 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.
(13) The current maturity of the note payable is June 2021, with three 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. The loan is included in the Company's Core Portfolio.
(14) The ability to borrow additional amounts terminates on February 1, 2022 at which time the Company may, at its election, extend the termination date for two additional six-month terms.
(15) Recourse solely with respect to 25.0% of the financed amount.
(16) The next maturity date is April 2021, 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.
(17) Represents the weighted average spread as of December 31, 2020. The contractual interest rate depends upon asset type and characteristics and ranges from one-month London Interbank Offered Rates ("LIBOR") plus 1.50% to 2.60%.
(18) During the fourth quarter, the Company entered into an agreement to extend the facility termination date to April 2021 and reduced the capacity of Bank 2 Facility 3 to $21.4 million.
(19) Subsequent to December 31, 2020, the Company entered into an agreement which provides for 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.
(20) The next maturity date is April 2021. Subsequent to December 31, 2020, the Company extended the maturity date to April 2024.
(21) The next maturity date is June 2021, with a one-year extension available, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
(22) Recourse is either 25.0% or 50.0% depending on loan metrics.
(23) The next maturity date is November 2021, with two one-year extension options available, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
(24) The interest rate will be determined by the lender in its sole discretion.
(25) The maturity dates on the CMBS Credit Facilities are dependent upon asset type and will typically range from one to six months.
(26) CMBS Credit Facilities are undrawn and fully available.

Future Minimum Principal Payments

The following table summarizes future scheduled minimum principal payments at December 31, 2020 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[(1)]	Credit Facilities
2021	$ 131,317	$ —	$ 14,604	$ 116,713
2022	308,523	—	2,520	306,003
2023	115,073	—	2,565	112,508
2024	207,413	—	207,413	—
2025	1,353,808	840,423	513,385	—
2026 and thereafter	284,968		284,968	—
Total	$ 2,401,102	$ 840,423	$ 1,025,455	$ 535,224

(1) Includes $262.2 million of future minimum principal payments related to assets held for sale.

Bank Credit Facility

On February 1, 2018, the Company, through subsidiaries, including the OP, entered into a credit agreement with several lenders to provide a revolving credit facility in the aggregate principal amount of up to $400.0 million (the "Bank Credit Facility"). On December 17, 2018, the aggregate amount of revolving commitments was increased to $525.0 million and on February 4, 2019, the aggregate amount of revolving commitments was increased to $560.0 million. On May 6, 2020 these commitments were reduced to $450.0 million. The Bank Credit Facility will mature on February 1, 2022, unless the OP elects to extend the maturity date for up to two additional six-month terms.

The maximum amount available for borrowing at any time under the Bank Credit Facility 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. At December 31, 2020, the borrowing base valuation was sufficient to support the borrowing of up to $128.2 million.

Advances under the Bank Credit Facility accrue interest at a per annum rate equal to, at the applicable borrower's election, either a LIBOR rate plus a margin of 2.25%, or a base rate determined according to a prime rate or federal funds rate plus a margin of 1.25%. The Company pays a commitment fee of 0.25% or 0.35% per annum of the unused amount (0.35%) at December 31, 2020, depending upon the amount of facility utilization.

Substantially all material wholly owned subsidiaries of the Company guarantee the obligations of the Company and any other borrowers under the Bank Credit Facility. As security for the advances under the Bank Credit Facility, the Company pledged substantially all equity interests it owns and granted a security interest in deposit accounts in which the proceeds of investment asset distributions are maintained.

The Bank Credit Facility contains various affirmative and negative covenants including financial covenants that require the Company to maintain minimum tangible net worth, liquidity levels and financial ratios, as specified in the Bank Credit Facility. On May 6, 2020, the Company amended the Bank Credit Facility to, among other things, (i) reduce the minimum tangible net worth covenant to $1.5 billion, providing portfolio management flexibilities as a result of any disruptions in investments caused by COVID-19 or other factors; (ii) reduce the facility size to $450.0 million, (iii) limit dividends to an amount required to maintain REIT status or to avoid income tax and restrict stock repurchases, each for liquidity preservation purposes, and (iv) focus new investments on senior mortgages. At December 31, 2020, the Company was in compliance with all of the financial covenants.

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.

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. The securitization reflects an advance rate of 83.5% at a weighted average cost of funds of LIBOR plus 1.59%, and is collateralized by a pool of 21 senior loans originated by the Company.

CLNC 2019-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 CLNC 2019-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 reinvests the available proceeds within 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 December 31, 2020, the Company had $1.0 billion carrying value of CRE debt investments financed with $840.4 million of securitization bonds payable, net.

Master Repurchase Facilities

As of December 31, 2020, the Company, through subsidiaries, had entered into repurchase agreements with multiple global financial institutions to provide an aggregate principal amount of up to $2.1 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 December 31, 2020, the Company was in compliance with all of its financial covenants under the Master Repurchase Facilities.

As of December 31, 2020, the Company had $862.8 million carrying value of CRE debt investments financed with $535.2 million under the master repurchase facilities.

On May 7, 2020, the Company amended all six of its Master Repurchase Facilities to reduce the minimum tangible net worth covenant consistent with the Bank Credit Facility. During the first quarter of 2020, the Company received and timely paid a margin call on a hospitality loan and made voluntarily paydowns on two other hospitality and one retail loan. The lender granted the Company a holiday from future margin calls for four months, and it obtained broader discretion to enter into permitted modifications with the borrowers on these three specific loans, if necessary.

In May 2020, the Company amended two of its Master Repurchase Facilities pursuant to which the Company reduced facility advances corresponding to ten senior mortgage loans financed under such facilities. The Company and its lender counterparties agreed to temporary modifications providing for margin holidays from future margin calls or buffers before further margin calls are possible, as well as providing additional protections before certain repurchase obligations may be triggered. The Company was also provided broader discretion to negotiate with its borrowers to implement certain modifications to the underlying loans during such period. These holiday periods expired in the fourth quarter of 2020. Additionally, during the third quarter and fourth quarter of 2020, the Company made voluntarily paydowns on a hospitality loan and a self-storage loan, respectively. In exchange for the paydown on the self-storage loan, the lender granted the Company a holiday from future margin calls for four months, and the Company obtained broader approval to enter into a permitted modification with the borrower.

CMBS Credit Facilities

As of December 31, 2020 the Company had entered into eight master repurchase agreements (collectively the “CMBS Credit Facilities”) to finance CMBS investments. The CMBS Credit Facilities are on a recourse basis and contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. During the fourth quarter of 2020, the Company fully paid down its CMBS Credit Facilities.

10. Related Party Arrangements

Management Agreement

On January 31, 2018, the Company and the OP entered into a management agreement (the “Management Agreement”) with the Manager, pursuant to which the Manager manages the Company’s assets and its day-to-day operations. The Manager is responsible for, among other matters, (1) the selection, origination, acquisition, management and sale of the Company’s portfolio investments, (2) the Company’s financing activities and (3) providing the Company with investment advisory services. The Manager is also responsible for the Company’s day-to-day operations and will perform (or will cause to be performed) such services and activities relating to the Company’s investments and business and affairs as may be appropriate. The Management Agreement requires the Manager to manage the Company’s business affairs in conformity with the investment guidelines and other policies that are approved and monitored by the Board of Directors. Each of the Company’s executive officers is also an employee of the Manager or its affiliates. The Manager’s role as Manager will be under the supervision and direction of the Company’s Board of Directors.

The initial term of the Management Agreement expires on the third anniversary of the Closing Date and will be automatically renewed for a one-year term each anniversary date thereafter unless earlier terminated as described below. The Company’s independent directors review the Manager’s performance and the fees that may be payable to the Manager annually and, following the initial term, the Management Agreement may be terminated if there has been an affirmative vote of at least two-thirds of the Company’s independent directors determining that (1) there has been unsatisfactory performance by the Manager that is materially detrimental to the Company or (2) the compensation payable to the Manager, in the form of base management fees and incentive fees taken as a whole, or the amount thereof, is not fair to the Company, subject to the Manager’s right to prevent such termination due to unfair fees by accepting reduced compensation as agreed to by at least two-thirds of the Company’s independent directors. The Company must provide the Manager 180 days’ prior written notice of any such termination.

The Company may also terminate the Management Agreement for cause (as defined in the Management Agreement) at any time, including during the initial term, without the payment of any termination fee, with at least 30 days’ prior written notice from the Company’s Board of Directors. Unless terminated for cause, the Manager will be paid a termination fee as described below. The Manager may terminate the Management Agreement if the Company becomes required to register as an investment company under the Investment Company Act with such termination deemed to occur immediately before such event, in which case the Company would not be required to pay a termination fee. The Manager may decline to renew the Management Agreement by providing the Company with 180 days’ prior written notice, in which case the Company would not be required to pay a termination fee. The Manager may also terminate the Management Agreement with at least 60 days’ prior written notice if the Company breaches the Management Agreement in any material respect or otherwise is unable to perform its obligations thereunder and the breach continues for a period of 30 days after written notice to the Company, in which case the Manager will be paid a termination fee as described below.

In November 2019 the Manager, the Company and the OP amended and restated the Management Agreement to modify the “Core Earnings” definition, providing that “unrealized provisions for loan losses and real estate impairments” shall only be applied as exclusions from the definition of Core Earnings if approved by a majority of the independent directors of the Company. Such change became effective during the fourth quarter of 2019 and results in a reduction to Core Earnings which thereby reduces the annual management fee and any incentive fee paid by the Company due to accumulated unrealized provisions for loan losses and real estate impairments to date.

Fees to Manager

Base Management Fee

The base management fee payable to the Manager is equal to 1.5% of the Company’s stockholders’ equity (as defined in the Management Agreement), per annum (0.375% per quarter), payable quarterly in arrears in cash. For purposes of calculating the base management fee, the Company’s stockholders’ equity means: (a) the sum of (1) the net proceeds received by the Company (or, without duplication, the Company’s direct subsidiaries, such as the OP) from all issuances of the Company’s or such subsidiaries’ common and preferred equity securities since inception (allocated on a pro rata basis for such issuances during the calendar quarter of any such issuance), plus (2) the Company’s cumulative Core Earnings (as defined in the Management Agreement) from and after the Closing Date to the end of the most recently completed calendar quarter, less (b)(1) any distributions to the Company’s common stockholders (or owners of common equity of the Company’s direct subsidiaries, such as the OP, other than the Company or any of such subsidiaries), (2) any amount that the Company or any of the Company’s direct subsidiaries, such as the OP, have paid to (x) repurchase for cash the Company’s common stock or common equity securities of such subsidiaries or (y) repurchase or redeem for cash the Company's preferred equity securities or preferred equity securities of such subsidiaries, in each case since the Closing Date and (3) any incentive fee (as described below) paid to the Manager since the Closing Date.

For the years ended December 31, 2020, 2019 and 2018, the total management fee expense incurred was $29.7 million, $42.4 million and $43.2 million respectively. As of December 31, 2020 and December 31, 2019, $7.4 million and $8.4 million, respectively, of unpaid management fee were included in due to related party in the Company's consolidated balance sheets.

Incentive Fee

The incentive fee payable to the Manager is equal to the difference between (i) the product of (a) 20% and (b) the difference between (1) Core Earnings (as defined in the Management Agreement) for the most recent 12-month period (or the Closing Date if it has been less than 12 months since the Closing Date), including the current quarter, and (2) the product of (A) common equity (as defined in the Management Agreement) in the most recent 12-month period (or the Closing Date if it has been less than 12 months since the Closing Date), and (B) 7% per annum and (ii) the sum of any incentive fee paid to the Manager with respect to the first three calendar quarters of the most recent 12-month period (or the Closing Date if it has been less than 12 months since the Closing Date), provided, however, that no incentive fee is payable with respect to any calendar quarter unless Core Earnings (as defined in the Management Agreement) is greater than zero for the most recently completed 12 calendar quarters (or the Closing Date if it has been less than 12 calendar quarters since the Closing Date).

The Company did not incur any incentive fees during the years ended December 31, 2020, 2019 and 2018.

Reimbursements of Expenses

Reimbursement of expenses related to the Company incurred by the Manager, including legal, accounting, financial, due diligence and other services are paid on the Company's behalf by the OP or its designee(s). The Company reimburses the Manager for the Company's allocable share of the salaries and other compensation of the Company's chief financial officer and certain of its affiliates' non-investment personnel who spend all or a portion of their time managing the Company's affairs, and the Company's share of such costs are based upon the percentage of such time devoted by personnel of the Manager (or its affiliates) to the Company's affairs. The Company may be required to pay the Company's pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Manager and its affiliates required for the Company's operations.

For the years ended December 31, 2020, 2019 and 2018, the total reimbursements of expenses incurred by the Manager on behalf of the Company and reimbursable in accordance with the Management Agreement was $9.8 million, $11.1 million and $10.4 million, respectively, and are included in administrative expense on the consolidated statements of operations. As of December 31, 2020 and December 31, 2019, there were $2.7 million of unpaid expenses included in due to related party in the Company's consolidated balance sheets.

Equity Plan Grants

In April 2020, the Company granted 143,000 shares to its chief executive officer, an employee of the Manager, under the 2018 Equity Incentive Plan (the "2018 Plan"). In March 2019, the Company granted 800,000 shares to the Manager and/or employees thereof under the 2018 Plan. In March 2018, the Company granted 978,946 shares to its non-independent directors, officers and the Manager and/or employees thereof under the 2018 Plan. 885,070 shares remain granted and unvested as of December 31, 2020. See Note 11, "Equity-Based Compensation" for further discussion on the 2018 Plan including shares issued to independent directors of the Company. In connection with these grants, the Company recognized share-based compensation expense of $4.0 million, $10.3 million and $6.8 million to its Manager within administrative expense in the consolidated statement of operations for the years ended December 31, 2020, 2019 and 2018, respectively.

Colony Capital, Inc. Internalization Discussions with the Company

As previously disclosed, the Company's Board of Directors formed a special committee consisting exclusively of independent and disinterested directors (the "Special Committee") to explore an internalization proposal made by Colony Capital as well as other strategic alternatives. Subsequently, due to ongoing uncertainty surrounding the duration and magnitude of the COVID-19 pandemic and its impact on the global economy, on April 1, 2020, Colony Capital reported in Amendment No. 3 to Schedule 13D (filed with the U.S. Securities and Exchange Commission) that it has postponed any decision regarding a disposition of its management agreement with the Company until market conditions improve. The Special Committee has continued to explore alternatives but has been unable to negotiate mutually acceptable terms with Colony Capital. The Special Committee will continue to consider value-enhancing alternatives for the Company as opportunities arise.

Investment Activity

All investment acquisitions are approved in accordance with the Company’s investment and related party guidelines, which may include approval by either the audit committee or disinterested members of the Company’s Board of Directors. No investment by the Company will require approval under the related party transaction policy solely because such investment constitutes a co-investment made by and between the Company and any of its subsidiaries, on the one hand, and one or more investment vehicles formed, sponsored, or managed by an affiliate of the Manager on the other hand.

In July 2017, NorthStar II entered into a joint venture with an affiliate of the Manager to make a $60.0 million investment in a $180.0 million mezzanine loan which was originated by such affiliate of the Manager. The transaction was approved by NorthStar II’s board of directors, including all of its independent directors. The investment was purchased by the Company in connection with the Combination. In June 2018, the Company increased its commitment to $101.8 million in connection with the joint venture bifurcating the mezzanine loan into a mezzanine loan and a preferred equity investment. The Company’s interest in both the underlying mezzanine loan and preferred equity investment is 31.8%, and the affiliate entities own the remaining 68.2%. Both the underlying mezzanine loan and preferred equity investment carry a fixed 13.0% interest rate. This investment is recorded in investments in unconsolidated ventures in the Company’s consolidated balance sheets. In July 2019, the Company increased its commitment in the mezzanine loan from $101.8 million to $189.0 million. The Company’s interest in the upsized mezzanine loan is 45.2% and it carries a fixed 13.0% interest rate. During the three months ended June 30, 2020, the Company made its pro-rata share of two protective advances to the senior mortgage lender totaling $28.5 million. The Company placed this investment on nonaccrual status as of April 1, 2020. In September 2020 the Company’s mezzanine loan and preferred equity investment was converted into a mezzanine participation. See Note 4, “Investments in Unconsolidated Ventures,” for further information.

In May 2018, the Company acquired an $89.1 million (at par) preferred equity investment in an investment vehicle that owns a seven-property office portfolio located in the New York metropolitan area from an affiliate of the Company’s Manager. The affiliate has a 27.2% ownership interest in the borrower. The preferred equity investment carries a fixed 12.0% interest rate. This investment is recorded in loans and preferred equity held for investment, net in the Company’s consolidated balance sheets. In July 2020, the Company accepted a discounted payoff and recognized an impairment loss of $20.6 million. See Note 3, “Loans and Preferred Equity Held for Investment, net” for further information.

In July 2018, the Company acquired a $326.8 million Class A office campus located in Norway from an affiliate of the Company’s Manager. In connection with the purchase, the Company assumed senior mortgage financing from a private bond issuance of $197.7 million. The bonds have a five-year term remaining, and carry a fixed interest rate of 3.91%.

In July 2018, the Company entered into a joint venture to invest in a development project for land and a Grade A office building in Ireland. The Company agreed to invest up to $69.9 million of the $139.7 million total commitment. The Company co-invested along with two affiliates of the Manager, with the Company owning 50.0% of the joint venture and the affiliate entities owning the remaining 50.0%. The joint venture invested in a senior mortgage loan of $66.7 million with a fixed interest rate of 12.5% and a maturity date of 3.5 years from origination and common equity.

In October 2018, the Company entered into a joint venture to invest in a mixed-use development project in Ireland. The Company agreed to invest up to $162.4 million of the $266.5 million total commitment. The Company co-invested along with two affiliates of the Manager, with the Company owning 61.0% of the joint venture and the affiliate entities owning the remaining 39.0%. The joint venture invested in a senior mortgage loan with a fixed interest rate of 15.0% and a maturity date of two years from origination. The Company placed this investment on nonaccrual status as of July 1, 2020. See Note 4, “Investments in Unconsolidated Ventures,” for further information.

In October 2018, the Company acquired a $20.0 million mezzanine loan from an affiliate of the Company’s Manager, secured by a pledge of an ownership interest in a luxury condominium development project located in New York, NY. The loan bears interest at 9.5% plus LIBOR. The borrower repaid the loan in February 2020.

11. Equity-Based Compensation

On January 29, 2018 the Company’s Board of Directors adopted the 2018 Plan. The 2018 Plan permits the grant of awards with respect to 4.0 million shares of the Class A common stock, subject to adjustment pursuant to the terms of the 2018 Plan. Awards may be granted under the 2018 Plan to (x) the Manager or any employee, officer, director, consultant or advisor (who is a natural person) providing services to the Company, the Manager or their affiliates and (y) any other individual whose participation in the 2018 Plan is determined to be in the best interests of the Company. The following types of awards may be made under the 2018 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 2018 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 2018 Plan will again become available for issuance under the 2018 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 2018 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. The shares granted in May 2020 to the independent directors of the Company under the 2018 Plan vest in May 2021. Shares granted to non-independent directors, officers and the Manager under the 2018 Plan vest ratably in three annual installments.

The table below summarizes the Company's awards granted, forfeited or vested under the 2018 Plan during the years ended December 31, 2020 and December 31, 2019:

	Number of Shares		
	Restricted Stock	Total	Weighted Average Grant Date Fair Value
Unvested Shares at December 31, 2018	889,713	889,713	$ 19.39
Granted	831,910	831,910	15.53
Vested	(379,546)	(379,546)	18.98
Forfeited	(6,487)	(6,487)	19.39
Unvested Shares at December 31, 2019	1,335,590	1,335,590	$ 17.79
Granted	237,340	237,340	3.70
Vested	(476,747)	(476,747)	17.33
Forfeited	(211,113)	(211,113)	17.20
Unvested shares at December 31, 2020	885,070	885,070	$ 16.16

Fair value of equity awards that vested during the years ended December 31, 2020 and December 31, 2019, determined based on their respective fair values at vesting date, was $2.8 million and $5.7 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 administrative expense in the consolidated statement of operations.

At December 31, 2020, aggregate unrecognized compensation cost for all unvested equity awards was $4.1 million, which is expected to be recognized over a weighted-average period of 1.1 years.

12. Stockholders' Equity

Authorized Capital

As of December 31, 2020, 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. On February 1, 2019, the Class B-3 common stock automatically converted to Class A common stock and each unissued share of Class B-3 common stock was automatically reclassified as one share of Class A common stock.

The Company had no shares of preferred stock issued and outstanding as of December 31, 2020.

Dividends

During the year ended December 31, 2020, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Per Share
January 15, 2020	January 31, 2020	February 10, 2020	$0.10
February 14, 2020	February 29, 2020	March 10, 2020	$0.10
March 16, 2020	March 31, 2020	April 10, 2020	$0.10

The Company and its Board of Directors suspended the Company's monthly stock dividend beginning with the monthly period ended April 30, 2020. Subsequent to December 31, 2020, the Board of Directors approved a $0.10 quarterly dividend for the first quarter of 2021, payable on April 15, 2021 to stockholders of record as of March 31, 2021.

Stock Repurchase Program

The Company's Board of Directors authorized a stock repurchase program (the "Stock Repurchase Program"), under which the Company could repurchase up to $300.0 million of its outstanding Class A common stock until March 31, 2020. Under the Stock Repurchase Program, the Company may repurchase shares in open market purchases, through tender offers or otherwise in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

As of December 31, 2020, the Company had not repurchased any shares 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

(in thousands)	Unrealized gain (loss) on real estate securities, available for sale	Unrealized gain on net investment hedges	Foreign currency translation gain (loss)	Total
AOCI at December 31, 2017	$ —	$ —	$ —	$ —
Other comprehensive income (loss)	(1,295)	11,037	(10,141)	(399)
AOCI at December 31, 2018	$ (1,295)	$ 11,037	$ (10,141)	$ (399)
Other comprehensive income (loss)	17,204	14,835	(3,346)	28,693
AOCI at December 31, 2019	$ 15,909	$ 25,872	$ (13,487)	$ 28,294
Other comprehensive income (loss) before reclassification	(88,646)	21,255	20,673	(46,718)
Amounts reclassified from AOCI	73,012	—	—	73,012
Net current period OCI	(15,634)	21,255	20,673	26,294
AOCI at December 31, 2020	$ 275	$ 47,127	$ 7,186	$ 54,588

Changes in Components of AOCI - Noncontrolling Interests in the OP

(in thousands)	Unrealized gain (loss) on real estate securities, available for sale	Unrealized gain (loss) on net investment hedges	Foreign currency translation gain (loss)	Total
AOCI at December 31, 2017	$ —	$ —	$ —	$ —
Other comprehensive income (loss)	(32)	268	(246)	(10)
AOCI at December 31, 2018	$ (32)	$ 268	$ (246)	$ (10)
Other comprehensive income (loss)	644	625	(555)	714
AOCI at December 31, 2019	$ 612	$ 893	$ (801)	$ 704
Other comprehensive income (loss) before reclassification	(2,431)	510	529	(1,392)
Amounts reclassified from AOCI	1,746	—	—	1,746
Net current period OCI	(685)	510	529	354
AOCI at December 31, 2020	$ (73)	$ 1,403	$ (272)	$ 1,058

Changes in Components of AOCI - Noncontrolling Interests in investment entities

(in thousands)	Unrealized gain (loss) on real estate securities, available for sale	Unrealized gain (loss) on net investment hedges	Foreign currency translation gain (loss)	Total
AOCI at December 31, 2018	$ —	$ —	$ —	$ —
Other comprehensive income	—	—	—	—
AOCI at December 31, 2019	$ —	$ —	$ —	$ —
Other comprehensive income	—	—	2,193	2,193
AOCI at December 31, 2020	$ —	$ —	$ 2,193	$ 2,193

The following table presents the details of the reclassifications from AOCI for the year ended December 31, 2020:

(in thousands)

Component of AOCI reclassified into earnings	Year Ended December 31, 2020	Affected Line Item in the Consolidated Statements of Operations
Realized loss on sale of real estate securities	$ (41,168)	Other gain (loss), net
Impairment of real estate securities	(31,844)	Other gain (loss), net

The Company had no reclassifications from AOCI for the years ended December 31, 2019 and 2018.

13. Noncontrolling Interests

Operating Partnership

Noncontrolling interests include the aggregate limited partnership interests in the OP held by RED REIT. Net income (loss) attributable to the noncontrolling interests is based on the limited partners' ownership percentage of the OP. Net loss attributable to the noncontrolling interests of the OP was $8.4 million, $9.9 million and $4.1 million for the years ended December 31, 2020, 2019, and 2018, respectively.

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 $13.9 million, $38.2 million and $4.8 million for the years ended December 31, 2020, 2019, and 2018, respectively.

5-Investment Preferred Financing

On June 5, 2020, subsidiaries of the Company entered into a preferred financing arrangement (on a portfolio of five underlying Company investment interests) (the “5-Investment Preferred Financing”) from investment vehicles managed by Goldman Sachs (“GS”). The preferred financing provided $200 million of proceeds at closing.

The preferred financing is limited to (i) the Company’s interests in four co-investments, three of which are in the Company’s Core Portfolio and one which is in the Legacy, Non-Strategic Portfolio, alongside investment funds managed by affiliates of the Company’s manager, each of which are financings on underlying development projects (including residential, office and/or mixed-use components), and (ii) a wholly-owned triple-net industrial distribution center investment leased to a national grocery chain, which is included in the Company’s Core Portfolio. The preferred financing provides GS a 10% preferred return and certain other minimum returns, as well as a minority interest in future cash flows.

The preferred financing resulted in a reallocation of a portion of stockholders equity to noncontrolling interest, resulting in a $69 million day-one reduction in stockholders equity. The transaction resulted in the Company receiving net liquidity of approximately $170 million, net of approximately $30 million in paydowns under the Company’s Bank Credit Facility. The preferred financing provides the ability to draw down up to $29 million additional commitments from GS for future advances to the portfolio, if any, at the Company’s same advance rate.

The Company and its affiliates control the continuing investment and portfolio management of such investments and thus continues to consolidate these investments on the Consolidated Balance Sheet at December 31, 2020. The preferred financing provides for a disproportionate allocation of profits and losses, and thus each party’s share of earnings or loss is determined using a balance sheet approach known as the HLBV method. Under the HLBV method, earnings and losses are recognized based on the change in each party’s capital account from the beginning of the period in question to the end of the period, adjusting for the effects of distributions and new investments. The entity measures each party’s capital account assuming that the subsidiary was liquidated or sold at book value.

As of December 31, 2020, the Company has drawn-down additional funds of $0.7 million from GS and completed $6.0 million in cash distributions to GS. The noncontrolling interest in investment entities on the Company’s consolidated balance sheet includes $259.5 million representing GS’s investment at December 31, 2020 under the HLBV method.

14. 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.

<u>PE Investments</u>

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.

<u>Real Estate Securities</u>

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 and 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

As discussed in Note 5, "Real Estate Securities, Available for Sale," 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 trusts being equal to the fair value of their liabilities. The Company has determined that the fair value of the liabilities of the securitization trusts are 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 trusts are not readily marketable and their fair value measurement requires information that may be limited in availability.

In determining the fair value of the trusts' 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 trusts 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 U.S. 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 December 31, 2020 and December 31, 2019 by level within the fair value hierarchy (dollars in thousands):

	December 31, 2020				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Investments in unconsolidated ventures - PE Investments	$ —	$ 5	$ 6,878	$ 6,883	$ —	$ 1,425	$ 8,858	$ 10,283
Real estate securities, available for sale	—	10,389	—	10,389	—	252,824	—	252,824
Mortgage loans held in securitization trusts, at fair value	—	—	1,768,069	1,768,069	—	—	1,872,970	1,872,970
Other assets - derivative assets	—	386		386	—	4,122	—	4,122
Liabilities:								
Mortgage obligations issued by securitization trusts, at fair value	$ —	$ 1,708,534	$ —	$ 1,708,534	$ —	$ 1,762,914	$ —	$ 1,762,914
Other liabilities - derivative liabilities	—	37	—	37	—	19,133	—	19,133

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 years ended December 31, 2020 and 2019 (dollars in thousands):

	Year Ended December 31, 2020		Year Ended December 31, 2019	
	Investments in unconsolidated ventures - PE Investments	Mortgage loans held in securitization trusts[1]	Investments in unconsolidated ventures - PE Investments	Mortgage loans held in securitization trusts[1]
Beginning balance	$ 8,858	$ 1,872,970	$ 160,851	$ 3,116,978
Contributions[2]/purchases	—	—	151	—
Distributions/paydowns	(2,649)	(76,719)	(18,407)	(55,288)
Deconsolidation of securitization trust[3]	—	—	—	(1,239,627)
Equity in earnings	669	—	—	—
Sale of investments	—	—	(48,930)	(39,848)
Transfers out of Level 3		—	(84,807)	—
Unrealized gain (loss) in earnings	—	(28,182)	—	87,983
Realized gain in earnings		—	—	2,772
Ending balance	$ 6,878	$ 1,768,069	$ 8,858	$ 1,872,970

(1) For the year ended December 31, 2020, the Company recorded an unrealized loss of $28.2 million related to mortgage loans held in securitization trusts, at fair value and an unrealized loss of $22.3 million related to mortgage obligations issued by securitization trusts, at fair value.
(2) Includes initial investments, before distribution and contribution closing statement adjustments, and subsequent contributions, including deferred purchase price fundings.
(3) In July 2019, the Company sold its retained investments in the subordinate tranches of one securitization trust. As a result of the sale, the Company deconsolidated one of the securitization trusts. See Note 5, "Real Estate Securities, Available for Sale" for further information.

Transfers of assets into or out of Level 3 are presented at their fair values as measured at the end of the reporting period. Assets transferred out of Level 3 represent PE Investments that were valued based on their contracted sales price in March 2019.

As of December 31, 2020 and December 31, 2019, 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 December 31, 2020 and December 31, 2019, 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. As of December 31, 2020 and December 31, 2019, the key unobservable inputs used in the valuation of mortgage obligations issued by securitization trusts included yields ranging from 21.1% to 53.7% and 15.0% to 16.1%, respectively, and a weighted average life of 5.0 years and 5.4 years, respectively. 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.

For the year ended December 31, 2020, the Company recorded a net unrealized loss of $50.5 million related to mortgage loans held in and mortgage obligations issued by securitization trusts, at fair value. For the years ended December 31, 2019 and December 31, 2018, the Company recorded net unrealized gains of $4.1 million and $5.0 million, respectively, related to mortgage loans held in and mortgage obligations issued by securitization trusts, at fair value. These amounts, when incurred, are recorded as unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations.

For the year ended December 31, 2020, the company did not record a realized gain on mortgage loans held in securitization trusts, at fair value. For the years ended December 31, 2019 and December 31, 2018, the Company recorded a realized gain of $2.8 million and a realized loss of $3.4 million, respectively, on mortgage loans held in securitization trusts, at fair value, which represents the gain upon the sale of the Company's retained interests in the subordinate tranches of one securitization trust. This amount is recorded as realized gain on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations.

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 December 31, 2020 and December 31, 2019, 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, U.S. 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 December 31, 2020 and December 31, 2019 (dollars in thousands):

	December 31, 2020			December 31, 2019		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial assets:[1]						
Loans and preferred equity held for investment, net	$ 2,225,856	$ 2,183,497 [2]	$ 2,189,006	$ 2,858,423 [2]	$ 2,576,332	$ 2,470,561
Financial liabilities:[1]						
Securitization bonds payable, net	$ 840,423	$ 835,153	$ 840,423	$ 840,423	$ 833,153	$ 840,423
Mortgage and other notes payable, net	1,025,455	1,022,757	1,025,455	1,260,267	1,256,112	1,260,675
Master repurchase facilities	535,224	535,224	535,224	1,099,233	1,099,233	1,099,233

(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 $163.0 million and $276.6 million as of December 31, 2020 and December 31, 2019, respectively.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of December 31, 2020. 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 and Preferred Equity Held for Investment, Net

For loans and preferred equity 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 and preferred equity 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 December 31, 2020, 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.

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 December 31, 2020, 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, 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 table summarizes assets carried at fair value on a nonrecurring basis as of December 31, 2019 (dollars in thousands):

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Loans and preferred equity held for investment, net	$ —	$ —	$ 104,797	$ 104,797
Loans held for sale	—	—	5,016	5,016
Real estate, net	—	—	423,540	423,540
Real estate assets held for sale	—	—	117,880	117,880
Investments in unconsolidated ventures	—	—	124,860	124,860
Deferred leasing costs and intangible assets, net	—	—	41,862	41,862

The Company holds no assets carried at fair value on a nonrecurring basis at December 31, 2020.

The following table summarizes the fair value write-downs to assets carried at nonrecurring fair values during the periods presented (dollars in thousands):

	Year Ended December 31,		
	2020	2019	2018
Loans:			
Loans and preferred equity held for investment, net(1)	$ 2,346	$ 209,987	$ 114,428
Loans held for sale(1)	31,581	10,584	—
Total	$ 33,927	$ 220,571	$ 114,428
Real Estate:			
Real estate, net	$ —	$ 226,561	$ 29,378
Real estate held for sale	30,500	56,285	—
Total	$ 30,500	$ 282,846	$ 29,378
Investments in unconsolidated ventures			
Investments in unconsolidated ventures	$ —	$ 17,600	$ —
Total	$ —	$ 17,600	$ —

(1) See Note 3 “Loans and Preferred Equity Held for Investment, net” for further details.

Real estate held for sale consisted of certain properties in the Company’s portfolio of real estate in its Legacy, Non-Strategic Portfolio segment. The amount of the impairment recognized was determined based on feedback received during the sales process. The fair value of the impaired properties was determined based on broker price opinions, executed purchase and sale agreements and third party bids received which utilized terminal capitalization rates ranging from 6% to 16%.

15. 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 December 31, 2020 and December 31, 2019, fair value of derivative assets and derivative liabilities were as follows (dollars in thousands):

	December 31, 2020	December 31, 2019		
	Non-Designated Hedges	Designated Hedges	Non-Designated Hedges	Total
Derivative Assets				
Foreign exchange contracts	$ 386	$ —	$ 4,122	$ 4,122
Included in other assets	$ 386	$ —	$ 4,122	$ 4,122
Derivative Liabilities				
Foreign exchange contracts	$ —	$ (2,128)	$ (29)	$ (2,157)
Interest rate contracts	(37)	—	(16,976)	(16,976)
Included in accrued and other liabilities	$ (37)	$ (2,128)	$ (17,005)	$ (19,133)

As of December 31, 2020, the Company's counterparties held $0.1 million in cash collateral.

The following table summarizes the Company's interest rate contracts as of December 31, 2020:

		Notional Amount (in thousands)		
Type of Derivatives	Notional Currency	Designated	Non-Designated	Range of Maturity Dates
Put Option	NOK	—	928,000	July 2021
Interest Rate Swap	USD	$ —	$ 109,414	April 2021 - July 2023

The table below represents the effect of the derivative financial instruments on the consolidated statements of operations and of comprehensive income (loss) for the years ended December 31, 2020 and 2019 (dollars in thousands):

	Year Ended December 31,	
	2020	2019
Other gain (loss), net		
Non-designated foreign exchange contracts	$ 2,979	$ 1,286
Non-designated interest rate contracts	(17,085)	(10,966)
	$ (14,106)	$ (9,680)
Other income		
Non-designated foreign exchange contracts	$ 178	$ —
Non-designated interest rate contracts	—	—
	$ 178	$ —
Accumulated other comprehensive income (loss)		
Designated foreign exchange contracts	$ 21,764	$ 15,460
	$ 21,764	$ 15,460

During the year ended December 31, 2020, the Company received $28.2 million from the unwind of its NOK and EUR FX forwards and realized a gain of $8.7 million which is included in other loss, net on its consolidated statements of operations.

During the year ended December 31, 2020, the Company unwound its remaining interest rate swaps and realized a loss of $34.0 million, which is included in other loss, net on its consolidated statement of operations. This was previously recorded as an unrealized loss as of March 31, 2020.

At the end of each quarter, the Company reassesses the effectiveness of its net investment hedges and as appropriate, dedesignates the portion of the derivative notional that is in excess of the beginning balance of its net investments as non-designated hedges. Any unrealized gain or loss on the dedesignated portion of net investment hedges is transferred into earnings, recorded in other gain (loss), net. During the years ended December 31, 2020 and 2019, no gain (loss) was transferred from accumulated other comprehensive income (loss).

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 December 31, 2020 and December 31, 2019 (dollars in thousands):

	Gross Amounts of Assets (Liabilities) Included on Consolidated Balance Sheets	Gross Amounts Not Offset on Consolidated Balance Sheets		Net Amounts of Assets (Liabilities)
		(Assets) Liabilities	Cash Collateral Pledged	
December 31, 2020				
Derivative Assets				
Foreign exchange contracts	$ 386	$ —	$ —	$ 386
	$ 386	$ —	$ —	$ 386
Derivative Liabilities				
Interest rate contracts	$ (37)	$ —	$ —	$ (37)
	$ (37)	$ —	$ —	$ (37)
December 31, 2019				
Derivative Assets				
Foreign exchange contracts	$ 4,122	$ (2,157)	$ —	$ 1,965
	$ 4,122	$ (2,157)	$ —	$ 1,965
Derivative Liabilities				
Foreign exchange contracts	$ (2,157)	$ 2,157	$ —	$ —
Interest rate contracts	(16,976)	—	16,976	—
	$ (19,133)	$ 2,157	$ 16,976	$ —

16. Income Taxes

The Company is subject to income tax laws of the various jurisdictions in which it operates, including U.S. federal, state and local non-U.S. jurisdictions, primarily in Europe. The Company's current primary sources of income subject to tax are income from its hotel investments, certain PE Investments, and real estate and loan investments in Europe.

The following table provides a summary of the Company's tax provisions (dollars in thousands):

	Year Ended December 31,		
	2020	2019	2018
Current			
Federal	$ 13,125	$ (6,316)	$ (7,534)
State and local	(1,730)	(1,824)	(583)
Foreign	(669)	316	(588)
Total current tax benefit (expense)	10,726	(7,824)	(8,705)
Deferred			
Federal	(808)	2,226	(27,817)
Foreign	980	2,426	(537)
Total deferred tax benefit (expense)	172	4,652	(28,354)
Total income tax benefit (expense)	$ 10,898	$ (3,172)	$ (37,059)

Deferred Income Tax Assets and Liabilities

Deferred tax asset is included in other assets while deferred tax liability is included in accrued and other liabilities on the consolidated balance sheets.

The components of deferred tax assets and deferred tax liabilities arising from temporary differences are as follows (dollars in thousands):

	December 31,	
	2020	2019
Deferred tax assets		
Basis difference - investment in partnerships	$ 27,394	$ 40,626
Disallowed interest expense carry forwards	524	524
Net operating and capital loss carry forwards[(1)]	3,249	9,910
Other	—	746
Gross deferred tax asset	31,167	51,806
Valuation allowance	(29,212)	(49,244)
Deferred tax assets, net of valuation allowance	$ 1,955	$ 2,562
Deferred tax liabilities		
Basis difference - real estate	(31,282)	(31,463)
Other	(201)	—
Gross deferred tax liabilities	(31,483)	(31,463)
Net deferred tax liability	$ (29,528)	$ (28,901)

(1) As of December 31, 2020 and 2019, deferred tax asset was recognized on net operating losses of $6.9 million and $27.1 million, respectively. Net operating losses attributable to U.S. federal and state income taxes, where applicable, generally begin to expire in 2034, or can be carried forward indefinitely.

Effective Income Tax

The Company's income tax expense varied from the amount computed by applying the statutory income tax rate to income before income taxes. A reconciliation of the statutory U.S. income tax to the Company's effective income tax is presented as follows (dollars in thousands):

	Year Ended December 31,		
	2020	2019	2018
Pre-tax income (loss) attributable to taxable entities	$ (15,652)	$ (1,316)	$ (39,843)
Federal tax expense (benefit) at statutory tax rate (21%, 21% and 21%, respectively)	(3,287)	(276)	(8,367)
State and local taxes, net of federal income tax expense (benefit)	34	71	(644)
Permanent adjustments	(116)	10	41
Adjustments for foreclosure property	1,030	2,840	—
Foreign income tax differential	(172)	(1,328)	24
Foreign income tax rate change	—	(1,383)	—
Return to provision	1,364	(273)	—
Valuation allowance, net	(6,095)	2,402	43,078
Tax rate benefit of capital loss carryback	(3,058)	—	—
Revaluation of deferred taxes due to "Tax Cuts and Jobs Act"	—	—	1,725
Other	(598)	1,109	1,202
Income tax (benefit) expense	$ (10,898)	$ 3,172	$ 37,059

Tax Examinations and Uncertainty in Income Tax

The Company is no longer subject to U.S. federal, state and local tax examinations by tax authorities for years prior to 2017. There were no material uncertain tax positions as of December 31, 2020. For the years ended December 31, 2020, 2019 and 2018, the Company has not recognized any interest or penalties related to uncertain tax positions.

17. 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 December 31, 2020, assuming the terms to qualify for future fundings, if any, had been met, total unfunded lending commitments for loans and preferred equity held for investment was $136.0 million for senior loans, $13.3 million for securitized loans and $13.7 million for mezzanine loans. Total unfunded commitments for equity method investments was $25.1 million.

Ground Lease Obligation

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

At December 31, 2020, the weighted average remaining lease term was 14.3 years for ground leases.

The following table presents lease expense, included in property operating expense, for the years ended December 31, 2020 and 2019 (dollars in thousands):

	Year Ended December 31,	
	2020	2019
Operating lease expense:		
Minimum lease expense	$ 3,194	$ 3,134
Variable lease expense	—	—
	$ 3,194	$ 3,134

The operating lease liability 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 December 31, 2020 (dollars in thousands):

2021	$ 3,071
2022	3,099
2023	3,110
2024	2,213
2025	2,148
2026 and thereafter	19,327
Total lease payments	32,968
Less: Present value discount	10,782
Operating lease liability (Note 8)	$ 22,186

The following table presents future minimum rental payments, excluding contingent rents, on noncancellable ground leases on real estate as of December 31, 2019 (dollars in thousands):

2020	$ 3,232
2021	3,216
2022	3,244
2023	3,274
2024	2,383
2025 and thereafter	23,079
Total lease payments	38,428
Less: Present value discount	12,933
Operating lease liability (Note 8)	$ 25,495

Litigation and Claims

The Company may be involved in litigation and claims in the ordinary course of the business. As of December 31, 2020, 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.

18. Segment Reporting

Following the Combination, the Company conducted its business through the following five operating segments: the loan portfolio, CRE debt securities, net leased real estate, other, and corporate. The Company continually monitors and reviews its segment reporting structure in accordance with authoritative guidance to determine whether any changes have occurred that would impact the Company's reportable segments.

During the third quarter of 2019, the Company realigned the business and reportable segment information to reflect how the CODM regularly review and manage the business. As a result, the Company presents its business segments as follows:

- Core Portfolio, which consists of the following four segments and remain unchanged from the prior segments:
  - Senior and Mezzanine Loans and Preferred Equity—CRE debt investments including senior mortgage loans, mezzanine loans, and preferred equity interests as well as participations in such loans. The segment also includes ADC loan arrangements accounted for as equity method investments.
  - CRE Debt Securities—investments currently consisting of BBB and some BB rated CMBS (including Non-Investment Grade "B-pieces" of a CMBS securitization pool), or CRE CLOs (including the junior tranches thereof, collateralized by pools of CRE debt investments).
  - Net Leased 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.
  - Corporate—includes corporate-level asset management and other fees, related party and general and administrative expenses to the Core Portfolio only.
- Legacy, Non-Strategic Portfolio—segment consists of direct investments in operating real estate such as multi-tenant office. It also includes two portfolios of PE Investments and certain retail and other legacy loans originated prior to the Combination. This segment includes corporate-level asset management and other fees, related party and general and administrative expenses related to the Legacy, Non-Strategic Portfolio only.

There were no changes in the structure of the Company's internal organization that prompted the change in reportable segments. Prior period amounts have been revised to conform to the current year presentation shown below.

The Company primarily generates revenue from net interest income on the loan, preferred equity and securities portfolios, rental and other income from its net leased, hotel, multi-tenant office, and multifamily real estate assets, as well as equity in earnings of unconsolidated ventures. CRE debt securities include the Company's investment in the subordinate tranches of the securitization trusts which are eliminated in consolidation. 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 years ended December 31, 2020, 2019 and 2018 (dollars in thousands):

	Core						
	Senior and Mezzanine Loans and Preferred Equity	**CRE Debt Securities**	**Net Leased Real Estate**	**Corporate[(1)]**	**Total Core Portfolio**	**Legacy, Non-Strategic Portfolio**	**Total**
Year Ended December 31, 2020							
Net interest income (expense)	$ 99,107	$ 10,488	$ 15	$ (6,908)	$ 102,702	$ (385)	$ 102,317
Property and other income	80	74	86,176	397	86,727	90,146	176,873
Management fee expense	—	—	—	(26,200)	(26,200)	(3,539)	(29,739)
Property operating expense	—	—	(11,410)	—	(11,410)	(53,577)	(64,987)
Transaction, investment and servicing expense	(2,241)	(39)	(547)	(3,900)	(6,727)	(3,248)	(9,975)
Interest expense on real estate	—	—	(32,407)	—	(32,407)	(16,453)	(48,860)
Depreciation and amortization	—	—	(40,910)	—	(40,910)	(18,856)	(59,766)
Provision for loan losses	(40,919)	—	—	—	(40,919)	(37,642)	(78,561)
Impairment of operating real estate	—	—	—	—	—	(42,814)	(42,814)
Administrative expense	(867)	(1,545)	(301)	(16,121)	(18,834)	(7,717)	(26,551)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	(52,086)	—	1,565	(50,521)	—	(50,521)
Other gain (loss), net	(49,567)	(91,816)	13,031	(100)	(128,452)	9,727	(118,725)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	5,593	(134,924)	13,647	(51,267)	(166,951)	(84,358)	(251,309)
Equity in earnings (loss) of unconsolidated ventures	(135,613)	—	—	—	(135,613)	440	(135,173)
Income tax benefit (expense)	(587)	—	327	—	(260)	11,158	10,898
Net income (loss)	$ (130,607)	$ (134,924)	$ 13,974	$ (51,267)	$ (302,824)	$ (72,760)	$ (375,584)

(1) Includes income earned from the CRE securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the year ended December 31, 2020 $1.6 million, was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Corporate column.

	Core						
	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased Real Estate	Corporate[(1)]	Total Core Portfolio	Legacy, Non-Strategic Portfolio	Total
Year Ended December 31, 2019							
Net interest income (expense)	$ 75,952	$ 20,967	$ 9	$ (9,581)	$ 87,347	$ 10,331	$ 97,678
Property and other income	729	429	115,642	504	117,304	138,984	256,288
Management fee expense	—	—	—	(33,912)	(33,912)	(8,478)	(42,390)
Property operating expense	—	—	(31,733)	—	(31,733)	(81,068)	(112,801)
Transaction, investment and servicing expense	(2,142)	(4)	(214)	(854)	(3,214)	(3,977)	(7,191)
Interest expense on real estate	—	—	(34,430)	—	(34,430)	(20,985)	(55,415)
Depreciation and amortization	—	—	(49,003)	—	(49,003)	(54,217)	(103,220)
Provision for loan losses	—	—	—	—	—	(220,572)	(220,572)
Impairment of operating real estate	—	—	(23,911)	—	(23,911)	(258,838)	(282,749)
Administrative expense	(1,036)	(1,208)	(380)	(14,267)	(16,891)	(15,045)	(31,936)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	5,127	—	(1,037)	4,090	—	4,090
Realized gain on mortgage loans and obligations held in securitization trusts, net	—	48	—	2,724	2,772	—	2,772
Other gain (loss), net	30	(10,931)	2,430	1	(8,470)	7,498	(972)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	73,533	14,428	(21,590)	(56,422)	9,949	(506,367)	(496,418)
Equity in earnings (losses) of unconsolidated ventures	56,241	—	—	—	56,241	(19,299)	36,942
Income tax benefit (expense)	(881)	—	524	(382)	(739)	(2,433)	(3,172)
Net income (loss)	$ 128,893	$ 14,428	$ (21,066)	$ (56,804)	$ 65,451	$ (528,099)	$ (462,648)

(1) Includes income earned from the CRE securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the year ended December 31, 2019, $1.7 million, was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Corporate column.

	Core						
	Senior and Mezzanine Loans and Preferred Equity	**CRE Debt Securities**	**Net Leased Real Estate**	**Corporate[1]**	**Total Core Portfolio**	**Legacy, Non-Strategic Portfolio**	**Total**
Year Ended December 31, 2018							
Net interest income (expense)	$ 59,178	$ 24,778	$ 4	$ (6,602)	$ 77,358	$ 38,181	$ 115,539
Property and other income	315	84	88,691	1,131	90,221	91,769	181,990
Management fee expense	—	—	—	(34,551)	(34,551)	(8,639)	(43,190)
Property operating expense	10	—	(26,683)	—	(26,673)	(46,943)	(73,616)
Transaction, investment and servicing expense	(1,847)	(80)	(468)	(33,500)	(35,895)	(905)	(36,800)
Interest expense on real estate	—	—	(25,372)	—	(25,372)	(18,065)	(43,437)
Depreciation and amortization	—	—	(45,735)	—	(45,735)	(45,251)	(90,986)
Provision for loan losses	517	—	—	—	517	(114,428)	(113,911)
Impairment of operating real estate	—	—	(2,435)	—	(2,435)	(29,378)	(31,813)
Administrative expense	(501)	(1,617)	(145)	(12,119)	(14,382)	(12,252)	(26,634)
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	—	1,642	—	3,361	5,003	—	5,003
Realized loss on mortgage loans and obligations held in securitization trusts, net	—	(3,447)	—	—	(3,447)	—	(3,447)
Other gain (loss), net	(114)	(6,032)	2,736	—	(3,410)	644	(2,766)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	57,558	15,328	(9,407)	(82,280)	(18,801)	(145,267)	(164,068)
Equity in earnings (loss) of unconsolidated ventures	42,484	—	—	—	42,484	(18,710)	23,774
Income tax expense	—	—	(1,125)	—	(1,125)	(35,934)	(37,059)
Net income (loss)	$ 100,042	$ 15,328	$ (10,532)	$ (82,280)	$ 22,558	$ (199,911)	$ (177,353)

(1) Includes income earned from the CRE securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the year ended December 31, 2018, $3.4 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Corporate column.

The following table presents total assets by segment as of December 31, 2020 and December 31, 2019 (dollars in thousands):

	Core						
Total Assets	**Senior and Mezzanine Loans and Preferred Equity[1]**	**CRE Debt Securities**	**Net Leased Real Estate**	**Corporate[2]**	**Total Core Portfolio**	**Legacy, Non-Strategic Portfolio[3]**	**Total**
December 31, 2020	$ 1,741,484	$ 1,696,808	$ 1,025,611	$ 1,317,439	$ 5,781,342	$ 430,595	$ 6,211,937
December 31, 2019	2,464,963	2,226,448	1,181,609	496,714	6,369,734	1,044,572	7,414,306

(1) Includes investments in unconsolidated ventures totaling $366.5 million and $585.0 million as of December 31, 2020 and December 31, 2019, respectively.
(2) Includes cash, unallocated receivables, deferred costs and other assets, net and the elimination of the subordinate tranches of the securitization trusts in consolidation.
(3) Includes PE Investments totaling $6.9 million and $10.3 million as of December 31, 2020 and December 31, 2019, respectively.

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):

	Year Ended December 31,		
	2020	2019	2018
Total income by geography:			
United States	$ 318,886	$ 539,094	$ 481,404
Europe	(27,874)	49,476	17,487
Other	—	32	1,897
Total[(1)]	$ 291,012	$ 588,602	$ 500,788

	December 31, 2020	December 31, 2019
Long-lived assets by geography:		
United States	$ 600,767	$ 1,282,189
Europe	314,190	315,369
Total[(2)]	$ 914,957	$ 1,597,558

(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.

19. Earnings Per Share

The Company's net income (loss) and weighted average shares outstanding for the years ended December 31, 2020, 2019 and 2018 consist of the following (dollars in thousands, except per share data):

	Year Ended December 31,		
	2020	2019	2018
Net income (loss)	$ (375,584)	$ (462,648)	$ (177,353)
Net (income) loss attributable to noncontrolling interests:			
Investment Entities	13,924	38,208	4,771
Operating Partnership	8,361	9,928	4,084
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	$ (353,299)	$ (414,512)	$ (168,498)
Numerator:			
Net income allocated to participating securities (non-vested shares)	$ (322)	$ (2,187)	$ (1,439)
Net income (loss) attributable to common stockholders	$ (353,621)	$ (416,699)	$ (169,937)
Denominator:			
Weighted average shares outstanding[(1)]	128,548	128,391	120,677
Net income (loss) per common share - basic and diluted	$ (2.75)	$ (3.25)	$ (1.41)

(1) For earnings per share, the Company assumes 44.4 million shares of Class B-3 common stock were outstanding prior to January 31, 2018 to reflect the standalone pre-merger financial information of the CLNY Investment Entities, the Company's predecessor for accounting purposes. On February 1, 2019, the Class B-3 common stock automatically converted to Class A common stock on a one-for-one basis.

20. Subsequent Events

Dividends

On February 24, 2021, the Company's Board of Directors declared a quarterly cash dividend of $0.10 per share of Class A common stock for the quarter ending March 31, 2021, which will be paid on April 15, 2021 to stockholders of record on March 31, 2021.

Investment Sales

On January 29, 2021 the Company sold one real estate industrial portfolio in its Core Portfolio for total gross proceeds of $335.0 million. In connection with the sale, the Company repaid $250.0 million of financing. The Company received $81.8 million of net proceeds and will recognize a net gain of approximately $16.7 million. Any prior claims between the buyer and seller regarding the prior termination of the purchase and sale agreement have been fully released concurrent with the sale.

Loan Originations

Subsequent to December 31, 2020, the Company originated four senior loans with a total commitment of $165.7 million.

Master Repurchase Facilities

On January 22, 2021, the Company extended the maturity on Bank 7 Facility 1 from April 2021 to April 2024.

On February 22, 2021, the Company entered into an agreement that provides for two, one-year extension options on Bank 3 Facility 3.

Stock Grant

On January 11, 2021, the Company granted 1,420,000 shares of restricted stock and 276,000 performance restricted stock units to employees of its Manager.

COLONY CREDIT REAL ESTATE, INC. AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2020

(Dollars in Thousands)

			Initial Cost			Gross Amount Carried at December 31, 2020 [1]						
Property Description / Location	Number of Properties	Encumbrances	Land	Building and Improvements	Costs Capitalized Subsequent to Acquisition [1][2]	Land	Building and Improvements	Total	Accumulated Depreciation [3]	Total	Date of Acquisition [4]	Life on Which Depreciation is Computed
Hotel-Pennsylvania	1	$ 22,788	$ 6,527	$ 30,612	$ (6,083)	$ 5,091	$ 25,965	$ 31,056	$ 4,882	$ 26,174	2018	30 years
Industrial-Arizona	1	77,864	14,494	59,991	78	14,494	60,069	74,563	4,535	70,028	2018	31 years
Industrial-California	1	122,136	32,552	148,911	79	32,552	148,990	181,542	11,992	169,550	2018	28 years
Office-Colorado	1	31,244	2,359	41,410	5,712	2,359	47,122	49,481	5,249	44,232	2017	40 years
Office-Indiana	1	23,608	3,773	26,916	5,187	3,772	32,104	35,876	4,213	31,663	2017	40 years
Office-Missouri	1	107,029	22,079	131,292	(43,990)	14,725	94,656	109,381	14,754	94,627	2018	39 years
Office-Norway	1	187,152	55,054	277,439	(17,085)	55,900	259,508	315,408	20,225	295,183	2018	37 years
Office-Pennsylvania	1	73,905	12,480	130,942	(54,252)	7,675	81,495	89,170	10,319	78,851	2018	40 years
Retail-Illinois	1	4,289	—	7,338	(3,578)	—	3,760	3,760	638	3,122	2017	40 years
Retail-Indiana	1	3,351	—	5,171	(1,769)	—	3,402	3,402	480	2,922	2017	40 years
Retail-Kansas	1	5,328	1,048	7,023	(3,770)	535	3,766	4,301	708	3,593	2017	40 years
Retail-Maine	1	1,364	—	6,317	(3,953)	—	2,364	2,364	531	1,833	2017	40 years
Retail-Massachusetts	2	8,174	—	12,254	(5,939)	—	6,315	6,315	1,082	5,233	2017	40 years
Retail-New Hampshire	2	15,809	1,495	21,488	(11,487)	915	10,581	11,496	1,993	9,503	2017	40 years
Retail-New York	1	3,847	—	6,372	(3,074)	—	3,298	3,298	555	2,743	2017	40 years
Total operating real estate, net	17	$ 687,888	$ 151,861	$ 913,476	$ (143,924)	$ 138,018	$ 783,395	$ 921,413	$ 82,156	$ 839,257		

(1) The aggregate gross cost of total real estate assets for federal income tax purposes is $1.4 billion as of December 31, 2020.
(2) Gross amount carried is shown net of impairment and net of the effect of changes in foreign exchange rates.
(3) Depreciation is calculated using a useful life of 2 to 48 years for buildings and improvements.
(4) Properties consolidated upon the Combination reflect an acquisition date of February 1, 2018, the effective date of consolidation.

COLONY CREDIT REAL ESTATE, INC. AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2020

(Dollars in Thousands)

Changes in the Company's operating real estate portfolio gross of accumulated depreciation for the years ended December 31, 2020, 2019 and 2018 are as follows:

	Year Ended December 31,		
	2020	2019	2018
Balance at January 1	$ 1,594,870	$ 2,017,252	$ 225,710
Real estate acquired in the Combination	—	—	1,287,515
Property acquisitions[(1)]	—	120,139	695,794
Improvements and capitalized costs	7,701	23,406	23,417
Impairment	—	(265,312)	(31,813)
Dispositions	(368,065)	(103,242)	(161,513)
Effect of changes in foreign exchange rates	8,765	(3,991)	(21,858)
Balance at December 31	$ 1,243,271	$ 1,788,252	$ 2,017,252
Classified as held for investment, net[(2)]	31,056	—	—
Classified as held for sale, net[(3)]	(352,914)	(193,382)	—
Balance at December 31, held for investment	$ 921,413	$ 1,594,870	$ 2,017,252

(1) Includes REO foreclosures of $120.1 million for the fiscal year ended 2019 and $107.0 million for the fiscal year ended 2018.
(2) Represents one property classified as held for sale at December 31, 2019 and transferred to held for investment, net during the year ended December 31, 2020.
(3) Amounts classified as held for sale during the year and remain as held for sale at the end of the year.

Changes in accumulated depreciation for the years ended December 31, 2020, 2019 and 2018 are as follows:

	Year Ended December 31,		
	2020	2019	2018
Balance at January 1	$ 110,074	$ 57,562	$ 5,970
Depreciation expense	41,691	72,926	56,270
Dispositions	(34,090)	(5,368)	(4,272)
Effect of changes in foreign exchange rates	873	(228)	(406)
Balance at December 31	$ 118,548	$ 124,892	$ 57,562
Classified as held for investment[(1)]	2,608	—	—
Classified as held for sale[(2)]	(39,000)	(14,818)	—
Balance at December 31, held for investment	$ 82,156	$ 110,074	$ 57,562

(1) Amounts classified as held for investment during the year and remain as held for investment at the end of the year.
(2) Amounts classified as held for sale during the year and remain as held for sale at the end of the year.

COLONY CREDIT REAL ESTATE, INC. AND SUBSIDIARIES
SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE

December 31, 2020

(Dollars in Thousands)

Loan Type / Collateral / Location [(1)]	Number of Loans	Interest Rate Range [(2)]	Maturity Date Range [(3)]	Periodic Payment Terms [(4)]	Prior Liens [(5)]	Unpaid Principal Amount	Carrying Value [(6)(7)]	Principal Amount Subject to Delinquent Principal or Interest [(8)]
First mortgage:								
Hotel-California, USA	1	5.25%	January 2021	I/O	$ —	$ 173,485	$ 160,700	$ —
Hotel-California, USA	1	5.00%	July 2023	I/O	—	120,000	115,916	—
Office-California, USA	1	5.70%	December 2021	I/O	—	116,000	115,587	—
Office-Connecticut, USA	1	5.65%	June 2023	I/O	—	99,622	98,658	—
Office-Various, USA	11	4.35% - 5.90%	April 2021 to November 2023	I/O	—	422,275	417,670	—
Multifamily-Colorado, USA	1	5.50%	April 2021	I/O	—	92,000	91,724	—
Multifamily-California, USA	1	6.80%	June 2021	I/O	—	105,365	103,967	—
Multifamily-California, USA	1	5.35%	July 2022	I/O	—	179,961	179,400	—
Multifamily -Various, USA	9	3.65% - 6.45%	February 2021 to January 2024	I/O	—	301,466	299,680	—
Hotel-Minnesota, USA	1	4.00%	May 2021	I/O	—	19,500	19,059	—
Industrial-New York, USA	1	5.25%	September 2021	I/O	—	116,000	115,423	—
Office-California, USA	1	4.70%	July 2021	I/O	—	73,254	73,232	—
Office-California, USA	1	4.00%	August 2021	I/O	—	71,137	71,131	—
Hotel-Colorado, USA	1	5.00%	July 2021	I/O	—	73,938	72,754	—
Other-New York, USA	1	5.40%	November 2021	I/O	—	72,251	66,587	—
	33				—	2,036,254	2,001,488	—
Subordinated mortgage and mezzanine:								
Hotel-Various, USA	2	11.50% - 11.50%	January 2021 to July 2023	Both	179,490	41,290	39,022	—
Multifamily -Various, USA	4	9.45% - 13.50%	July 2022 to August 2024	Both	162,427	126,513	121,728	—
	6				341,917	167,803	160,750	—
Preferred equity:								
Office-Nevada, USA	1	15.00%	September 2021	I/O	54,875	18,681	18,141	—
Mixed-use-California, USA	1	5.25%	January 2021	I/O	173,485	3,118	3,118	—
	2				228,360	21,799	21,259	—
Total	41				$ 570,277	$ 2,225,856	$ 2,183,497	$ —

(1) Loans with carrying values that are individually less than 3% of the total carrying value have been aggregated according to collateral type and location.
(2) Variable rate loans are determined based on the applicable index in effect as of December 31, 2020.
(3) Represents contractual maturity that does not contemplate exercise of extension option.
(4) Payment terms: P&I = Periodic payment of principal and interest; I/O = Periodic payment of interest only with principal at maturity.
(5) Prior liens represent loan amounts owned by third parties that are senior to the Company’s mezzanine or preferred equity positions and are approximate.
(6) Carrying amounts as of December 31, 2020 are presented net of $37.2 million of allowance for loan losses.
(7) The aggregate cost of loans and preferred equity held for investment is approximately 3.4 billion for federal tax purposes as of December 31, 2020.
(8) Represents principal balance of loans which are 90 days or more past due as to principal or interest.

COLONY CREDIT REAL ESTATE, INC. AND SUBSIDIARIES

SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE (CONTINUED)

December 31, 2020

(Dollars in Thousands)

Activity in mortgage loans on real estate is summarized below:

	Year Ended December 31,		
	2020	2019	2018
Balance at January 1	$ 2,563,884	$ 2,005,497	$ 1,300,784
Loans and preferred equity held for investment acquired in the Combination	—	—	1,249,733
Deconsolidation of investment entities	—	—	(553,678)
Acquisitions/originations/additional funding [1]	296,648	1,337,583	904,461
Loan maturities/principal repayments[2]	(463,729)	(444,736)	(627,219)
Foreclosure of loans held for investment	—	(174,048)	(117,878)
Combination adjustment	—	—	(50,314)
Discount accretion/premium amortization	7,668	6,293	2,582
Capitalized interest	(1,049)	12,190	5,837
Provision for loan losses	(85,744)	(220,572)	(109,328)
Charge-off	41,036	46,693	—
Recoveries	—	—	517
Effect of CECL adoption	(20,847)	—	—
Transfer to loans held for sale	(154,370)	(5,016)	—
Balance at December 31	$ 2,183,497	$ 2,563,884	$ 2,005,497

(1) Excludes origination of a corporate term loan with an unpaid principal amount of $12.6 million and carrying value of $12.4 million as of December 31, 2019 and a senior loan with an unpaid principal amount and carrying value of $15.0 million as of December 31, 2018 that are not related to real estate.

(2) Excludes repayment of a senior loan with a principal amount of $12.6 million and carrying value of $12.4 million that is not related to real estate.

Item 16. Form 10-K Summary

Omitted at Registrant's option.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
2.1	Amended and Restated Master Combination Agreement, dated as of November 20, 2017, among Colony Capital Operating Company, LLC, NRF RED REIT Corp., NorthStar Real Estate Income Trust, Inc., NorthStar Real Estate Income Trust Operating Partnership, LP, NorthStar Real Estate Income II, Inc., NorthStar Real Estate Income Operating Partnership II, LP, Colony NorthStar Credit Real Estate, Inc. and Credit RE Operating Company, LLC (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-4 (No. 333-221685) effective December 6, 2017)
3.1	Articles of Amendment and Restatement of Colony NorthStar Credit Real Estate, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on August 09, 2018)
3.2	Third Amended and Restated Bylaws of Colony Credit Real Estate, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 16, 2020)
4.1*	Description of Securities
10.1	Amended and Restated Limited Liability Company Agreement of Credit RE Operating Company, LLC, dated as of January 31, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on February 1, 2018)
10.2	Credit Agreement, dated as of February 1, 2018, by and among Credit RE Operating Company, LLC, the other Subsidiary Borrowers from time to time parties thereto, the Several Lenders from time to time parties thereto and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-38377) filed on February 1, 2018)
10.3	First Amendment, dated as of November 19, 2018, to the Credit Agreement dated as of February 1, 2018 by and among Credit RE Operating Company LLC, the Subsidiary Borrowers from time to time parties thereto, the several Lenders from time to time parties thereto and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K (No. 001-38377) filed on March 01, 2019)
10.4	Second Amendment, dated as of December 17, 2018, to the Credit Agreement dated as of February 1, 2018 by and among Credit RE Operating Company LLC, the Subsidiary Borrowers from time to time parties thereto, the several Lenders from time to time parties thereto and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K (No. 001-38377) filed on March 01, 2019)
10.5	Amended and Restated Management Agreement, dated as of November 6, 2019, by and among Colony Credit Real Estate, Inc., Credit RE Operating Company, LLC and CLNC Manager, LLC (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on November 08, 2019)
10.6	Stockholders Agreement, dated as of January 31, 2018, by and between Colony Capital Operating Company, LLC and Colony NorthStar Credit Real Estate, Inc. (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (No. 001-38377) filed on February 1, 2018)
10.7	Registration Rights Agreement, dated as of January 31, 2018, by and among Colony NorthStar Credit Real Estate, Inc., Colony Capital Operating Company, LLC and NRF RED REIT Corp. (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (No. 001-38377) filed on February 1, 2018)
10.8†	Form of Indemnification Agreement, between Colony NorthStar Credit Real Estate, Inc. and the Officers and Directors of the Company (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K (No. 001-38377) filed on February 1, 2018)
10.9†	Colony NorthStar Credit Real Estate, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 (No. 333-222812) filed on February 1, 2018)
10.10†	Form of Restricted Stock Agreement to the 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2018)
10.11	Amended and Restated Master Repurchase Agreement, dated as of April 26, 2019, by and among NSREIT CB Loan, LLC, CB Loan NT-II, LLC, CLNC Credit 3, LLC, CLNC Credit 4, LLC, CLNC Credit 3EU, LLC, CLNC Credit 3UK, LLC and Citibank, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on May 1, 2019)
10.12	Amended and Restated Limited Guaranty, made as of January 31, 2018, by Credit RE Operating Company, LLC for the benefit of Citibank, N.A. (incorporated by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 15, 2018)
10.13	Amended and Restated Limited Guaranty, made as of January 31, 2018, by Credit RE Operating Company, LLC for the benefit of Citibank, N.A. (incorporated by reference to Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 15, 2018)
10.14	Omnibus Amendment to Other Transaction Documents and Reaffirmation of Guaranty, dated as of April 26, 2019, by and among NSREIT CB Loan, LLC, CB Loan NT-II, LLC, CLNC Credit 3, LLC, CLNC Credit 4, LLC, CLNC Credit 3EU, LLC, CLNC Credit 3UK, LLC, Credit RE Operating Company, LLC and Citibank, N.A. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (No. 001-38377) filed on May 1, 2019)
10.15	Master Repurchase Agreement, dated as of March 11, 2013, by and among NS Income DB Loan, LLC and Deutsche Bank AG, Cayman Islands Branch (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income Trust, Inc.'s Current Report on Form 8-K (No. 000-54671) filed on March 12, 2013)
10.16	First Amendment to Master Repurchase Agreement, dated as of October 8, 2013, by and among NS Income DB Loan, LLC and Deutsche Bank AG, Cayman Islands Branch, and acknowledged and agreed to by NS Income DB Loan Member, LLC (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017)

Exhibit Number	Description of Exhibit
10.17	Second Amendment to Master Repurchase Agreement, dated as of January 6, 2016, by and among NS Income DB Loan, LLC, NorthStar Real Estate Income Trust, Inc., NorthStar Real Estate Income Trust Operating Partnership, LP and Deutsche Bank AG, Cayman Islands Branch, and acknowledged and agreed to by NS Income DB Loan Member, LLC (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017)
10.18	Third Amendment to Master Repurchase Agreement, dated as of January 31, 2018, by and between NS Income DB Loan, LLC and Deutsche Bank AG, Cayman Islands Branch, and acknowledged and agreed to by Credit RE Operating Company, LLC and NS Income DB Loan Member, LLC (incorporated by reference to Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 15, 2018)
10.19	Amended and Restated Guaranty, made as of January 31, 2018, by Credit RE Operating Company, LLC for the benefit of Deutsche Bank AG, Cayman Islands Branch (incorporated by reference to Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 15, 2018)
10.20	Master Repurchase Agreement, dated July 2, 2014, by and between DB Loan NT-II, LLC and Deutsche Bank AG, Cayman Islands Branch (incorporated by reference to Exhibit 10.1 to NorthStar Real Estate Income II, Inc.'s Current Report on Form 8-K (No. 000-55189) filed on July 9, 2014)
10.21	First Amendment to Master Repurchase Agreement, dated as of January 6, 2016, by and among DB Loan NT-II LLC, NorthStar Real Estate Income II, Inc., NorthStar Real Estate Income Operating Partnership II, LP and Deutsche Bank AG, Cayman Islands Branch, and acknowledged and agreed to by DB Loan Member NT-II, LLC (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017)
10.22	Second Amendment to Master Repurchase Agreement, dated as of January 31, 2018, by and between DB Loan NT-II LLC, and Deutsche Bank AG, Cayman Islands Branch, and acknowledged and agreed to by Credit RE Operating Company, LLC, and DB Loan Member NT-II, LLC (incorporated by reference to Exhibit 10.29 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 15, 2018)
10.23	Amended and Restated Guaranty, made as of January 31, 2018, by Credit RE Operating Company, LLC for the benefit of Deutsche Bank AG, Cayman Islands Branch (incorporated by reference to Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 15, 2018)
10.24	Second Amended and Restated Master Repurchase and Securities Contract Agreement, dated as of April 23, 2019, by and among MS Loan NT-I, LLC, MS Loan NT-II, LLC, CLNC Credit 1, LLC, CLNC Credit 2, LLC, CLNC Credit 1EU, LLC, CLNC Credit 1UK, LLC and Morgan Stanley Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 26, 2019)
10.25	Amended and Restated Guaranty Agreement, made as of April 20, 2018, by Credit RE Operating Company, LLC in favor of Morgan Stanley Bank, N.A. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 25, 2018)
10.26	Ratification, Reaffirmation and Confirmation of Transaction Documents, dated as of April 23, 2019, by and among MS Loan NT-I, LLC, MS Loan NT-II, LLC, CLNC Credit 1, LLC, CLNC Credit 2, LLC, CLNC Credit 1EU, LLC, CLNC Credit 1UK, LLC, Credit RE Operating Company, LLC and Morgan Stanley Bank, N.A. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 26, 2019)
10.27	Guaranty, made as of April 23, 2018, by Credit RE Operating Company, LLC for the benefit of Citibank, N.A. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 25, 2018)
10.28	Master Repurchase Agreement, dated as of April 26, 2018, by and among Barclays Bank PLC, CLNC Credit 7, LLC and the other sellers from time to time party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on May 2, 2018)
10.29	Guaranty, made as of April 26, 2018, by Credit RE Operating Company, LLC for the benefit of Barclays Bank PLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-38377) filed on May 2, 2018)
10.30	Master Repurchase Agreement, dated as of June 19, 2018, by and between CLNC Credit 6, LLC and Goldman Sachs Bank USA (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on June 25, 2018)
10.31	Guaranty, dated as of June 19, 2018, by Credit RE Operating Company, LLC, for the benefit of Goldman Sachs Bank USA (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-38377) filed on June 25, 2018)
10.32	Master Repurchase Agreement, dated as of October 23, 2018, by and among DB Loan NT-II, LLC, CLNC Credit 5, LLC and Deutsche Bank AG, Cayman Islands Branch (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on October 25, 2018)
10.33	Guaranty, dated as of October 23, 2018, by Credit RE Operating Company, LLC for the benefit of Deutsche Bank AG, Cayman Islands Branch (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-38377) filed on October 25, 2018)
10.34	Master Repurchase and Securities Contract, dated as of November 2, 2018, by and between CLNC Credit 8, LLC and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on November 7, 2018)
10.35	Guarantee Agreement, dated as of November 2, 2018, by Credit RE Operating Company, LLC for the benefit of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (No. 001-38377) filed on November 7, 2018)

Exhibit Number	Description of Exhibit
10.36	Indenture, dated as of October 22, 2019, by and among CLNC 2019-FL1, Ltd., as Issuer, CLNC 2019-FL1, LLC, as Co-Issuer, CLNC Advancing Agent, LLC, as Advancing Agent, U.S. Bank National Association, as Trustee, Note Administrator and Custodian (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (No. 001-38377) filed on October 25, 2019)
10.37	First Omnibus Amendment, dated as of February 14, 2020, to the Second Amended and Restated Master Repurchase and Securities Contract Agreement, dated as of April 23, 2019, by and among MS Loan NT-I, LLC, MS Loan NT-II, LLC, CLNC Credit 1, LLC, CLNC Credit 2, LLC, CLNC Credit 1EU, LLC, CLNC Credit 1UK, LLC and Morgan Stanley Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 8, 2020)
10.38	Third Amendment and Waiver, dated as of May 6, 2020, to Credit Agreement, dated as of February 1, 2018, among Credit RE Operating Company, LLC, the several lenders from time to time parties thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 8, 2020)
10.39	First Amendment to Guaranty, dated as of May 7, 2020, by Credit RE Operating Company, LLC for the benefit of Citibank, N.A. (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 8, 2020)
10.40	Amendment to Guaranty, dated as of May 7, 2020, by Credit RE Operating Company, LLC for the benefit of Barclays Bank PLC (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 8, 2020)
10.41	Amendment to Guaranty, dated as of May 7, 2020, by Credit RE Operating Company, LLC for the benefit of Goldman Sachs Bank (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 8, 2020)
10.42	Amendment to Guaranty, dated as of May 7, 2020, by Credit RE Operating Company, LLC for the benefit of Deutsche Bank AG, Cayman Islands Branch (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 8, 2020)
10.43	Amendment to Guarantee Agreement, dated as of May 7, 2020, by Credit RE Operating Company, LLC for the benefit of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 8, 2020)
10.44	Third Omnibus Amendment to Transaction Documents, dated as of May 7, 2020, by and between Credit RE Operating Company, LLC and Morgan Stanley Bank, N.A. (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on May 8, 2020)
10.45	First Amendment to Master Repurchase Agreement, dated as of June 16, 2020, by and between CLNC Credit 6, LLC and Goldman Sachs Bank USA (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (No. 001-38377) filed on June 19, 2020)
10.46	Reaffirmation of Guarantor, dated as of June 16, 2020, by Credit RE Operating Company, LLC, for the benefit of Goldman Sachs Bank USA (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (No. 001-38377) filed on June 19, 2020)
10.47*	Fourth Omnibus Amendment to Transaction Documents, dated as of February 22, 2021, by and between MS Loan NT-I, LLC, MS Loan NT-II, LLC, CLNC Credit 1, LLC, CLNC Credit 2, LLC, CLNC Credit 1EU, LLC and CLNC Credit 1UK, LLC, Credit RE Operating Company, LLC and Morgan Stanley Bank, N.A
21.1*	List of Subsidiaries of Colony Credit Real Estate Inc.
23.1*	Consent of Ernst & Young, LLP
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

† Denotes a management contract or compensatory plan, contract or arrangement.

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.

Colony Credit Real Estate, Inc.

Date: February 25, 2021

/s/ Michael J. Mazzei

Michael J. Mazzei
Chief Executive Officer and President

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael J. Mazzei and Frank V. Saracino and each of them severally, her or his true and lawful attorney-in-fact with power of substitution and re-substitution to sign in her or his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as she or he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and her or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof. Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below on behalf of the Registrant in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Michael J. Mazzei Michael J. Mazzei	Chief Executive Officer and President and Director (Principal Executive Officer)	February 25, 2021
/s/ Frank V. Saracino Frank V. Saracino	Chief Financial Officer and Chief Accounting Officer (Principal Financial Officer and Principal Accounting Officer)	February 25, 2021
/s/ Mark M. Hedstrom Mark M. Hedstrom	Chairman of the Board of Directors	February 25, 2021
/s/ Andrew E. Witt Andrew E. Witt	Director	February 25, 2021
/s/ Catherine D. Rice Catherine D. Rice	Director	February 25, 2021
/s/ Vernon B. Schwartz Vernon B. Schwartz	Director	February 25, 2021
/s/ John E. Westerfield John E. Westerfield	Director	February 25, 2021
/s/ Winston W. Wilson Winston W. Wilson	Director	February 25, 2021

Board of Directors

Mark M. Hedstrom
Chairman

Catherine D. Rice*
Private Investor

Vernon B. Schwartz*
Private Investor

John E. Westerfield*
Chief Executive Officer of Mitsui Fudosan America, Inc.

Winston W. Wilson*
Private Investor

Michael J. Mazzei

Andrew E. Witt

**Independent Board Member*

Executive Officers

Michael J. Mazzei
Chief Executive Officer & President

Andrew E. Witt
Chief Operating Officer

Frank V. Saracino
Chief Financial Officer, Chief Accounting Officer & Treasurer

David A. Palamé
General Counsel & Secretary

Corporate Information

Independent Auditor
Ernst & Young LLP

Press Inquiries/Media Contact
Caroline Luz
Owen Blicksilver P.R., Inc.
Tel: (203) 656-2829
caroline@blicksilverpr.com

Investor Relations
Lasse Glassen
Addo Investor Relations, Inc.
Tel: (310) 829-5400
lglassen@addoir.com

Stock Listing
Colony Credit Real Estate, Inc.'s common stock is listed on the New York Stock Exchange under the symbol "CLNC"

Transfer Agent and Registrar
American Stock Transfer & Trust Company, LLC
6201 15th Avenue, Brooklyn, NY 11219

(800) 937-5449 US & Canada or (718) 921-8124 Intl.,
(866) 703-9077 or (718) 921-8386 for Hearing Impaired
Email: help@astfinancial.com
Website: www.astfinancial.com

Annual Report on Form 10-K

Colony Credit Real Estate's Annual Report on Form 10-K for the year ended December 31, 2020, as amended, is included in this annual report. The exhibits accompanying the report are filed with the U.S. Securities and Exchange Commission and can be accessed in the EDGAR database at the SEC's website, www.sec.gov. or through Colony Credit Real Estate's website in the "Public Shareholders" section at www.clncredit.com. We will provide these items to stockholders upon request. Requests for any such exhibits should be made to:

Colony Credit Real Estate, Inc.
590 Madison Ave. 34th Floor
New York, NY 10022
Atten: David A. Palamé, Secretary

Certifications

Colony Credit Real Estate has filed with the Securities and Exchange Commission as exhibits to its Form 10-K for the fiscal year ended December 31, 2020, as amended, the certifications, required pursuant to Section 302 of the Sarbanes-Oxley Act, of its Chief Executive Officer and Chief Financial Officer relating to the quality of its public disclosure.

Forward Looking Statements

In accordance with the Private Securities Litigation Reform Act of 1995, Colony Credit Real Estate notes that this annual report contains forward-looking statements that involve risks and uncertainties, including those relating to Colony Credit Real Estate's future success and growth. Actual results may differ materially due to risks and uncertainties as described in Colony Credit Real Estate's filings with the U.S. Securities and Exchange Commission. Colony Credit Real Estate does not intend to update these forward-looking statements.

Annual Meeting of Stockholders

Stockholders of Colony Credit Real Estate are cordially invited to attend the virtual 2021 Annual Meeting of Stockholders scheduled to be held on Wednesday, May 5, 2021 at 8:30 a.m. EDT.

Holders of Record

Holders of record of Colony Credit Real Estate's class A common stock, par value $.01 per share, totaled 3,684 as of March 19, 2021.

Executive Offices:

590 Madison Avenue, 34th Floor
New York, NY 10022
(212) 547-2600

515 South Flower Street, 44th Floor
Los Angeles, CA 90071
(310) 282-8820

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