UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

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)

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No o

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 o	Accelerated filer o	Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company o
			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. o

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

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

As of August 8, 2018, Colony Credit Real Estate, Inc. had 83,487,352 shares of Class A common stock, par value $0.01 per share, and 44,399,444 shares of Class B-3 common stock, par value $0.01 per share, outstanding.

EXPLANATORY NOTE

This Quarterly Report on Form 10-Q 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.

In addition to the financial statements contained herein, you should read and consider the audited financial statements and accompanying notes thereto of the Company and the CLNY Investment Entities for the year ended December 31, 2017 included in our Form 10-K filed with the U.S. Securities and Exchange Commission (the "SEC") on March 23, 2018 and the audited financial statements and accompanying notes of NorthStar I and NorthStar II for the year ended December 31, 2017 included as Exhibits 99.1 and 99.2, respectively, to our Form 10-K filed with the SEC on March 23, 2018.

COLONY CREDIT REAL ESTATE, INC.

FORM 10-Q

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and contingencies, many of which are beyond our control, and may cause actual results to differ significantly from those expressed in any forward-looking statement. 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 fair value of our investments may be subject to uncertainties;
- changes in market and economic conditions may adversely impact the commercial real estate sector and our investments;
- our use of leverage could hinder its ability to make distributions and may significantly impact our liquidity position;
- given our dependence on our external manager, an affiliate of Colony Capital, any adverse changes in the financial health or otherwise of our manager or Colony Capital could hinder our operating performance and return on stockholder’s investment;
- our external manager may not be successful in locating or allocating suitable investments;
- our external manager may be unable to retain or hire key investment professionals;
- we may be unable to realize substantial efficiencies as well as anticipated strategic and financial benefits from the Combination;
- we may be unable to maintain our qualification as a real estate investment trust for U.S. income tax purposes;
- we may be unable to maintain our exemption from registration as an investment company under the Investment Company Act of 1940, as amended; and
- changes in laws or regulations governing our operations may impose additional costs on us or increase competition.

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” in our Annual Report on Form 10-K for the year ended December 31, 2017 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” herein.

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

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PART I. Financial Information

Item 1. Financial Statements

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED BALANCE SHEETS
(in Thousands, Except Share and Per Share Data)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	$ 155,377	$ 25,204
Restricted cash	116,466	41,901
Loans and preferred equity held for investment, net	2,079,134	1,300,784
Real estate securities, available for sale, at fair value	198,151	—
Real estate, net	1,485,557	219,740
Investments in unconsolidated ventures ($241,453 and $24,417 at fair value, respectively)	731,642	203,720
Receivables, net	35,861	35,512
Deferred leasing costs and intangible assets, net	102,426	11,014
Other assets	95,215	1,527
Mortgage loans held in securitization trusts, at fair value	3,154,112	—
Total assets	$ 8,153,941	$ 1,839,402
Liabilities		
Securitization bonds payable, net	$ 126,256	$ 108,679
Mortgage and other notes payable, net	884,729	280,982
Credit facilities	800,545	—
Due to related party (Note 11)	14,513	—
Accrued and other liabilities	46,814	5,175
Intangible liabilities, net	17,789	36
Escrow deposits payable	71,529	36,960
Dividends payable	18,993	—
Mortgage obligations issued by securitization trusts, at fair value	3,010,636	—
Total liabilities	4,991,804	431,832
Commitments and contingencies		
Equity		
Stockholders' equity		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of June 30, 2018 and December 31, 2017	—	—
Common stock, $0.01 par value per share		
Class A, 905,000,000 shares authorized, 83,487,352 and 100 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	835	—
Class B-3, 45,000,000 shares authorized, 44,399,444 and no shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	444	—
Additional paid-in capital	2,896,695	821,031
Retained earnings	97,715	258,777
Accumulated other comprehensive loss	(2,778)	—
Total stockholders' equity	2,992,911	1,079,808
Noncontrolling interests in investment entities	96,953	327,762
Noncontrolling interests in the Operating Partnership	72,273	—
Total equity	3,162,137	1,407,570
Total liabilities and equity	$ 8,153,941	$ 1,839,402

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.

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	$ 13,500	$ 1,320
Restricted cash	21,190	24,928
Loans and preferred equity held for investment, net	187,666	379,305
Real estate, net	730,087	8,073
Receivables, net	18,497	11,994
Deferred leasing costs and intangible assets, net	61,773	—
Other assets	2,826	38
Mortgage loans held in securitization trusts, at fair value	3,154,112	—
Total assets	$ 4,189,651	$ 425,658
Liabilities		
Securitization bonds payable, net	$ 45,439	$ 108,679
Mortgage and other notes payable, net	423,945	—
Accrued and other liabilities	29,306	3,764
Intangible liabilities, net	14,037	—
Escrow deposits payable	10,307	24,928
Mortgage obligations issued by securitization trusts, at fair value	3,010,636	—
Total liabilities	$ 3,533,670	$ 137,371

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)
(Unaudited)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net interest income				
Interest income	$ 36,795	$ 36,904	$ 72,934	$ 72,055
Interest expense	(9,703)	(5,647)	(17,118)	(11,751)
Interest income on mortgage loans held in securitization trusts	39,496	—	65,361	—
Interest expense on mortgage obligations issued by securitization trusts	(36,459)	—	(60,737)	—
Net interest income	30,129	31,257	60,440	60,304
Property and other income				
Property operating income	39,477	5,762	68,022	10,901
Other income	899	390	1,416	551
Total property and other income	40,376	6,152	69,438	11,452
Expenses				
Management fee expense	11,791	—	19,791	—
Property operating expense	16,256	1,857	27,969	3,468
Transaction, investment and servicing expense	3,497	709	34,581	1,410
Interest expense on real estate	9,850	1,066	16,106	2,042
Depreciation and amortization	23,359	2,745	42,151	5,030
Administrative expense (including $1,798, $0, $2,083 and $0 of equity-based compensation expense, respectively)	6,884	3,729	10,112	6,741
Total expenses	71,637	10,106	150,710	18,691
Other income (loss)				
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	3,696	—	4,193	—
Realized loss on mortgage loans and obligations held in securitization trusts, net	(2,203)	—	(2,203)	—
Other gain (loss) on investments, net	10	(313)	475	(313)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	371	26,990	(18,367)	52,752
Equity in earnings of unconsolidated ventures	15,661	6,219	31,449	12,257
Income tax benefit (expense)	(158)	(885)	391	(662)
Net income	15,874	32,324	13,473	64,347
Net (income) loss attributable to noncontrolling interests:				
Investment entities	470	(9,375)	(1,900)	(18,512)
Operating Partnership	(336)	—	(279)	—
Net income attributable to Colony Credit Real Estate, Inc. common stockholders	$ 16,008	$ 22,949	$ 11,294	$ 45,835
Net income per common share - basic and diluted (Note 17)	$ 0.12	$ 0.48	$ 0.09	$ 0.97
Weighted average shares of common stock outstanding, basic and diluted (Note 17)	127,887	44,399	113,355	44,399
Dividends declared per share of common stock	$ 0.44	$ —	$ 0.73	$ —

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)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Net income	$ 15,874	$ 32,324	$ 13,473	$ 64,347
Other comprehensive loss				
Unrealized loss on real estate securities, available for sale	(997)	—	(2,845)	—
Total other comprehensive loss	(997)	—	(2,845)	—
Comprehensive income	14,877	32,324	10,628	64,347
Comprehensive (income) loss attributable to noncontrolling interests:				
Investment entities	470	(9,375)	(1,900)	(18,512)
Operating Partnership	(269)	—	(212)	—
Comprehensive income attributable to common stockholders	$ 15,078	$ 22,949	$ 8,516	$ 45,835

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

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(in Thousands)
(Unaudited)

	Common Stock										
	Class A		Class B-3								
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interests in Investment Entities	Noncontrolling Interests in the Operating Partnership	Total Equity
Balance as of December 31, 2016	—	$ —	—	$ —	$ 714,443	$ 170,273	$ —	$ 884,716	$ 350,848	$ —	$ 1,235,564
Contributions	—	—	—	—	378,617	—	—	378,617	28,110	—	406,727
Distributions	—	—	—	—	(52,011)	—	—	(52,011)	(40,500)	—	(92,511)
Net income	—	—	—	—	—	45,835	—	45,835	18,512	—	64,347
Balance as of June 30, 2017 (Unaudited)	—	$ —	—	$ —	$ 1,041,049	$ 216,108	$ —	$ 1,257,157	$ 356,970	$ —	$ 1,614,127
Balance as of December 31, 2017	—	$ —	—	$ —	$ 821,031	$ 258,777	$ —	$ 1,079,808	$ 327,762	$ —	$ 1,407,570
Contributions	—	—	—	—	—	—	—	—	87	—	87
Distributions	—	—	—	—	—	—	—	—	(1,931)	—	(1,931)
Adjustments related to the Combination	82,484	825	44,399	444	2,074,256	(79,774)	—	1,995,751	(230,865)	73,626	1,838,512
Issuance and amortization of equity-based compensation	1,004	10	—	—	2,073	—	—	2,083	—	—	2,083
Other comprehensive loss	—	—	—	—	—	—	(2,778)	(2,778)	—	(67)	(2,845)
Dividends and distributions declared	—	—	—	—	—	(92,582)	—	(92,582)	—	(2,230)	(94,812)
Reallocation of equity	—	—	—	—	(665)	—	—	(665)	—	665	—
Net income	—	—	—	—	—	11,294	—	11,294	1,900	279	13,473
Balance as of June 30, 2018 (Unaudited)	83,488	$ 835	44,399	$ 444	$ 2,896,695	$ 97,715	$ (2,778)	$ 2,992,911	$ 96,953	$ 72,273	$ 3,162,137

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

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Thousands)
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$ 13,473	$ 64,347
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in earnings of unconsolidated ventures	(31,449)	(12,257)
Depreciation and amortization	42,151	5,030
Straight-line rental income	(2,348)	—
Amortization of above/below market lease values, net	222	—
Amortization of premium/accretion of discount and fees on investments and borrowings, net	(3,688)	(3,810)
Amortization of deferred financing costs	1,564	1,866
Paid-in-kind interest	(1,234)	(4,072)
Distributions of cumulative earnings from unconsolidated ventures	27,400	3,488
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	(4,193)	—
Realized loss on mortgage loans and obligations held in securitization trusts, net	2,203	—
Recovery of allowance for loan loss	(517)	—
Amortization of equity-based compensation	2,083	—
Mortgage notes above/below market value amortization	(307)	—
Deferred income tax benefit	(1,480)	—
Changes in assets and liabilities:		
Restricted cash	(6,567)	(948)
Receivables, net	14,607	—
Deferred costs and other assets	(33,204)	3,097
Due to related party	5,204	—
Other liabilities	(1,571)	(9,571)
Net cash provided by operating activities	22,349	47,170
Cash flows from investing activities:		
Acquisition, origination and funding of loans and preferred equity held for investment, net	(392,278)	(106,070)
Repayment on loans and preferred equity held for investment	272,636	153,474
Proceeds from sale of loans and preferred equity held for investment	—	17,509
Cash received in the Combination	225,169	913
Proceeds from sale of real estate	—	8,938
Improvements of real estate	(5,661)	(312)
Investments in unconsolidated ventures	(5,486)	(8,975)
Distributions in excess of cumulative earnings from unconsolidated ventures	49,438	15,739
Acquisition of real estate securities, available for sale	(33,281)	—
Cash received in excess of accretion on purchased credit impaired loans	—	20,316
Deposit on investments	(15,700)	—
Change in restricted cash	9,092	—
Net cash provided by investing activities	103,929	101,532
Cash flows from financing activities:		
Distributions paid on common stock	(73,589)	—
Distributions paid on common stock to noncontrolling interests	(2,230)	—
Borrowings from mortgage notes	43,782	35,348
Repayment of mortgage notes	(42,088)	(147,758)
Borrowings from credit facilities	326,820	—
Repayment of credit facilities	(175,143)	(115)
Repayment of securitization bonds	(63,354)	—
Payment of deferred financing costs	(8,459)	—
Contributions from noncontrolling interests	87	73,927
Distributions to noncontrolling interests	(1,931)	(92,511)
Net cash provided by (used in) financing activities	3,895	(131,109)
Net increase in cash and cash equivalents	130,173	17,593
Cash and cash equivalents - beginning of period	25,204	13,982
Cash and cash equivalents - end of period	$ 155,377	$ 31,575

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)
(Unaudited)

	Six Months Ended June 30,	
	2018	**2017**
Supplemental disclosure of non-cash investing and financing activities:		
Assets acquired in the Combination (Note 3)	$ 6,916,046	$ —
Liabilities assumed in the Combination (Note 3)	4,812,353	—
Noncontrolling interests assumed in the Combination (Note 3)	82,320	—
Common stock issued for acquisition of NorthStar I and NorthStar II (Note 3)	2,021,373	—
Deconsolidation of certain CLNY Contributed Portfolio investments (Note 2)	313,133	—
Secured Financing (Note 4)	50,314	—
Other Payables to Manager adjustment (Note 11)	2,934	—
Noncontrolling interests in the Operating Partnership	73,626	—
Consolidation of securitization trust (VIE asset / liability)	175,078	—
Escrow deposits payable related to loans and preferred equity held for investment	7,628	63,168
Accrual of distribution payable	18,993	—
Non-cash distributions related to unconsolidated ventures	—	932
Foreclosure of loans and preferred equity held for investment	—	8,789
Assets acquired through the CLNY Merger (Note 2)	—	493,881
Liabilities assumed through the CLNY Merger (Note 2)	—	161,081

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

COLONY CREDIT REAL ESTATE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Business and Organization

Colony Credit Real Estate, Inc. (the "Company") is a commercial real estate ("CRE") credit real estate investment trust ("REIT") focused on originating, acquiring, financing and managing a diversified portfolio consisting primarily of CRE senior mortgage loans, mezzanine loans, preferred equity, debt securities and net leased properties predominantly in the United States. CRE debt investments include senior mortgage loans, mezzanine loans, preferred equity, and participations in such loans and preferred equity interests. CRE debt securities consist of commercial mortgage-backed securities ("CMBS") (including "B-pieces" of a CMBS securitization pool). 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 was organized in the state of Maryland on August 23, 2017. On September 15, 2017, Colony Capital, Inc., formerly Colony NorthStar, Inc. ("Colony Capital"), a publicly traded REIT listed on the New York Stock Exchange ("NYSE") under the ticker symbol "CLNY," made an initial capital contribution of $1,000 to the Company. 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 intends to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), beginning with its taxable year ending 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 June 30, 2018, the Company owned 97.6% of the OP, as its sole managing member. The remaining 2.4% 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.

The Combination

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 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.

Details of the Combination are described more fully in Note 3, "Business Combinations" and the accounting treatment thereof in Note 2, "Summary of Significant Accounting Policies."

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented. However, the results of operations for the interim period presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2018, or for any other future period. These interim financial statements should be read in conjunction with the audited consolidated financial statements of the ownership interests in certain investment entities contributed by CLNY (the "CLNY Investment Entities"), NorthStar I and NorthStar II and notes thereto included in, or presented as exhibits to, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

The consolidated financial statements include the results of operations of 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.

The assets and liabilities contributed by CLNY 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 consolidation financial statements were prepared giving consideration to the rules and regulations of the 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 the Combination with subsequent periods may not be meaningful.

The Combination

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.

Formation of Colony Capital

Colony Capital was formed through a tri-party merger (the "CLNY Merger") among Colony Capital, NorthStar Asset Management Group Inc. and NorthStar Realty Finance Corp. ("NRF"), which closed on January 10, 2017 (the "CLNY Merger Closing Date"). Colony Capital was determined to be the accounting acquirer in the CLNY Merger. Accordingly, the combined financial information of the CLNY Investment Entities included herein as of any date or for any periods on or prior to the CLNY Merger Closing Date represent the CLNY Investment Entities from Colony Capital. On the CLNY Merger Closing Date, the CLNY Investment Entities were reflected by Colony Capital at their pre-CLNY Merger carrying values, while the CLNY Investment Entities from NRF were reflected by Colony Capital at their CLNY Merger fair values. The results of operations of the CLNY Investment Entities from NRF are included in these pre-Combination financial statements effective from January 11, 2017.

Principles of Consolidation

The accompanying combined financial statements include the accounts of the Company and its controlled subsidiaries and consolidated VIEs. 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 they have a controlling financial interest by first considering if an entity meets the definition of a 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

A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The determination of whether an entity is a VIE includes both a qualitative and quantitative analysis. The Company bases its qualitative analysis on its review of the design of the entity, its organizational structure including decision-making ability and relevant financial agreements and the quantitative analysis on the forecasted cash flow of the entity. The Company reassesses its initial evaluation of an entity as a VIE upon the occurrence of certain reconsideration events.

A VIE must be consolidated only by its primary beneficiary, which is defined as the party who, along with its affiliates and agents has both the: (i) power to direct the activities that most significantly impact the VIE’s economic performance; and (ii) obligation to absorb the losses of the VIE or the right to receive the benefits from the VIE, which could be significant to the VIE. The Company determines whether it is the primary beneficiary of a VIE by considering qualitative and quantitative factors, including, but not limited to: which activities most significantly impact the VIE’s economic performance and which party controls such activities; the amount and characteristics of its investment; the obligation or likelihood for the Company or other interests to provide financial support to the VIE; consideration of the VIE’s purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders and the similarity with and significance to the business activities of the Company and the other interests. The Company reassesses its determination of whether it is the primary beneficiary of a VIE each reporting period. Significant judgments related to these determinations include estimates about the current and future fair value and performance of investments held by these VIEs and general market conditions.

The Company evaluates its investments and financings, including investments in unconsolidated ventures and securitization financing transactions, if any, to determine whether each investment or financing is a VIE. The Company analyzes new investments and financings, as well as reconsideration events for existing investments and financings, which vary depending on type of investment or financing.

As of June 30, 2018, 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, or 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 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 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 properties that have noncontrolling interests. These noncontrolling interests do not have substantive kick-out or 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 consolidator of an Investing VIE, nor to any of the Company’s other consolidated entities.

As of June 30, 2018, the Company held subordinate tranches of securitization trusts in three 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. In accordance with the Financial Accounting Standards Board (“FASB”) ASC 810, *Consolidation*, 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. As a result, although the Company legally owns the subordinate tranches of the securitization trusts only, U.S. GAAP requires the Company to present the assets, liabilities, income and expenses of the entire securitization trust on its consolidated financial statements. 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 6, “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 will be recorded separately on the consolidated statements of operations. The Company will separately present the assets and liabilities of its consolidated Investing VIEs as “Mortgage loans held in securitization trusts, at fair value” and “Mortgage obligations issued by securitization trusts, at fair value,” respectively, on its consolidated balance sheets. Refer to Note 15, “Fair Value” for further discussion.

The Company has adopted guidance issued by the 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 the fair value for assets of its Investing VIEs. Refer to Note 15, “Fair Value” for further discussion.

Unconsolidated VIEs

As of June 30, 2018, 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. 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.

COLONY CREDIT REAL ESTATE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following table presents the Company’s classification, carrying value and maximum exposure of unconsolidated VIEs as of June 30, 2018 (dollars in thousands):

	Carrying Value	Maximum Exposure to Loss
Real estate securities, available for sale	$ 198,151	$ 198,151
Investments in unconsolidated ventures	359,711	359,711
Loans and preferred equity held for investment, net	288,885	290,056
Total assets	$ 846,747	$ 847,918

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 June 30, 2018. The Company did not provide financial support to the unconsolidated VIEs during the six months ended June 30, 2018. As of June 30, 2018, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to the unconsolidated VIEs.

Deconsolidation of the CLNY Investment Entities

Certain CLNY Investment Entities were joint ventures between Colony Capital and private funds or other investment vehicles managed by Colony Capital (the “Co-Investment Funds”). Colony Capital consolidated such CLNY Investment Entities as it was deemed to have a controlling financial interest in these CLNY Investment Entities. After assuming Colony Capital’s ownership interests in these CLNY Investment Entities and upon the merger with NorthStar I and NorthStar II, the Company does not have a controlling financial interest in these CLNY Investment Entities. The Company does not have the ability to direct key decisions made by the directors of these entities nor is it the primary beneficiary of these entities as Colony Capital continues to be the investment manager of the Co-Investment Funds and the directors and officers of these entities continue to be employees of Colony Capital. The Company itself is managed by a subsidiary of Colony Capital and does not have any employees of its own. Therefore, upon closing of the Combination, the Company deconsolidated the CLNY Investment Entities that are joint ventures with Co-Investment Funds.

The deconsolidation of these CLNY Investment Entities did not result in any gain or loss to the Company. The following table presents the deconsolidation of the assets and liabilities of certain of the CLNY Investment Entities, and accounting for the Company’s interests in these CLNY Investment Entities as equity method investments as of the Closing Date (dollars in thousands):

	As of the Closing Date
Assets	
Cash and cash equivalents	$ (11,408)
Restricted cash	(14,704)
Loans and preferred equity held for investment, net	(553,678)
Investments in unconsolidated ventures	127,062
Receivables, net	(4,344)
Other assets	(114)
Total assets	$ (457,186)
Liabilities	
Mortgage and other notes payable, net	$ (128,709)
Accrued and other liabilities	(640)
Escrow deposits payable	(14,704)
Total liabilities	(144,053)
Stockholders’ equity	(313,133)
Total liabilities and equity	$ (457,186)

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.

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 basis, where applicable and substantive.

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. Refer to Note 3, "Business Combinations," for further discussion of OP membership units. 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.

Use of Estimates

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.

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 only component of OCI is unrealized gain (loss) on CRE debt securities available for sale for which the fair value option was not elected.

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 guidance issued by the FASB allowing the Company to measure both the financial assets and 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

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 cost, 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.

Net cash paid to acquire a business or assets is classified as investing activities on the accompanying statements of cash flows.

The Company accounts for 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.

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 unless the fair value of non-cash assets given as consideration differs from the carrying amount of the assets acquired. 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.

Cash and Cash Equivalents

Short-term, highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Company did not have any cash equivalents at June 30, 2018 or December 31, 2017. 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.

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. Interest receivable is reversed against interest income when loans and preferred equity investments are placed on nonaccrual status. Interest collection on nonaccruing loans and preferred equity investments for which ultimate collectability of principal is uncertain is recognized using a cost recovery method by applying interest collected as a reduction to loan and preferred equity principal; otherwise, interest collected is recognized on a cash basis by crediting to income when received. Loans and preferred equity investments may be restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is reasonably assured.

Impairment and Allowance for Loan Losses—On a periodic basis, the Company analyzes the extent and effect of any credit migration from underwriting and the initial investment review associated with the performance of a loan and preferred equity investment and/or value of its underlying collateral, financial and operating capability of the borrower or sponsor, as well as amount and status of any senior loan, where applicable. Specifically, operating results of collateral properties and any cash reserves are analyzed and used to assess whether cash from operations are sufficient to cover debt service requirements currently and into the future, ability of the borrower to refinance the loan or preferred equity investment, liquidation value of collateral properties, and financial wherewithal of any loan guarantors, as well as the borrower's competency in managing and operating the collateral properties. Such analysis is performed at least quarterly, or more often as needed when impairment indicators are present.

Loans and preferred equity investments are considered to be impaired when it is probable that the Company will not be able to collect all amounts due in accordance with contractual terms of the loans and preferred equity investments, including consideration of underlying collateral value. Allowance for loan losses represents the estimated probable credit losses inherent in loans and preferred equity held for investment at balance sheet date. Changes in allowance for loan and preferred equity losses are recorded in the provision for loan losses on the statement of operations. Allowance for loan losses generally exclude interest receivable as accrued interest receivable is reversed when a loan or preferred equity investment is placed on nonaccrual status. Allowance for loan losses is generally measured as the difference between the carrying value of the loan or preferred equity investment and either the present value of cash flows expected to be collected, discounted at the original effective interest rate of the loan or preferred equity investment or an observable market price for the loan or preferred equity investment. Subsequent changes in impairment are recorded as adjustments to the provision for loan losses. Loans and preferred equity investments are charged off against allowance for loan losses when all or a portion of the principal amount is determined to be uncollectible. A loan or preferred equity investment is considered to be collateral-dependent when repayment of the loan or preferred equity investment is expected to be provided solely by the underlying collateral. Impaired collateral-dependent loans and preferred equity investments are written down to the fair value of the collateral less disposal cost, first through a charge-off against allowance for loan losses, if any, then recorded as impairment loss.

Troubled Debt Restructuring ("TDR")—A loan with contractual terms modified in a manner that grants concession to the borrower who is experiencing financial difficulty is classified as a TDR. 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 loan. As a TDR is generally considered to be an impaired loan, it is measured for impairment based on the Company's allowance for loan losses methodology.

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.

Acquisition, Development and Construction (“ADC”) Loan Arrangements

The Company provides loans to third party developers for the acquisition, development and construction of real estate. Under an ADC loan 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 loan 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 loan arrangements with characteristics implying loan classification are presented as loans held for investment and result in the recognition of interest income. ADC loan 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 loan 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 loan arrangements is performed at inception, and periodically reassessed when significant changes occur in the circumstances or conditions described above.

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 foregone 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, 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, are 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 53 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	6 to 12 years
Tenant improvements	Lesser of the useful life or remaining term of the lease
Furniture, fixtures and equipment	7 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 cash flows and determines impairments on an individual property basis. In making this determination, the Company reviews, 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. If an impairment indicator exists, the Company evaluates whether the expected future undiscounted cash flows is less than the carrying amount of the asset, and if the Company determines that the carrying value is not recoverable, an impairment loss is recorded for the difference between the estimated fair value and the carrying amount of the asset.

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.

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.

Real Estate Sales—The Company evaluates if real estate sale transactions qualify for recognition under the full accrual method, considering whether, among other criteria, the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay, any receivable due to the Company is not subject to future subordination, the Company has transferred to the buyer the usual risks and rewards of ownership and the Company does not have a substantial continuing involvement with the sold real estate. At the time the sale is consummated, a gain or loss is recognized as the difference between the sale price less disposal cost and the carrying value of the real estate.

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 recognized, generally, 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. Deficiencies compared to the carrying value of the loan, after reversing any previously recognized loss provision on the loan, are recorded as impairment loss. 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 certain of its available for sale securities, and as a result, any unrealized gains (losses) on such securities are recorded in unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations. As of June 30, 2018, the Company held subordinate tranches of three securitization trusts, which represent the Company's retained interest in the securitization trusts, which the Company consolidates under U.S. GAAP. Refer to Note 6, "Real Estate Securities, Available for Sale" for further discussion.

Impairment

CRE securities for which the fair value option is elected are not evaluated for other-than-temporary impairment ("OTTI") as any change in fair value is recorded in the consolidated statements of operations. Realized losses on such securities are reclassified to realized gain (loss) on investments as losses occur.

CRE securities for which the fair value option is not elected are evaluated for OTTI quarterly. Impairment of a security is considered to be other-than-temporary 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 to be other-than-temporarily impaired due to (i) or (ii), the security is written down to its fair value and an OTTI is recognized in the consolidated statements of operations. In the case of (iii), the security is written down to its fair value and the amount of OTTI is then bifurcated into: (a) the amount related to expected credit losses; and (b) the amount related to fair value adjustments in excess of expected credit losses. The portion of OTTI related to expected credit losses is recognized in the consolidated statements of operations. The remaining OTTI related to the valuation adjustment 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 OTTI if the security has an unrealized loss and there has been an adverse change in expected cash flow. The amount of OTTI is then bifurcated as discussed above. As of June 30, 2018, the Company did not have any OTTI recorded on its CRE securities.

Investments in Unconsolidated Ventures

A noncontrolling, unconsolidated ownership interest in an entity may be accounted for using the equity method, cost method or under the fair value option, if elected.

The Company accounts 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 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-pro rata 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 or those related to capital transactions, such as financing transactions or sales, are reported as investing activities in the statement of cash flows.

Investments that do not qualify for equity method accounting are accounted for under the cost method. The Company elected the fair value option for certain cost method investments, specifically limited partnership interests in PE Investments. The Company records the change in fair value for their share of the projected future cash flows of such investments in equity in earnings (losses) of unconsolidated ventures. Any change in fair value attributed to market related assumptions is recorded in other gain (loss), net, on the statement of operations.

At June 30, 2018, 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 loan arrangements accounted for as equity method investments. At December 31, 2017, the Company’s investments in unconsolidated ventures consisted of investments in PE Investments and ADC loan arrangements accounted for as equity method investments.

Impairment—If indicators of impairment exist, the Company performs an evaluation of its equity method investments to assess whether the fair value of their investment is less than its carrying value. To the extent the decrease in value is considered to be other-than-temporary and an impairment has occurred, the investment is written down to its estimated fair value, recorded in earnings from investment in unconsolidated ventures.

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. Indefinite-lived intangibles are 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. Finite-lived intangibles are periodically reviewed for impairment and an impairment loss is recognized if the carrying amount of the intangible is not recoverable and exceeds its fair value. An impairment establishes a new basis for the identifiable intangibles and any impairment loss recognized is not subject to subsequent reversal.

Identifiable intangibles recognized in acquisitions of operating real estate properties generally include in-place leases, above- or below-market leases and deferred leasing costs. 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 is 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 estimation 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 component meets the definition of a participating interest by having 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 would require 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, or (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.

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 noncancelable 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 relating 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. Changes to expected cash flow may result in a change to the yield which is then applied retrospectively for high-credit quality securities that cannot be prepaid or otherwise settled in such a way that the holder would not recover substantially all of the investment or prospectively for all other securities to recognize interest income.

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 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.

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 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) on investments on the 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 balance sheet date.

Equity-Based Compensation

Equity-classified stock awards granted to executive officers and directors that have a service condition only are remeasured at fair value at the end of each reporting period until the award is fully vested. Fair value is determined based on the closing price of the Class A common stock at the end of each reporting period. The Company recognizes equity-based compensation expense on a straight-line basis over the requisite service period of the awards, with the amount of compensation expense recognized at the end of a reporting period at least equal to the fair value of the portion of the award that has vested through that date.

Equity-classified stock awards granted to 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

The Company intends to elect to be taxed as a REIT and to comply with the related provisions of the Code beginning with its taxable year ending December 31, 2018. Accordingly, the Company will generally not be subject to U.S. federal income tax to the extent of its distributions to stockholders as long as certain asset, income, distribution and share ownership tests are met. 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 made joint elections to treat certain subsidiaries as taxable REIT subsidiaries ("TRS") which may be subject to U.S. federal, state and local income taxes. In general, a TRS of the Company may perform non-customary services for tenants, hold assets that the REIT cannot hold directly and may 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 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.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted, which provides for a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. At December 31, 2017, the Company recognized a provisional amount of approximately $2.0 million of income tax expense relating to the remeasurement of its deferred tax balances based on the rate at which they are expected to reverse in the future, which is generally 21%. The Company is still analyzing certain aspects of the Tax Cuts and Jobs Act and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

For the three months ended June 30, 2018 and 2017, the Company recorded income tax expense of $0.2 million and $0.9 million, respectively. For the six months ended June 30, 2018, the Company recorded income tax benefit of $0.4 million. For the six months ended June 30, 2017, the Company recorded income tax expense of $0.7 million.

Recent Accounting Pronouncements

Revenue Recognition—In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers,* which amends existing revenue recognition standards by establishing principles for a single comprehensive model for revenue measurement and recognition, along with enhanced disclosure requirements. Key provisions include, but are not limited to, determining which goods or services are capable of being distinct in a contract to be accounted for separately as a performance obligation and recognizing variable consideration only to the extent that it is probable a significant revenue reversal would not occur. The new revenue standard may be applied retrospectively to each prior period presented (full retrospective) or retrospectively to contracts not completed as of date of initial application with the cumulative effect recognized in retained earnings (modified retrospective). ASU No. 2014-09 was originally effective for fiscal years and interim periods beginning after December 15, 2016 for public companies that are not emerging growth companies ("EGCs") and December 15, 2017 for private companies and public companies that are EGCs. In July 2015, the FASB deferred the effective date of the new standard by one year. Early adoption is permitted but not before the original effective date. The FASB has subsequently issued several amendments to the standard, including clarifying the guidance on assessing principal versus agent based on the notion of control, which affects recognition of revenue on a gross or net basis. These amendments have the same effective date and transition requirements as the new standard.

The Company will adopt the standard using the modified retrospective approach on January 1, 2019. The standard excludes from its scope the areas of accounting that most significantly affect revenue recognition for the core activities of the Company, including accounting for financial instruments and leases. Evaluation of the impact of this new guidance is ongoing.

Financial Instruments—In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which affects accounting for investments in equity securities, financial liabilities under the fair value option, as well as presentation and disclosures, but does not affect accounting for investments in debt securities and loans. Investments in equity securities, other than equity method investments, will be measured at fair value through earnings, except for equity securities without readily determinable fair values which may be measured at cost less impairment and adjusted for observable price changes under application of the measurement alternative, unless these equity securities qualify for the net asset value ("NAV") practical expedient. This provision eliminates cost method accounting and recognition of unrealized holding gains or losses on equity investments in other comprehensive income. For financial liabilities under the fair value option, changes in fair value resulting from the Company's own instrument-specific credit risk will be recorded separately in other comprehensive income. Fair value disclosures of financial instruments measured at amortized cost will be based on exit price and corresponding disclosures of valuation methodology and significant inputs will no longer be required. In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments, Recognition and Measurement of Financial Assets and Financial Liabilities,* which provided several clarifications and amendments to the standard. These include specifying that for equity instruments without readily determinable fair values for which the measurement alternative is applied: (i) adjustments made when an observable transaction occurs for a similar security are intended to reflect the fair value as of the observable transaction date, not as of current reporting date; (ii) the measurement alternative may be discontinued upon an irrevocable election to change to a fair value measurement approach under fair value guidance, which would apply to all identical and similar investments of the same issuer; and (iii) the prospective transition approach for equity securities without readily determinable fair values is applicable only when the measurement alternative is applied. ASU No. 2016-01 is effective for fiscal years and interim periods beginning after December 15, 2017 for public companies that are not EGCs and December 15, 2018 for private companies and public companies that are EGCs. Early adoption is limited to specific provisions. ASU 2016-01 is to be applied retrospectively with cumulative effect as of the beginning of the first reporting period adopted recognized in retained earnings, except for provisions related to equity investments without readily determinable fair values for which the measurement alternative is applied and exit price fair value disclosures for financial instruments measured at amortized cost, which are to be applied prospectively.

As of June 30, 2018, all of the Company's investments in unconsolidated ventures were equity method investments and the Company does not have any cost method investments nor has the Company elected fair value option on its financial liabilities which fall under the scope of this guidance.

The Company will adopt the new guidance on January 1, 2019. Evaluation of the impact of this new guidance is ongoing, but at this time the Company does not expect the adoption of this standard to have a material effect on its financial condition or results of operations.

Leases—In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which amends existing lease accounting standards, primarily requiring lessees to recognize most leases on balance sheet, as well as making targeted changes to lessor accounting. As lessee, a right-of-use asset and corresponding liability for future obligations under a leasing arrangement would be recognized on balance sheet. As lessor, gross leases will be subject to allocation between lease and non-lease service components, with the latter accounted for under the new revenue recognition standard. As the new lease standard requires congruous accounting treatment between lessor and lessee in a sale-leaseback transaction, if the seller/lessee does not achieve sale accounting, it would be considered a financing transaction to the buyer/lessor. Additionally, under the new lease standard, only incremental initial direct costs incurred in the execution of a lease can be capitalized by the lessor and lessee.

ASU No. 2016-02 is effective for fiscal years and interim periods beginning after December 15, 2017 for public companies that are not EGCs and December 15, 2018 for private companies and public companies that are EGCs. Early adoption is permitted. The new leases standard requires adoption using a modified retrospective approach for all leases existing at, or entered into after, the date of initial application. Full retrospective application is prohibited. The FASB has subsequently issued and proposed several amendments to the standard, including approving an amendment to provide optional transitional relief to apply the effective date of the new lease standard as the date of initial application in transition instead of the earliest comparative period presented, as well as to provide certain practical expedients, which include not segregating non-lease components from the related lease components but to account for those components as a single lease component by class of underlying assets.

The Company intends to adopt the package of practical expedients under the guidance, which provides exemptions from having to reassess whether any expired or expiring contracts contain leases, revisit lease classification for any expired or expiring leases and reassess initial direct costs for any existing leases.

The Company expects to adopt the transition option, in which case, the cumulative effect adjustment to the opening balance of retained earnings will be recognized as of the effective date of adoption, including new disclosures, rather than as of the earliest period presented, and are not required for prior comparative periods. In addition, the Company expects to make an accounting policy election to treat lease and related non-lease components in a contract as a single performance obligation to the extent that the timing and pattern of revenue recognition are the same for the lease and non-lease components and the combined single lease component is classified as an operating lease. As of June 30, 2018, the Company has six ground lease arrangements with future contractual lease payment obligations of $14.5 million.

Evaluation of the impact of this new guidance to the Company is ongoing.

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 existing incurred loss model will be 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 AFS debt securities, unrealized credit losses will be 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 will be 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 will be amended to conform to the new impairment models for HTM and AFS debt securities. Expanded disclosures on credit risk include credit quality indicators by vintage for financing receivables and net investment in leases. Transition will generally be on a modified retrospective basis, with prospective application for other-than-temporarily impaired debt securities and purchased credit impaired assets. ASU No. 2016-13 is effective for fiscal years and interim periods beginning after December 15, 2019 for public companies that are not EGCs and December 15, 2020 for private companies and public companies that are EGCs. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company expects that recognition of credit losses will generally be accelerated under the CECL model. Evaluation of the impact of this new guidance is ongoing.

Cash Flow Classifications—In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, which is intended to reduce diversity in practice in certain classifications on the statement of cash flows. This guidance addresses eight types of cash flows, clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows, and requires an accounting policy election for classification of distributions received from equity method investees using either the cumulative earnings or nature of distributions approach, among others. Transition will generally be on a retrospective basis. ASU No. 2016-15 is effective for fiscal years and interim periods beginning after December 15, 2017 for public companies that are not EGCs and December 15, 2018 for private companies and public companies that are EGCs. Early adoption is permitted, provided that all amendments within the guidance are adopted in the same period. The Company will adopt the new guidance on January 1, 2019. Upon adoption, the Company anticipates making an accounting policy election for classification of distributions from its equity method investees using the cumulative earnings approach.

Restricted Cash—In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires that cash and cash equivalent balances in the statement of cash flows include restricted cash and restricted cash equivalent amounts, and therefore, changes in restricted cash and restricted cash equivalents be presented in the statement of cash flows. This will eliminate the presentation of transfers between cash and cash equivalents with restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, this ASU requires disclosure of a reconciliation between the totals in the statement of cash flows and the related captions in the balance sheet. The new guidance also requires disclosure of the nature of restricted cash and restricted cash equivalents, similar to existing requirements under Regulation S-X; however, it does not define restricted cash and restricted cash equivalents. ASU No. 2016-18 is effective for fiscal years and interim periods beginning after December 15, 2017 for public companies that are not EGCs and December 15, 2018 for private companies and public companies that are EGCs, to be applied retrospectively, with early adoption permitted. If early adopted in an interim period, adjustments are to be reflected as of the beginning of the fiscal year of adoption. As of June 30, 2018, the Company has $116.5 million of restricted cash that will be subject to changes in presentation on the statement of cash flows. The Company will adopt the new guidance on January 1, 2019.

Derecognition and Partial Sales of Nonfinancial Assets—In February 2017, the FASB issued ASU 2017-05, *Clarifying the Scope of Asset Derecognition and Accounting for Partial Sales of Nonfinancial Assets*, which clarifies the scope and application of ASC 610-20, *Other Income-Gains and Losses from Derecognition of Nonfinancial Assets*, and defines in substance nonfinancial assets. ASC 610-20 applies to derecognition of all nonfinancial assets which are not contracts with customers or revenue transactions under ASC 606, *Revenue from Contracts with Customers*. Derecognition of a business is governed by ASC 810, *Consolidation*, while derecognition of financial assets, including equity method investments, even if the investee holds predominantly nonfinancial assets, is governed by ASC 860, *Transfers and Servicing*. The ASU also aligns the accounting for partial sales of nonfinancial assets to be more consistent with accounting for sale of a business. Specifically, in a partial sale to a noncustomer, when a noncontrolling interest is received or retained, the latter is considered a noncash consideration and measured at fair value in accordance with ASC 606, which would result in full gain or loss recognized upon sale. This ASU removes guidance on partial exchanges of nonfinancial assets in ASC 845, *Nonmonetary Transactions*, and eliminates the real estate sales guidance in ASC 360-20, *Property, Plant and Equipment-Real Estate Sales*. ASU 2017-05 has the same effective date as the new revenue guidance, which is January 1, 2018 for public companies that are not EGCs and January 1, 2019 for private companies and public companies that are EGCs, with early adoption permitted beginning January 1, 2017. Both ASC 606 and ASC 610-20 must be adopted concurrently. While the transition method is similar to the new revenue guidance, either full retrospective or modified retrospective, the transition approach applied need not be aligned between both standards.

The Company will adopt the new guidance on January 1, 2019 using the modified retrospective approach, consistent with the adoption of the new revenue standard. Under the new standard, if a partial interest in real estate is sold to noncustomers or contributed to unconsolidated ventures, and a noncontrolling interest in the asset is retained, such transactions could result in a larger gain on sale. The adoption of this standard could have a material impact to the results of operations in a period that a significant partial interest in real estate is sold. There were no such sales in the six months ended June 30, 2018.

Share-Based Payments—In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies the accounting for share-based payments to nonemployees by generally aligning it with the accounting for share-based payments to employees, with certain exceptions. The new guidance applies to nonemployee awards issued in exchange for goods or services used in an entity's own operations and to awards granted by an investor to an equity method investee, but does not apply to equity instruments issued to a lender or investor in a financing transaction or equity instruments issued when selling goods or services to customers, which is under the revenue recognition model. Key changes in the guidance include measuring nonemployee awards based on fair value of the equity instrument issued, rather than fair value of goods or services received or equity instrument issued, whichever is more reliably measured. In terms of timing, equity-classified nonemployee awards that were previously remeasured through performance completion date will now have a fixed measurement on grant date, which will reduce volatility on the income statement. For nonemployee awards with performance conditions, compensation cost will be recognized when achievement of the performance condition is probable, rather than upon actual achievement of the performance condition. Similar to employee awards, forfeitures may be recognized as they occur or based on an estimate under an accounting policy election, but the guidance allows separate elections for employee and nonemployee awards. The accounting model for nonemployee awards, however, remains different for attribution of share-based payment costs over the vesting period, in which compensation cost for nonemployee awards continues to be recognized in the same period and in the same manner (i.e., capitalized or expensed) as if the grantor had paid cash for the goods or services. No changes to disclosure requirements were prescribed. Transition is on a modified retrospective basis, with a remeasurement at fair value as of the adoption date through a cumulative effect adjustment to opening retained earnings, applied to all equity-classified nonemployee awards where a measurement date has not been established by the adoption date and unsettled liability-classified nonemployee awards. The transition provisions eliminate the need to retrospectively determine fair values at historical grant dates. ASU 2018-07 is effective for fiscal years and interim periods beginning after December 15, 2018. Early adoption is permitted in an interim period for which financial statements have not been issued, with adjustments to be reflected as of the beginning of the fiscal year of adoption. The Company plans to adopt the new standard on its effective date. As of June 30, 2018, the Company had 978,946 shares of nonemployee awards outstanding.

3. Business Combinations

The Combination

On the Closing Date, the Combination of the CLNY Contributed Portfolio, NorthStar I and NorthStar II was completed, creating CLNC.

In consideration for the contribution of the CLNY Contributed Portfolio, CLNY OP received approximately 44.4 million shares of the Company's Class B-3 common stock, par value $0.01 per share (the "Class B-3 common stock"), and a subsidiary of CLNY OP received approximately 3.1 million common membership units in the OP ("CLNC OP Units"). The Class B-3 common stock will automatically convert to Class A common stock of the Company on a one-for-one basis upon the close of trading on February 1, 2019. The CLNC OP Units are redeemable for cash, or, at the Company's election, the Class A common stock on a one-for-one basis, in the sole discretion of the Company. Subject to certain limited exceptions, CLNY OP has agreed that it and its affiliates will not make any transfers of the CLNC OP Units to non-affiliates of CLNY OP until the one year anniversary of the closing of the Combination, unless such transfer is approved by a majority of the Company's board of directors, including a majority of the independent directors. In connection with the merger of NorthStar I and NorthStar II into the Company, their respective stockholders received shares of the Class A common stock based on pre-determined exchange ratios. Following the foregoing transaction, the Company contributed the CLNY Contributed Portfolio and the operating partnerships of NorthStar I and NorthStar II to the OP in exchange for ownership interests in the OP. Upon the closing of the Combination, CLNY OP and its affiliates, NorthStar I stockholders and NorthStar II stockholders each owned approximately 37%, 32% and 31%, respectively, of the Company on a fully diluted basis.

Prior to the closing of the Combination, a special dividend was declared by NorthStar I, which generated the lesser amount of cash leakage, in order to true up the agreed contribution values of NorthStar I and NorthStar II in relation to each other. In addition, following the CLNY Contributions, but prior to the effective time of the Combination, there was a cash settlement between the Company and Colony Capital for the difference between (i) the sum of (a) the loss in value of NorthStar I and NorthStar II as a result of the distributions made by NorthStar I and NorthStar II in excess of FFO (as such term is defined in the Combination Agreement) from July 1, 2017 through the day immediately preceding the Closing Date (excluding the dividend payment made by each of NorthStar I and NorthStar II on July 1, 2017), (b) FFO for the CLNY Investment Entities from July 1, 2017 through the day immediately preceding the Closing Date, (c) cash contributions or contributions of certain intercompany receivables made to the CLNY Investment Entities from July 1, 2017 through the day immediately preceding the Closing Date, and (d) the expected present value of certain unreimbursed operating expenses of NorthStar I and NorthStar II paid on each company's behalf by their respective advisors, and (ii) cash distributions made by the CLNY Investment Entities from July 1, 2017 through the day immediately preceding the Closing Date, excluding that certain distribution made by the CLNY Investment Entities in July 2017 relating to the partial repayment of a certain investment (collectively, "CLNY true-up adjustment"). The settlement of the CLNY true-up adjustment resulted in a payment of approximately $55 million from Colony Capital to the Company.

The Combination is accounted under the acquisition method for business combinations with the CLNY Investment Entities as the accounting acquirer for purposes of the financial information set forth herein. Refer to Note 2, "Summary of Significant Accounting Policies" for further discussion on the accounting treatment of the Combination.

Combination Consideration

Each share of NorthStar I and NorthStar II common stock issued and outstanding immediately prior to the effective time of the Combination was converted into the right to receive 0.3532 shares (the "NorthStar I Exchange Ratio") and 0.3511 shares (the "NorthStar II Exchange Ratio"), respectively, of the Class A common stock, plus cash in lieu of fractional shares. Approximately 21,000 shares of NorthStar I restricted common stock and 25,000 shares of NorthStar II restricted common stock automatically vested in connection with the Combination and the holders thereof were entitled to receive the same equity exchange as the other holders of NorthStar I and NorthStar II common stock, respectively.

The Company acquired all of the common stock of NorthStar I and NorthStar II through the exchange of all such outstanding shares into shares of Class A common stock based on the pre-determined NorthStar I Exchange Ratio and NorthStar II Exchange Ratio, respectively. As the Combination was a stock-for-stock exchange (except for cash consideration for fractional shares), fair value of the consideration to be transferred was dependent upon the fair value of the Company at the Closing Date.

Fair value of the merger consideration was determined as follows (in thousands, except exchange ratio and price per share):

	NorthStar I	NorthStar II	Total
Outstanding shares of common stock at January 31, 2018[1]	119,333	114,943	
Exchange ratio[2]	0.3532	0.3511	
Shares of Class A common stock issued in the mergers[3]	42,149	40,356	82,505
Fair value consideration per share[4]	$ 24.50	$ 24.50	$ 24.50
Fair value of NorthStar I and NorthStar II consideration	$ 1,032,651	$ 988,722	$ 2,021,373

(1) Includes 21,000 and 25,000 shares of common stock of NorthStar I and NorthStar II equity awards, respectively, that vested in connection with the consummation of the Combination.
(2) Represents the pre-determined exchange ratio of 0.3532 NorthStar I shares and 0.3511 NorthStar II shares per one share of the Class A common stock.
(3) Includes the issuance of fractional shares, aggregating to approximately 21,000 shares, for which holders received cash in lieu of the fractional shares.
(4) Represents the estimated per share fair value of the Company at the Closing Date.

The following table presents a preliminary allocation of the Combination consideration to assets acquired, liabilities assumed and noncontrolling interests of NorthStar I and NorthStar II based on their respective estimated fair values as of the Closing Date.

The estimated fair values and allocation of the Combination consideration presented below are preliminary and based on information available as of the Closing Date as the Company continues to evaluate the underlying inputs and assumptions. Accordingly, these preliminary estimates may be subject to adjustments during the measurement period, not to exceed one year, based upon new information obtained about facts and circumstances that existed as of the Closing Date. Preliminary fair values assigned to the assets acquired, liabilities assumed and noncontrolling interests of NorthStar I and NorthStar II as of the Closing Date were as follows (dollars in thousands):

	January 31, 2018		
	NorthStar I	NorthStar II	Total
Merger consideration	$ 1,032,651	$ 988,722	$ 2,021,373
Allocation of merger consideration:			
Assets acquired			
Cash and cash equivalents	$ 130,197	$ 51,360	$ 181,557
Restricted cash	30,564	61,313	91,877
Loans and preferred equity held for investment	521,462	728,271	1,249,733
Real estate securities, available for sale, at fair value	100,731	64,793	165,524
Real estate, net	790,996	492,317	1,283,313
Investments in unconsolidated ventures	67,899	375,694	443,593
Receivables, net	12,363	11,479	23,842
Deferred leasing costs and intangible assets, net	74,243	37,090	111,333
Other assets	16,407	21,668	38,075
Mortgage loans held in securitization trusts, at fair value	1,894,404	1,432,795	3,327,199
Total assets acquired	3,639,266	3,276,780	6,916,046
Liabilities assumed			
Securitization bonds payable, net	—	80,825	80,825
Mortgage and other notes payable, net	399,131	382,485	781,616
Credit facilities	293,340	355,529	648,869
Due to related party	4,533	1,842	6,375
Accrued and other liabilities	21,640	18,219	39,859
Intangible liabilities, net	17,931	1,808	19,739
Escrow deposits payable	12,994	36,362	49,356
Mortgage obligations issued by securitization trusts, at fair value	1,784,223	1,401,491	3,185,714
Total liabilities assumed	2,533,792	2,278,561	4,812,353
Noncontrolling interests	72,823	9,497	82,320
Fair value of net assets acquired	$ 1,032,651	$ 988,722	$ 2,021,373

Fair value of other assets acquired, liabilities assumed and noncontrolling interests were estimated as follows:

Real Estate and Related Intangibles—Fair value is based on the income approach which includes a direct capitalization method with overall capitalization rates ranging between 6.5% and 8.3%. Real estate fair value was allocated to tangible assets such as land, building and leaseholds, tenant and land improvements as well as identified intangible assets and liabilities such as above- and below-market leases, and in-place lease value. Useful lives of the intangibles acquired range from 1 year to 10 years.

Loans and preferred equity held for investment—Fair value is determined 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 based on discounted cash flow projections of principal and interest expected to be collected, which include consideration of borrower or sponsor credit, as well as operating results of the underlying collateral. For certain loans and preferred equity held for investment, NorthStar II has a contractual right to equity-like participation or other ownership interests in the underlying collateral which was considered in calculating the fair value of the loans and preferred equity held for investment.

Investments in Unconsolidated Ventures—Fair value is based on timing and amount of expected future cash flows for income as well as realization events of the underlying assets of the investees. Investments in unconsolidated ventures includes a preferred equity investment, as well as an investment in a joint venture which holds a mezzanine loan. The fair value for both investments was based on the outstanding principal value plus the undiscounted value of any applicable contractual exit fees associated with the investments. The preferred equity investment has an equity-like participation which was considered in its fair value. The capitalization rate used was 6.8%.

Securities—Fair value is based on quotations from brokers or financial institutions that act as underwriters of the debt securities, third-party pricing service or discounted cash flows depending on the type of debt securities.

Debt—The fair value of debt was determined by either comparing the contractual interest rate to the interest rate for newly originated debt with similar credit risk or the market rate at which a third party might expect to assume such debt or based on discounted cash flow (“DCF”) projections of principal and interest expected to be collected, which include consideration of borrower or sponsor credit, as well as operating results of the underlying collateral. All of the debt was priced consistent with current interest rates attainable for similarly situated investments, and therefore was attributed a value equal to each debt’s outstanding principal amount less any applicable premium or discount on the secured debt.

Noncontrolling Interests—NorthStar I’s noncontrolling interests are attributable to the minority ownership interests of its operating partners in its CRE properties. The estimated value of NorthStar I’s noncontrolling interests represents the minority owner’s pro rata share of the estimated net book value of the CRE properties, as determined in accordance with the above description of the valuation process for real estate and related intangibles. NorthStar II’s noncontrolling interest is attributable to the minority ownership interest of its operating partner in its Bothell, Washington office portfolio. The estimated value of NorthStar II’s noncontrolling interest represents the operating partner’s pro rata share of the estimated net book value of the portfolio, as determined in accordance with the above description of the valuation process for real estate and related intangibles. The major classes of intangible assets and liabilities include leasing commissions, above- and below-market lease values and in-place lease values.

Results of NorthStar I and NorthStar II

For the three months ended and from February 1, 2018 (the Closing Date) through June 30, 2018, the Company’s results of operations included contributions from the acquired business of NorthStar I and NorthStar II as follows (dollars in thousands):

	Three Months Ended June 30, 2018			February 1, 2018 to June 30, 2018		
	NorthStar I	NorthStar II	Total	NorthStar I	NorthStar II	Total
Total revenues	$ 52,022	$ 51,579	$ 103,601	$ 89,334	$ 90,786	$ 180,120
Net income attributable to common stockholders	2,542	14,890	17,432	367	23,516	23,883

Combination-Related Costs

Transaction costs of $2.3 million and $32.5 million were incurred in connection with the Combination in the three and six months ended June 30, 2018, respectively, consisting largely of professional fees for legal, financial advisory, accounting and consulting services. Approximately $24.3 million of the transaction costs for the six months ended June 30, 2018 represent fees paid to investment bankers that were contingent upon consummation of the Combination.

Combination-related costs are expensed as incurred and such costs expensed by NorthStar I and NorthStar II prior to the Closing Date were excluded from the Company's results of operations.

COLONY CREDIT REAL ESTATE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Pro Forma Financial Information (Unaudited)

The following table presents pro forma financial information of the Company as if the Combination had been consummated on January 1, 2017. The pro forma financial information includes the pro forma impact of purchase accounting adjustments primarily related to fair value adjustments and depreciation and amortization, and excludes Combination-related transaction costs of $2.3 million and $32.5 million for the three and six months ended June 30, 2018, respectively. The pro forma financial information, however, 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.

The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the results of operations of the Company had the Combination been completed on January 1, 2017, nor indicative of future results of operations of the Company (dollars in thousands, except per share data):

	Six Months Ended June 30,	
	2018	2017
Pro forma:		
Total revenues	$ 268,366	$ 236,614
Net income attributable to Colony Credit Real Estate, Inc.	55,844	70,133
Net income attributable to common stockholders	53,579	67,885
Earnings per common share:		
Basic	$ 0.41	$ 0.52
Diluted	$ 0.41	$ 0.52

4. Loans and Preferred Equity Held for Investment, net

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

	June 30, 2018 (Unaudited)				December 31, 2017			
	Unpaid Principal Balance	Carrying Value	Weighted Average Coupon(1)	Weighted Average Maturity in Years	Unpaid Principal Balance(2)	Carrying Value(2)	Weighted Average Coupon	Weighted Average Maturity in Years
Fixed rate								
Mortgage loans	$ 16,223	$ 16,144	10.5%	5.8	$ 493,113	$ 484,592	8.2%	2.4
Mezzanine loans	115,686	115,686	13.1%	4.9	141,931	141,828	13.2%	3.2
Preferred equity interests	89,819	89,819	12.0%	8.9	—	—	—	—
	221,728	221,649			635,044	626,420		
Variable rate								
Mortgage loans	1,350,538	1,354,652	6.4%	3.7	260,366	260,932	8.1%	2.3
Securitized loans(3)	351,526	354,091	7.5%	1.6	377,939	379,670	6.7%	0.3
Mezzanine loans	120,582	120,986	11.1%	2.1	34,391	34,279	9.8%	1.3
Preferred equity interests	27,469	27,756	14.5%	1.5	—	—	—	—
	1,850,115	1,857,485			672,696	674,881		
	2,071,843	2,079,134			1,307,740	1,301,301		
Allowance for loan losses	NA	—			NA	(517)		
Loans and preferred equity held for investment, net	$ 2,071,843	$ 2,079,134			$ 1,307,740	$ 1,300,784		

(1) Calculated based on contractual interest rate.
(2) Includes four purchased credit-impaired loans with combined unpaid principal balance of $21.4 million and carrying value of $20.8 million.
(3) Represents loans transferred into securitization trusts that are consolidated by the Company.

As of June 30, 2018, the weighted average maturity, including extensions, of loans and preferred equity investments was 3.5 years.

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

	Carrying Value
Balance at January 1, 2018	$ 1,300,784
Loans and preferred equity held for investment acquired in the Combination (Note 3)	1,249,733
Deconsolidation of investment entities(1)	(553,678)
Acquisitions/originations/additional funding	392,278
Loan maturities/principal repayments	(262,918)
Combination adjustment(2)	(50,314)

Discount accretion/premium amortization		1,498
Capitalized interest		1,234
Recovery of allowance for loan loss		517
Balance at June 30, 2018	$	2,079,134

(1) Represents loans and preferred equity held for investment, net which were deconsolidated as a result of the Combination. Refer to Note 2, "Summary of Significant Accounting Policies," for further detail.
(2) Represents a loan held for investment, net that was previously sold by the CLNY Investment Entities to NorthStar I and was treated as a secured financing by the CLNY Investment Entities. This loan was eliminated as a result of the Combination.

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 June 30, 2018, other than the NY hospitality loans discussed below, all other loans and preferred equity held for investment remain current on interest payments.

In March 2018, the borrower on the Company's four NY hospitality loans with an unpaid principal balance of $260.2 million failed to make its interest payment. The Company has placed the loans on non-accrual status and has commenced discussions with the borrower to resolve the matter. Interest income is recognized on a cash basis. No provision for loan loss was recorded during the three and six months ended June 30, 2018 as the Company believes sufficient collateral value exists to cover the outstanding loan balances. During the three months ended June 30, 2018, the Company received and recognized $1.0 million in interest income on the loans. These discussions typically include numerous points of negotiation as the Company and the borrower work towards a settlement or other alternative resolution, which can impact the potential for loan repayment or receipt of collateral.

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(1)(2)(3)	30-59 Days Past Due	60-89 Days Past Due(1)(2)(3)	90 Days or More Past Due(3)	Total Loans
June 30, 2018 (Unaudited)	$ 1,597,382	$ —	$ 118,557	$ 363,195	$ 2,079,134
December 31, 2017	1,122,366	144,241	7,929	26,765	1,301,301

(1) At June 30, 2018, includes four loans to two separate borrowers consisting of two current or less than 30 days past due loans and two 60-89 days past due loans held for investment. Subsequent to June 30, 2018, extensions for the four loans with a total combined carrying value of $79.9 million were executed while the Company continues discussions with the borrowers to work towards a settlement or other alternative resolution.
(2) Subsequent to June 30, 2018, a senior mortgage loan with a carrying value of $75.6 million became real estate owned through a foreclosure sale. See Note 18, "Subsequent Events," for further information.
(3) At June 30, 2018, 90 days or more past due loans includes four loans to the same borrower with combined carrying value of $261.1 million on non-accrual status. All other loans in this table remain current on interest payments.

Troubled Debt Restructuring

At June 30, 2018 and December 31, 2017, there was one mezzanine loan previously modified in a TDR with carrying value before allowance for loan losses of $28.6 million. The loan had been modified in 2015. The Company also has three other loans with a combined carrying value of $108.5 million that are cross-defaulted with the TDR loan to the same borrower. Two loans matured in November 2017 and were in default at both June 30, 2018 and December 31, 2017, while the third loan remains current. All four loans are collateralized with 27 office, retail, multifamily and industrial properties with an estimated aggregate fair value of approximately $137.1 million. In February 2018, the borrower and the Company entered into a forebearance agreement to allow both parties to review the exit strategy. In May 2018, the Company extended the forbearance agreement, which now expires in September 2018. These discussions typically include numerous points of negotiation as the Company and the borrower work towards a settlement or other alternative resolution, which can impact the potential for loan repayment or receipt of collateral. No provision for loan loss was recorded at June 30, 2018 or December 31, 2017 on the two defaulted loans as the Company believes there is sufficient collateral value to cover the outstanding loan balances in aggregate. The Company has no additional commitments to lend to the borrower with the TDR loan.

There were no loans modified as TDRs during the six months ended June 30, 2018 and year ended December 31, 2017.

Impaired Loans

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. The following table presents impaired loans at the respective reporting dates (dollars in thousands):

		Gross Carrying Value			
	Unpaid Principal Balance(1)(2)(3)	With Allowance for Loan Losses	Without Allowance for Loan Losses(1)(2)(3)	Total	Allowance for Loan Losses
June 30, 2018 (Unaudited)	$ 558,483	$ —	$ 560,983	$ 560,983	$ —
December 31, 2017	237,441	42,176	195,934	238,110	517

(1) Subsequent to June 30, 2018, extensions for four loans to two separate borrowers with combined unpaid principal balances and carrying values of $79.9 million were executed while the Company continues discussions with the borrowers to work towards a settlement or other alternative resolution.
(2) Subsequent to June 30, 2018, a senior mortgage loan with a carrying value of $75.6 million became real estate owned through a foreclosure sale. See Note 18, "Subsequent Events," for further information.
(3) At June 30, 2018, includes four loans to the same borrower with combined unpaid principal balance of $260.2 million and carrying value of $261.1 million on non-accrual status. All other loans included in this table remain current on interest payments.

The average carrying value and interest income recognized on impaired loans were as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Average carrying value before allowance for loan losses	$ 496,559	$ 98,478	$ 399,546	$ 141,109
Interest income	6,897	2,164	10,655	4,442

Allowance for Loan Losses

As of June 30, 2018, there was no allowance for loan losses. As of December 31, 2017 the allowance for loan losses was $0.5 million related to $42.2 million in carrying value of loans.

Changes in allowance for loan losses on loans are presented below (dollars in thousands):

	Six Months Ended June 30,	
	2018	2017
Allowance for loan losses at beginning of period	$ (517)	$ (3,386)
Provision for loan losses	—	—
Charge-off	—	3,210
Recoveries	517	
Allowance for loan losses at end of period	$ —	$ (176)

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 June 30, 2018, there were 13 loans held for investment to six borrowers with contractual payments past due. With the exception of the NY hospitality loans previously discussed, all other loans and preferred equity held for investment remain current on interest payments. The remaining loans and preferred equity investments were performing in accordance with the contractual terms of their governing documents and were categorized as performing loans. There were seven loans held for investment with contractual payments past due as of December 31, 2017. For the six months ended June 30, 2018, no debt investment contributed more than 10.0% of interest income.

Lending Commitments

The Company has lending commitments to borrowers pursuant to certain loan agreements in which the borrower may submit a request for funding contingent on achieving certain criteria, which must be approved by the Company as lender, such as leasing, performance of capital expenditures and construction in progress with an approved budget. At June 30, 2018, assuming the terms to qualify for future fundings, if any, have been met, total unfunded lending commitments was $137.4 million for mortgage loans, $6.1 million for securitized loans, $2.0 million for mezzanine loans and $1.2 million for preferred equity interests. Future funding commitments were $19.2 million for mortgage loans at December 31, 2017.

5. Investments in Unconsolidated Ventures

Summary

The Company's investments in unconsolidated ventures represent noncontrolling equity interests in various entities, as follows (dollars in thousands):

	June 30, 2018 (Unaudited)	December 31, 2017
Equity method investments		
Investment ventures	$ 490,189	$ 179,303
	490,189	179,303
Investments under fair value option		
Private funds	241,453	24,417
	$ 731,642	$ 203,720

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 the 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 June 30, 2018 and December 31, 2017, respectively.

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As discussed in Note 2, "Summary of Significant Accounting Policies," certain of the CLNY Investment Entities were deconsolidated by the Company upon closing of the Combination and accounted for as investments in unconsolidated ventures.

The Company's investments accounted for under the equity method are summarized below (dollars in thousands):

Investments	Description	Ownership Interest(1) at June 30, 2018	Carrying Value June 30, 2018 (Unaudited)	Carrying Value December 31, 2017
ADC investments	Interests in seven 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	Various(2)	$ 170,451	$ 179,303
Other investment ventures	Interests in ten investments, each with less than $142.4 million carrying value at June 30, 2018	Various	319,738	—

(1) The Company's ownership interest 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.

Investments under Fair Value Option

The Company elected to account for its limited partnership interests, which range from 0.1% to 30.3%, 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.

Summarized Financial Information

The combined statements of operations for the unconsolidated ventures, including PE Investments and excluding unconsolidated ventures accounted for under the cost method, for the six months ended June 30, 2018 and 2017, are as follows (dollars in thousands):

	Six Months Ended June 30,(1) 2018	Six Months Ended June 30,(1) 2017
Total revenues	$ 45,872	$ 16,540
Net income (loss)(2)	25,903	14,259

(1) Includes summarized financial information for PE Investments on a one quarter lag, which is the most recent financial information available from the underlying funds.
(2) Includes net investment income and unrealized and realized gains and losses for PE Investments.

6. 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 June 30, 2018 (dollars in thousands):

As of Date:	Count	Principal Amount(1)	Total Discount	Amortized Cost	Cumulative Unrealized on Investments Gain	Cumulative Unrealized on Investments (Loss)	Fair Value	Weighted Average Coupon(2)	Weighted Average Unleveraged Current Yield
June 30, 2018	36	$ 262,105	$ (61,109)	$ 200,996	$ 341	$ (3,186)	$ 198,151	3.15%	7.24%

(1) Certain CRE securities serve as collateral for financing transactions including carrying value of $127.4 million for the CMBS Credit Facilities (refer to Note 10). The remainder is unleveraged.
(2) All CMBS are fixed rate.

The Company acquired the CRE Securities from NorthStar I and NorthStar II in the Combination. The Company held no CRE Securities as of December 31, 2017.

The Company recorded an unrealized loss in OCI for the three and six months ended June 30, 2018 of $1.0 million and $2.8 million, respectively. As of June 30, 2018, the Company held 30 securities with an aggregate carrying value of $166.9 million with an unrealized loss of $2.8 million. Based on management's quarterly evaluation, no OTTI was identified related to these securities. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities prior to recovery of its amortized cost basis, which may be at maturity.

As of June 30, 2018, the weighted average contractual maturity of CRE securities was 30.7 years with an expected maturity of 7.8 years.

Investments in Investing VIEs

The Company is the directing certificate holder of three 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.

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 June 30, 2018, the mortgage loans and the related mortgage obligations held in the securitization trusts had an unpaid principal balance of $3.1 billion and $2.9 billion, respectively. As of June 30, 2018, across the three consolidated securitization trusts, the underlying collateral consisted of 159 underlying mortgage loans, with a weighted average coupon of 4.9% and a weighted average loan to value ratio of 57.9%.

The following table presents the assets and liabilities recorded on the consolidated balance sheets attributable to the securitization trust as of June 30, 2018 (dollars in thousands):

	June 30, 2018
Assets	
Mortgage loans held in a securitization trust, at fair value	$ 3,154,112
Receivables, net	13,302
Total assets	$ 3,167,414
Liabilities	
Mortgage obligations issued by a securitization trust, at fair value	$ 3,010,636
Accrued and other liabilities	12,425
Total liabilities	$ 3,023,061

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 $143.5 million as of June 30, 2018 and approximates the fair value of the Company's underlying investments in the subordinate tranches of the securitization trusts, which are eliminated in consolidation. Refer to Note 15, "Fair Value" for a description of the valuation techniques used to measure fair value of assets and liabilities of the Investing VIEs.

The following table presents net income attributable to the Company’s common stockholders for the three and six months ended June 30, 2018 generated from the Company’s investments in the subordinate tranches of the securitization trusts (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Statement of Operations				
Interest income on mortgage loans held in securitization trusts	$ 39,496	$ —	$ 65,361	$ —
Interest expense on mortgage obligations issued by securitization trusts	(36,459)	—	(60,737)	—
Net interest income	3,037	—	4,624	—
Administrative expenses	(461)	—	(362)	—
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	3,696	—	4,193	—
Realized loss on mortgage loans and obligations held in securitization trusts, net	(2,203)	—	(2,203)	—
Net income attributable to Colony Credit Real Estate, Inc. common stockholders	$ 4,069	$ —	$ 6,252	$ —

7. Real Estate, net

The following table presents the Company’s net lease portfolio, net, as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018 (Unaudited)	December 31, 2017
Land and improvements	$ 102,764	$ 25,262
Buildings, building leaseholds, and improvements	575,582	178,109
Tenant improvements	9,497	2,316
Construction-in-progress	23	21
Subtotal	$ 687,866	$ 205,708
Less: Accumulated depreciation	(16,020)	(5,516)
Net lease portfolio, net	$ 671,846	$ 200,192

The following table presents the Company’s other portfolio, net, as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018 (Unaudited)	December 31, 2017
Land and improvements	$ 139,586	$ 667
Buildings, building leaseholds, and improvements	645,089	18,477
Tenant improvements	30,120	36
Furniture, fixtures and equipment	10,674	680
Construction-in-progress	757	—
Subtotal	$ 826,226	$ 19,860
Less: Accumulated depreciation	(12,515)	(312)
Other portfolio, net	$ 813,711	$ 19,548

For the six months ended June 30, 2018, the Company had no single property with rental and other income equal to or greater than 10.0% of total revenue.

At June 30, 2018, the Company held foreclosed properties included in real estate, net with a carrying value of $19.8 million. At December 31, 2017, the Company held foreclosed properties with a carrying value of $19.5 million.

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 non-cancellable operating leases to be received over the next five years and thereafter as of June 30, 2018 (dollars in thousands):

Remainder of 2018	$	45,282
2019		85,941
2020		77,171
2021		63,731
2022		51,710
2023 and thereafter		98,568
Total	$	422,403

The rental properties owned at June 30, 2018 are leased under non-cancellable operating leases with current expirations ranging from 2018 to 2029, with certain tenant renewal rights. For certain properties, the tenants pay the Company, in addition to the contractual base rent, their pro rata share of real estate taxes and operating expenses. Certain lease agreements provide for periodic rental increases and others provide for increases based on the consumer price index.

Commitments and Contractual Obligations

Ground Lease Obligation

In connection with real estate acquisitions, the Company assumed certain noncancelable operating ground leases as lessee or sublessee with expiration dates through 2027. Rents on certain ground leases are paid directly by the tenants. Ground rent expense for the three and six months ended June 30, 2018 was approximately $0.7 million and $1.4 million, respectively. Ground rent expense for each of the three and six months ended June 30, 2017 was de minimis.

The following table presents future minimum rental payments, excluding contingent rents, on noncancelable ground leases on real estate as of June 30, 2018 (dollars in thousands):

Remainder of 2018	$	1,410
2019		2,821
2020		2,812
2021		2,720
2022		1,798
2023 and thereafter		2,891
Total	$	14,452

8. Deferred Leasing Costs and Other Intangibles

The Company's deferred leasing costs, other intangible assets and intangible liabilities at June 30, 2018 and December 31, 2017 are as follows (dollars in thousands):

	June 30, 2018 (Unaudited)		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Deferred Leasing Costs and Intangible Assets			
In-place lease values	$ 76,949	$ (19,763)	$ 57,186
Above-market lease values	19,437	(2,495)	16,942
Below-market ground lease obligations	52	(12)	40
Deferred leasing costs	30,894	(2,636)	28,258
	$ 127,332	$ (24,906)	$ 102,426
Intangible Liabilities			
Below-market lease values	$ 19,790	$ (2,001)	$ 17,789

	December 31, 2017		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Deferred Leasing Costs and Intangible Assets			
In-place lease values	$ 9,214	$ (2,657)	$ 6,557
Above-market lease values	1,682	(283)	1,399
Below-market ground lease obligations	52	(8)	44
Deferred leasing costs	3,671	(657)	3,014
	$ 14,619	$ (3,605)	$ 11,014
Intangible Liabilities			
Below-market lease values	$ 51	$ (15)	$ 36

The following table summarizes the amortization of deferred leasing costs, intangible assets and intangible liabilities for the three and six months ended June 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Above-market lease values	$ (1,305)	$ (73)	$ (2,212)	$ (138)
Below-market lease values	1,185	4	1,986	7
Net decrease to rental income	$ (120)	$ (69)	$ (226)	$ (131)
Below-market ground lease obligations	$ 2	$ 2	$ 4	$ 4
Increase to ground rent expense	$ 2	$ 2	$ 4	$ 4
In-place lease values	$ 8,560	$ 907	$ 17,106	$ 1,719
Deferred leasing costs	956	173	1,979	333
Amortization expense	$ 9,516	$ 1,080	$ 19,085	$ 2,052

The following table presents the amortization of deferred leasing costs, intangible assets and intangible liabilities for each of the next five years and thereafter as of June 30, 2018 (dollars in thousands):

	Remainder of 2018	2019	2020	2021	2022	2023 and thereafter	Total
Above-market lease values	$ 2,251	$ 4,317	$ 3,252	$ 2,340	$ 1,841	$ 2,941	$ 16,942
Below-market lease values	(2,310)	(4,566)	(2,527)	(1,895)	(1,732)	(4,759)	(17,789)
Decrease to rental income	$ (59)	$ (249)	$ 725	$ 445	$ 109	$ (1,818)	$ (847)
Below-market ground lease obligations	$ 4	$ 8	$ 8	$ 8	$ 8	$ 4	$ 40
Increase to property operating expense	$ 4	$ 8	$ 8	$ 8	$ 8	$ 4	$ 40
In-place lease values	$ 10,510	$ 16,048	$ 10,564	$ 7,256	$ 5,485	$ 7,323	$ 57,186
Deferred leasing costs	4,180	6,304	5,013	3,816	2,895	6,050	28,258
Amortization expense	$ 14,690	$ 22,352	$ 15,577	$ 11,072	$ 8,380	$ 13,373	$ 85,444

9. Other Assets and Liabilities

The following table presents a summary of other assets as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018 (Unaudited)	December 31, 2017
Other assets:		
Prepaid taxes and deferred tax assets	$ 67,071	$ 1,050
Deposit on investments	15,700	—
Deferred financing costs, net - credit facilities	6,699	—
Prepaid expenses	5,707	360
Derivative asset	38	117
Total	$ 95,215	$ 1,527

The following table presents a summary of accrued and other liabilities as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018 (Unaudited)	December 31, 2017
Accrued and other liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 18,067	$ 3,532
Interest payable	17,117	924
Prepaid rent and unearned revenue	6,453	481
Tenant security deposits	3,142	118
Current and deferred tax liability	1,109	120
Derivative liability	926	—
Total	$ 46,814	$ 5,175

10. Debt

The following table presents debt as of June 30, 2018 and December 31, 2017 (dollars in thousands):

					June 30, 2018 (Unaudited)		December 31, 2017	
	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								
2014 FL1[3]		Non-recourse	Apr-31	LIBOR + 3.24%	$ 27,119	$ 27,119	$ 27,119	$ 27,004

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	Capacity ($)	Recourse vs. Non-Recourse[1]	Final Maturity	Contractual Interest Rate	June 30, 2018 (Unaudited) Principal Amount[2]	June 30, 2018 (Unaudited) Carrying Value[2]	December 31, 2017 Principal Amount[2]	December 31, 2017 Carrying Value[2]
2014 FL2[3]		Non-recourse	Nov-31	LIBOR + 4.25%	18,320	18,312	55,430	55,430
2015 FL3[3]		Non-recourse	NA	NA	—	—	26,245	26,245
Securitization 2016-1		Non-recourse	Sep-31	LIBOR + 2.74%	80,825	80,825	—	—
Subtotal securitization bonds payable, net					126,264	126,256	108,794	108,679
Mortgage and other notes payable, net								
Net lease 1		Non-recourse	Oct-27	4.45%	24,836	24,836	25,074	25,022
Net lease 2		Non-recourse	Nov-26	4.45%	3,514	3,401	3,544	3,425
Net lease 3		Non-recourse	Nov-26	4.45%	7,582	7,340	7,647	7,390
Net lease 4		Non-recourse	Jun-21	4.00%	12,947	12,781	13,133	12,939
Net lease 5		Non-recourse	Jul-23	LIBOR + 2.15%	2,284	2,224	2,482	2,416
Net lease 6		Non-recourse	Aug-26	4.08%	32,600	32,255	32,600	32,234
Net lease 7[4]		Non-recourse	Nov-26	4.45%	19,078	18,467	19,241	18,593
Net lease 8		Non-recourse	Mar-28	4.38%	12,536	11,980	—	—
Net lease 9		Non-recourse	Apr-21[5]	LIBOR + 2.50%	72,682	72,715	—	—
Net lease 10		Non-recourse	Jul-25	4.31%	250,000	246,256	—	—
Multifamily 1		Non-recourse	Dec-23	4.84%	43,500	44,060	—	—
Multifamily 2		Non-recourse	Dec-23	4.94%	43,000	43,552	—	—
Multifamily 3		Non-recourse	Jan-24	5.15%	16,000	16,618	—	—
Multifamily 4[6]		Non-recourse	Dec-20	5.27%	12,098	12,430	—	—
Multifamily 5		Non-recourse	Nov-26	3.98%	24,536	23,681	—	—
Office 1		Non-recourse	Oct-24	4.47%	108,850	109,874	—	—
Office 2		Non-recourse	Jan-25	4.30%	77,076	76,179	—	—
Office 3		Non-recourse	Apr-23	LIBOR + 4.00%	29,947	28,524	—	—
Multi-tenant office		Non-recourse	Aug-20[7]	LIBOR + 1.90%	97,164	97,556	—	—
Hotel development loan[8]		Non-recourse	NA	NA	—	—	130,000	128,649
Hotel A-Note[9]		Non-recourse	NA	NA	—	—	50,314	50,314
Other notes payable		Limited recourse[10]	Dec-20[11]	LIBOR + 2.65%	—	—	—	—
Subtotal mortgage and other notes payable, net					890,230	884,729	284,035	280,982
Bank credit facility								
Bank credit facility	$ 400,000	Recourse	Feb-23 [12]	LIBOR + 2.25%	25,000	25,000	—	—
Subtotal bank credit facility					25,000	25,000	—	—
Master repurchase facilities								
Bank 1 facility 3	$ 300,000	Limited Recourse[10]	Apr-23[13]	LIBOR + 2.42% [14]	42,840	42,840	—	—
Bank 2 facility 1	200,000	Limited Recourse[15]	Jul-19[16]	[17] [14]	—	—	—	—
Bank 2 facility 2	200,000	Limited Recourse[15]	Jul-19[18]	LIBOR + 2.41% [14]	26,742	26,742	—	—
Bank 3 facility 3	500,000	Limited Recourse[10]	Apr-21	LIBOR + 2.36% [14]	465,811	465,811	—	—
Bank 7 facility 1	500,000	Limited Recourse[10]	Apr-22[19]	LIBOR + 2.00% [14]	79,113	79,113	—	—
Bank 8 facility 1	250,000	Limited Recourse[10]	Jun-21[20]	LIBOR + 2.00% [14]	33,672	33,672	—	—
Subtotal master repurchase facilities	$ 1,950,000				648,178	648,178	—	—
CMBS credit facilities								
Bank 1 facility 1		Recourse	[21]	LIBOR + 1.42% [14]	18,451	18,451	—	—

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						June 30, 2018 (Unaudited)		December 31, 2017	
	Capacity ($)	Recourse vs. Non-Recourse(1)	Final Maturity	Contractual Interest Rate		Principal Amount(2)	Carrying Value(2)	Principal Amount(2)	Carrying Value(2)
Bank 1 facility 2		Recourse	(21)	LIBOR + 1.22%	(14)	10,569	10,569	—	—
Bank 3 facility		Recourse	(21)	NA		—	—	—	—
Bank 4 facility		Recourse	(21)	NA		—	—	—	—
Bank 5 facility 1		Recourse	(21)	NA		—	—	—	—
Bank 5 facility 2		Recourse	(21)	NA		—	—	—	—
Bank 6 facility 1		Recourse	(21)	LIBOR + 1.15%	(14)	37,466	37,466	—	—
Bank 6 facility 2		Recourse	(21)	LIBOR + 1.08%	(14)	60,881	60,881	—	—
Subtotal CMBS credit facilities						127,367	127,367	—	—
Subtotal credit facilities						800,545	800,545	—	—
Total						$ 1,817,039	$ 1,811,530	$ 392,829	$ 389,661

(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) 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.
(5) The current maturity of the mortgage payable is April 2019, 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.
(6) Represents two separate senior mortgage notes with a weighted average maturity of December 1, 2020 and weighted average interest rate of 5.27%.
(7) The initial maturity of the mortgage payable is August 2018, with a two-year extension available at the Company's option, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
(8) A development loan originated by the Company was restructured into a senior and junior note, with the senior note assumed by a third party lender. The Company accounted for the transfer of the senior note as a financing transaction. The senior note bears interest at one-month London Interbank Offered Rate ("LIBOR") plus 3.5%, with a 4.0% floor, and is subject to two one-year extension options on its initial term, exercisable by the borrower. The investment entity that held the debt was deconsolidated upon closing of the Combination (refer to Note 2, "Summary of Significant Accounting Policies").
(9) Represents the Company's senior participation interest in a first mortgage loan that was transferred at cost into a securitization trust with the transfer accounted for as a secured financing transaction. The Company did not retain any legal interest in the senior participation and retained the junior participation on an unleveraged basis.
(10) Recourse solely with respect to 25.0% of the financed amount.
(11) The initial maturity of the note payable is December 2018, 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.
(12) 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.
(13) 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.
(14) Represents the weighted average spread as of June 30, 2018. The contractual interest rate depends upon asset type and characteristics and ranges from one-month to six-month LIBOR plus 1.08% to 2.75%.
(15) Recourse solely with respect to the greater of: (i) 25.0% of the financed amount of stabilized loans plus the financed amount of transitional loans, as further defined in the governing documents; or (ii) the lesser of $25.0 million or the aggregate financed amount of all loans.
(16) The next maturity date is July 2018, with a one-year extension available, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents. Subsequent to June 30, 2018, the Company elected not to execute the extension option.
(17) The interest rate will be determined by the lender in its sole discretion.
(18) Subsequent to June 30, 2018, the Company exercised the remaining one-year extension to July 2019.
(19) The next maturity date is April 2021, with a one-year extension available, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
(20) The next maturity date is June 2020, with a one-year extension available, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
(21) The maturity dates on the CMBS Credit Facilities are dependent upon asset type and will typically range from one to six months.

Future Minimum Principal Payments

The following table summarizes future scheduled minimum principal payments at June 30, 2018 based on final contractual maturity (dollars in thousands):

	Total	Securitization Bonds Payable, Net	Mortgage Notes Payable, Net	Credit Facilities
Remainder of 2018	$ 128,472	$ —	$ 1,105	$ 127,367
2019	29,286	—	2,544	26,742
2020	111,904	—	111,904	—
2021	586,687	—	87,204	499,483
2022	81,632	—	2,519	79,113
2023 and thereafter	879,058	126,264	684,954	67,840
Total	$ 1,817,039	$ 126,264	$ 890,230	$ 800,545

Bank Credit Facility

On February 1, 2018, the Company, through subsidiaries, 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”). The ability to borrow additional amounts under the Bank Credit Facility terminates on February 1, 2022, at which time the Company may, at its election, extend the termination date for 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 June 30, 2018, the borrowing base valuation was sufficient to permit borrowings up to the entire $400.0 million commitment.

Advances under the Bank Credit Facility accrue interest at a per annum rate equal to, at the Company’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 June 30, 2018), depending upon the amount of facility utilization.

Some of the Company’s subsidiaries guaranty the obligations of the Company under the Bank Credit Facility. As security for the advances under the Bank Credit Facility, the Company pledged substantially all equity interests it owns as well as a security interest in deposit accounts of the Company 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 defined in the Bank Credit Facility. At June 30, 2018, 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.

As of June 30, 2018, the Company had $354.1 million carrying value of CRE debt investments financed with $126.3 million of securitization bonds payable, net.

Master Repurchase Facilities

As of June 30, 2018, the Company, through subsidiaries, had entered into repurchase agreements with multiple global financial institutions to provide an aggregate principal amount of up to $2.0 billion to finance the origination of first mortgage loans and senior loan participations secured by CRE debt investments (“Master Repurchase Facilities”). The Company agreed to guarantee certain obligations under the Master Repurchase Facilities, which contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. The Master Repurchase

Facilities act as revolving loan facilities that can be paid down as assets are repaid or sold and re-drawn upon for new investments. As of June 30, 2018, the Company was in compliance with all of its financial covenants under the Master Repurchase Facilities.

As of June 30, 2018, the Company had $877.3 million carrying value of CRE debt investments financed with $648.2 million under the term loan facilities.

On April 20, 2018, the Company, through subsidiaries, consolidated two prior master purchase agreements by entering into a three-year Amended and Restated Master Repurchase and Securities Contract Agreement (“Bank 3 Facility 3”). The Repurchase Agreement provides up to $500.0 million to finance first mortgage loans, senior loan participations and other commercial mortgage loan debt instruments secured by commercial real estate.

On April 23, 2018, the Company, through subsidiaries, entered into a three-year Master Repurchase Agreement (“Bank 1 Facility 3”). The Repurchase Agreement provides up to $300.0 million to finance first mortgage loans, senior loan participations and other commercial mortgage loan debt instruments secured by commercial real estate.

On April 26, 2018, the Company entered into a three-year Master Repurchase Agreement with a major financial institution through a subsidiary (“Bank 7 Facility 1”). This agreement provides up to $500.0 million to finance the Company’s lending activities.

On June 19, 2018, the Company entered into a two-year Master Repurchase Agreement with a major financial institution through a subsidiary (“Bank 8 Facility 1”). This agreement provides up to $250.0 million to finance the Company’s lending activities.

CMBS Credit Facilities

As of June 30, 2018, the Company has 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. As of June 30, 2018, the Company had $173.2 million carrying value of CRE securities, financed with $127.4 million under its CMBS Credit Facilities.

11. 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 will be 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.

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.

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 three and six months ended June 30, 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 our 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.

Other Payables to Manager

Other payables to Manager include Combination related adjustments that consist of certain cash contributions from and distributions to Colony Capital or its subsidiaries on behalf of the CLNY Contributed Portfolio.

Manager Equity Plan

In March 2018, the Company granted 978,946 shares to its non-independent directors, officers and Manager and/or employees thereof under the 2018 Equity Incentive Plan (the "2018 Plan"). In connection with this grant, the Company recognized share-based compensation expense of $1.8 million and $2.1 million to its Manager within administrative expense in the consolidated statement of operations for the three and six months ended June 30, 2018, respectively. See Note 12, "Equity-Based Compensation" for further discussion of the 2018 Plan.

Summary of Fees and Reimbursements

The following table presents the fees and reimbursements incurred and payable to the Manager for the six months ended June 30, 2018 and the amount due to related party as of June 30, 2018 and December 31, 2017 (dollars in thousands):

			Six Months Ended June 30, 2018			
Type of Fee or Reimbursement	**Financial Statement Location**	**Due to Related Party as of December 31, 2017**	**Combination Related Consideration**	**Incurred**	**Paid**	**Due to Related Party as of June 30, 2018 (Unaudited)**
Fees to Manager						
Management	Management fee expense	$ —	$ —	$ 19,791	$ (7,914)	$ 11,877
Reimbursements to Manager						
Operating costs	Administrative expense	—	—	4,209	(1,573)	2,636
Other						
Other Payables to Manager	Additional paid-in capital	—	2,934	—	(2,934)	—
Liabilities assumed in the Combination	(1)	—	6,375	—	(6,375)	—
Total		$ —	$ 9,309	$ 24,000	$ (18,796)	$ 14,513

(1) Represents due to related party balance assumed as a result of the Combination. Refer to Note 3, "Business Combinations," for further detail.

Expense Allocations

For the six months ended June 30, 2017, the Company's consolidated financial statements present the operations of the CLNY Investment Entities as carved out from the financial statements of Colony Capital. Certain general and administrative costs borne by Colony Capital, including, but not limited to, compensation and benefits, and corporate overhead, have been allocated to the CLNY Investment Entities using reasonable allocation methodologies. Such costs do not necessarily reflect what the actual general and administrative costs would have been if the CLNY Investment Entities had been operating as a separate stand-alone public company. For the three and six months ended June 30, 2017, a total of $3.7 million and $6.7 million, respectively, of allocated expenses are included as a component of administrative expenses in the Company's consolidated statements of operations.

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 November 2016, NorthStar II entered into a $284.2 million securitization financing transaction ("Securitization 2016-1"). Securitization 2016-1 was collateralized by a pool of 10 CRE debt investments with a committed aggregate principal balance of $254.7 million primarily originated by NorthStar II and three senior participations with a committed aggregate principal balance of $29.5 million originated by NorthStar I. An affiliate of the Manager was appointed special servicer of Securitization 2016-1. The transaction was approved by the NorthStar II's board of directors, including all of its independent directors. Securitization 2016-1 was assumed by the Company in connection with the Combination.

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. As of June 30, 2018, the Company had an unfunded commitment of $43.1 million remaining. The Company's interest in the joint venture is 50.0% and its interest in both the underlying mezzanine loan and preferred equity investment is 31.8%. Both the underlying mezzanine loan and preferred equity investment carry a fixed 12.9% interest rate. This investment is recorded in investments in unconsolidated ventures in the Company's consolidated balance sheets.

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.

Subsequent to June 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 seven-year term remaining, and carry a fixed interest rate of 3.91%. Refer to Note 18, "Subsequent Events" for further information.

Subsequent to June 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 will provide preferred equity debt 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. Refer to Note 18, "Subsequent Events" for further information.

12. 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 ("SARs"); (iii) restricted stock awards; (iii) stock units; (iv) unrestricted stock awards; (v) dividend equivalent rights; (vi) performance awards; (vii) annual cash incentive awards; (viii) long-term incentive units; and (ix) 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 to the independent directors of the Company under the 2018 Plan vest in May 2019. Shares granted to non-independent directors, officers and the Manager under the 2018 Plan vest ratably in three annual installments beginning in March 2018.

The table below summarizes our awards granted or vested under the 2018 Plan during the six months ended June 30, 2018:

	Number of Shares		
	Restricted Stock	Total	Weighted Average Grant Date Fair Value
Unvested Shares at December 31, 2017	—	—	$ —
Granted	1,003,818	1,003,818	19.39
Vested	—	—	—
Forfeited	—	—	—
Unvested shares at June 30, 2018	1,003,818	1,003,818	$ 19.39

No equity awards vested during the six months ended June 30, 2018. There was no equity-based compensation plan for the six months ended June 30, 2017. Fair value of vested awards is determined based on the closing price of the Class A common stock on the date of grant for employee awards, and remeasured each period end based on the closing price of the Class A common stock of such period end for nonemployee awards. Equity-based compensation is classified within administrative expense in the consolidated statement of operations.

At June 30, 2018, aggregate unrecognized compensation cost for all unvested equity awards was $18.7 million, which is expected to be recognized over a weighted-average period of 2.7 years.

13. Stockholders' Equity

Authorized Capital

As of June 30, 2018, the Company had the authority to issue up to 1.0 billion shares of stock, at $0.01 par value per share, consisting of 905.0 million shares of Class A common stock, 45.0 million shares of Class B-3 common stock, and 50.0 million shares of preferred stock.

The Company had no shares of preferred stock issued and outstanding as of June 30, 2018.

Dividends

During the six months ended June 30, 2018, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Per Share
February 26, 2018	March 8, 2018	March 16, 2018	$0.145
March 15, 2018	March 29, 2018	April 10, 2018	$0.145
April 16, 2018	April 30, 2018	May 10, 2018	$0.145
May 7, 2018	May 31, 2018	June 11, 2018	$0.145
June 14, 2018	June 29, 2018	July 10, 2018	$0.145

Stock Repurchase Program

The Company's board of directors authorized a stock repurchase program (the "Stock Repurchase Program"), under which the Company may repurchase up to $300.0 million of its outstanding Class A common stock until March 31, 2019. 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 June 30, 2018, the Company had not repurchased any shares under the Stock Repurchase Program.

14. Noncontrolling Interests

Operating Partnership

Noncontrolling interests include the aggregate limited partnership interests in the OP held by RED REIT. Net income attributable to the noncontrolling interests is based on the limited partners' ownership percentage of the OP and was $0.3 million for each of the three and six months ended June 30, 2018.

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 for the three months ended June 30, 2018 was $0.5 million. Net income attributable to noncontrolling interests in the investment entities for the six months ended June 30, 2018 was $1.9 million. Net income attributable to noncontrolling interests in the investment entities for the three and six months ended June 30, 2017 was $9.4 million and $18.5 million, respectively.

15. Fair Value

Determination of Fair Value

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

PE Investments

The Company accounts for PE Investments at fair value which is determined based on 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. This fair value measurement is generally based on unobservable inputs and, as such, is classified as Level 3 of the fair value hierarchy. The Company considers cash flow and NAV information provided by general partners of private funds and the implied yields of those funds in valuing its PE Investments. However, the Company has not elected the practical expedient to measure the fair value of its PE Investments using the NAV of the underlying funds.

Real Estate Securities

CRE securities are generally valued using a third-party pricing service or broker quotations. These quotations are not adjusted and are based on observable inputs that can be validated, and as such, are classified as Level 2 of the fair value hierarchy. Certain CRE securities may be valued based on a single broker quote or an internal price which may have less observable pricing, and as such, 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 6, “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 as Level 3 of the fair value hierarchy, where internal price is utilized which may have less observable pricing. 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.

Fair Value Hierarchy

Financial assets recorded at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table presents financial assets that were accounted for at fair value on a recurring basis as of June 30, 2018 and December 31, 2017 by level within the fair value hierarchy (dollars in thousands):

	June 30, 2018 (Unaudited)				December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:								
Investments in unconsolidated ventures[(1)]	$ —	$ —	$ 241,453	$ 241,453	$ —	$ —	$ 24,417	$ 24,417
Real estate securities, available for sale	—	198,151	—	198,151	—	—	—	—
Mortgage loans held in securitization trusts, at fair value	—	—	3,154,112	3,154,112	—	—	—	—
Liabilities:								
Mortgage obligations issued by securitization trusts, at fair value	$ —	$ 3,010,636	$ —	$ 3,010,636	$ —	$ —	$ —	$ —

(1) Represents PE Investments for which the Company elected fair value option.

The following table presents the changes in fair value of financial assets which are measured at fair value on a recurring basis using Level 3 inputs to determine fair value for the six months ended June 30, 2018 and year ended December 31, 2017 (dollars in thousands):

	Six Months Ended June 30, 2018 (Unaudited)		Year Ended December 31, 2017
	PE Investments	Mortgage loans held in securitization trusts [1]	PE Investments
Beginning balance	$ 24,417	$ —	$ —
Contributions[2]/purchases	247,435	3,327,199	72,325
Distributions/paydowns	(38,622)	(123,117)	(49,344)
Equity in earnings	14,919	—	6,829
Unrealized loss in earnings	(6,696)	(47,767)	(5,393)
Realized loss in earnings	—	(2,203)	—
Ending balance	$ 241,453	$ 3,154,112	$ 24,417

(1) For the six months ended June 30, 2018, unrealized loss of $47.8 million related to mortgage loans held in securitization trusts, at fair value was offset by unrealized gain of $52.0 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.

For the six months ended June 30, 2018 and the year ended December 31, 2017, the Company used a discounted cash flow model to quantify Level 3 fair value measurements on a recurring basis. For the six months ended June 30, 2018 and the year ended December 31, 2017, the key unobservable inputs used in the analysis of PE Investments included discount rates with a range of 11.1% to 20.0% and 11.1% to 12.4%, respectively, and timing and amount of expected future cash flow. For the six months ended June 30, 2018, the key unobservable inputs used in the valuation of mortgage obligations issued by securitization trusts included yields ranging from 7.7% to 11.2% and a weighted average life of 5.9 years. 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 three and six months ended June 30, 2018, the Company recorded a net unrealized gain of $3.7 million and $4.2 million, respectively, related to mortgage loans held in and mortgage obligations issued by securitization trusts, at fair value, respectively. These amounts, when incurred, are recorded as unrealized gain on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations.

For the three and six months ended June 30, 2018, the Company recorded a realized loss of $2.2 million on mortgage loans held in securitization trusts, at fair value. The loss was due to lower than expected future cash flows on a subordinate tranche of a securitization trust. This amount is recorded as realized loss on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations.

For the three and six months ended June 30, 2018, the Company recorded an unrealized loss on PE Investments of $5.6 million and $6.7 million, respectively. These amounts, when incurred, are recorded as equity in earnings of unconsolidated ventures 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 June 30, 2018 and December 31, 2017, 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 June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018 (Unaudited)			December 31, 2017		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial assets:[1]						
Loans and preferred equity held for investment, net	$ 2,071,843 [2]	$ 2,079,134	$ 2,080,006	$ 1,307,740 [2]	$ 1,300,784	$ 1,311,783
Financial liabilities:[1]						
Securitization bonds payable, net	$ 126,264	$ 126,256	$ 126,264	$ 108,794	$ 108,679	$ 108,974
Mortgage notes payable, net	890,230	884,729	888,641	284,035	280,982	282,333
Master repurchase facilities	800,545	800,545	800,545	—	—	—

(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 $146.7 million and $19.2 million as of June 30, 2018 and December 31, 2017, respectively.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of the reporting date. 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

Securitization bonds payable, net are valued using quotations from nationally recognized financial institutions that generally acted as underwriter for the transactions. These quotations are not adjusted and are generally based on observable inputs that can be validated, 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 the reporting date, 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.

16. Segment Reporting

The Company currently conducts its business through the following five segments, which are based on how management reviews and manages its business:

- *Loan Portfolio*—Focused on originating, acquiring and asset managing CRE debt investments including first mortgage loans, mezzanine loans, and preferred equity interests as well as participations in such loans. The CRE Debt segment also includes ADC loan arrangements accounted for as equity method investments.

- *CRE Debt Securities*—Focused on investing in CMBS (including “B-pieces” of a CMBS securitization pool) or CRE CLOs (collateralized by pools of CRE debt instruments).

- *Net Leased Real Estate*—Focused on 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.

- *Other*—The other segment includes direct investments in non-core operating real estate such as multi-tenant office and multifamily residential assets as well as PE Investments. The other segment also includes real estate acquired in settlement of loans.

- *Corporate*—The corporate segment includes corporate level asset management and other fees, related party and general and administrative expenses.

The Company may also own investments indirectly through a joint venture.

Following the Combination, the following changes were made to the Company’s operating segments:

- The acquired CRE securities formed the new CRE Debt Securities segment.

- The Net Leased Real Estate of the combined organization is aggregated into the Net Leased Real Estate segment.

- All non-core operating real estate and PE Investments of the combined organization is aggregated into the Other segment.

- The Corporate segment consists of corporate level cash and corresponding interest income, fixed assets, corporate level financing and related interest expense, expense for management fees and cost reimbursement to the Manager, as well as Combination-related transaction costs.

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, multi-tenant office and multifamily real estate assets, as well as equity in earnings of unconsolidated ventures, including from PE Investments. 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.

COLONY CREDIT REAL ESTATE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following tables present segment reporting for the three and six months ended June 30, 2018 and 2017 (dollars in thousands):

Three Months Ended June 30, 2018	Loan	CRE Debt Securities	Net Leased Real Estate	Other	Corporate[(1)]	Total
Net interest income	$ 24,009	$ 7,800	$ —	$ —	$ (1,680)	$ 30,129
Property and other income	525	11	16,043	23,438	359	40,376
Management fee expense	—	—	—	—	(11,791)	(11,791)
Property operating expense	—	—	(5,235)	(11,021)	—	(16,256)
Transaction, investment and servicing expense	(260)	—	(7)	(161)	(3,069)	(3,497)
Interest expense on real estate	—	—	(5,099)	(4,751)	—	(9,850)
Depreciation and amortization	—	—	(8,910)	(14,449)	—	(23,359)
Administrative expense	(168)	(485)	(9)	(12)	(6,210)	(6,884)
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	443	2,599	—	(443)	1,097	3,696
Realized loss on mortgage loans and obligations held in securitization trusts, net	—	(2,203)	—	—	—	(2,203)
Other gain on investments, net	(442)	—	10	442	—	10
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	24,107	7,722	(3,207)	(6,957)	(21,294)	371
Equity in earnings of unconsolidated ventures	12,676	—	—	2,985	—	15,661
Income tax benefit (expense)	(816)	—	—	658	—	(158)
Net income (loss)	$ 35,967	$ 7,722	$ (3,207)	$ (3,314)	$ (21,294)	$ 15,874

(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 three months ended June 30, 2018, $1.1 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.

Three Months Ended June 30, 2017	Loan	Net Leased Real Estate	Other	Corporate	Total
Net interest income	$ 31,257	$ —	$ —	$ —	$ 31,257
Property and other income	929	5,223	—	—	6,152
Property operating expense	(679)	(1,178)	—	—	(1,857)
Transaction, investment and servicing expense	(594)	(115)	—	—	(709)
Interest expense on real estate	—	(1,066)	—	—	(1,066)
Depreciation and amortization	(70)	(2,675)	—	—	(2,745)
Administrative expense	(304)	(9)	—	(3,416)	(3,729)
Other loss on investments, net	(313)	—	—	—	(313)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	30,226	180	—	(3,416)	26,990
Equity in earnings of unconsolidated ventures	4,560	—	1,659	—	6,219
Income tax expense	(466)	—	(419)	—	(885)
Net income (loss)	$ 34,320	$ 180	$ 1,240	$ (3,416)	$ 32,324

COLONY CREDIT REAL ESTATE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Six Months Ended June 30, 2018	Loan	CRE Debt Securities	Net Leased Real Estate	Other	Corporate[(1)]	Total
Net interest income	$ 52,241	$ 10,702	$ —	$ —	$ (2,503)	$ 60,440
Property and other income	692	13	28,485	39,712	536	69,438
Management fee expense	—	—	—	—	(19,791)	(19,791)
Property operating expense	—	—	(9,341)	(18,628)	—	(27,969)
Transaction, investment and servicing expense	(850)	—	(17)	(167)	(33,547)	(34,581)
Interest expense on real estate	—	—	(8,597)	(7,509)	—	(16,106)
Depreciation and amortization	—	—	(15,480)	(26,671)	—	(42,151)
Administrative expense	(301)	(401)	(10)	(18)	(9,382)	(10,112)
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	—	2,489	—	—	1,704	4,193
Realized loss on mortgage loans and obligations held in securitization trusts, net	—	(2,203)	—	—	—	(2,203)
Other gain on investments, net	—	—	33	442	—	475
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	51,782	10,600	(4,927)	(12,839)	(62,983)	(18,367)
Equity in earnings of unconsolidated ventures	23,226	—	—	8,223	—	31,449
Income tax benefit	—	—	—	391	—	391
Net income (loss)	$ 75,008	$ 10,600	$ (4,927)	$ (4,225)	$ (62,983)	$ 13,473

(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 six months ended June 30, 2018, $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.

Six Months Ended June 30, 2017	Loan	Net Leased Real Estate	Other	Corporate	Total
Net interest income	$ 60,304	$ —	$ —	$ —	$ 60,304
Property and other income	1,653	9,799	—	—	11,452
Property operating expense	(1,216)	(2,252)	—	—	(3,468)
Transaction, investment and servicing expense	(1,208)	(202)	—	—	(1,410)
Interest expense on real estate	—	(2,042)	—	—	(2,042)
Depreciation and amortization	(167)	(4,863)	—	—	(5,030)
Administrative expense	(369)	(9)	—	(6,363)	(6,741)
Other loss on investments, net	(313)	—	—	—	(313)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	58,684	431	—	(6,363)	52,752
Equity in earnings of unconsolidated ventures	8,769	—	3,488	—	12,257
Income tax expense	(466)	—	(196)	—	(662)
Net income (loss)	$ 66,987	$ 431	$ 3,292	$ (6,363)	$ 64,347

The following table presents total assets by segment as of June 30, 2018 and December 31, 2017 (dollars in thousands):

Total Assets	Loan[(1)]	CRE Debt Securities	Net Leased Real Estate	Other[(2)]	Corporate[(3)]	Total
June 30, 2018 (Unaudited)	$ 2,666,201	$ 3,518,212	$ 738,151	$ 1,226,562	$ 4,815	$ 8,153,941
December 31, 2017	1,573,714	—	241,271	24,417	—	1,839,402

(1) Includes investments in unconsolidated ventures totaling $179.3 million as of December 31, 2017.
(2) Includes PE Investments totaling $241.5 million and $24.4 million as of June 30, 2018 and December 31, 2017, respectively.
(3) Includes cash, unallocated receivables, deferred costs and other assets, net and the elimination of the subordinate tranches of the securitization trusts in consolidation.

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. Long-lived assets comprise real estate, deferred leasing costs and intangible assets, all of which are located in the United States. Geography information on total income is presented as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total income by geography:				
United States	$ 131,966	$ 48,372	$ 238,232	$ 93,962
Other	362	903	950	1,802
Total[(1)]	$ 132,328	$ 49,275	$ 239,182	$ 95,764

(1) Includes interest income, interest income on mortgage loans held in securitization trusts, property and other income and equity in earnings of unconsolidated ventures.

17. Earnings Per Share

The Company’s net income (loss) and weighted average shares outstanding for the three and six months ended June 30, 2018 and 2017 consist of the following (dollars in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 15,874	$ 32,324	$ 13,473	$ 64,347
Net (income) loss attributable to noncontrolling interests:				
Investment Entities	470	(9,375)	(1,900)	(18,512)
Operating Partnership[(1)]	(336)	(1,487)	(279)	(2,969)
Net income attributable to Colony Credit Real Estate, Inc. common stockholders	$ 16,008	$ 21,462	$ 11,294	$ 42,866
Numerator:				
Net income allocated to participating securities (nonvested shares)	(436)	—	(582)	—
Net income attributable to common stockholders	$ 15,572	$ 21,462	$ 10,712	$ 42,866
Denominator:				
Weighted average shares outstanding[(2)]	127,887	44,399	113,355	44,399
Net income per common share - basic and diluted[(3)]	$ 0.12	$ 0.48	$ 0.09	$ 0.97

(1) For earnings per share for the three and six months ended June 30, 2017, the Company allocated Company OP’s share of net income as if Company OP held 3,075,623 CLNC OP Units during the period for comparative purposes. The CLNC OP units were not issued until January 31, 2018.
(2) 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.
(3) 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.

18. Subsequent Events

Dividends

On July 16, 2018, the Company’s board of directors declared a monthly cash dividend of $0.145 per share of Class A common stock and Class B-3 common stock for the month ended July 31, 2018. The common stock dividend will be paid on August 10, 2018 to stockholders of record on July 31, 2018. These distributions represent an annualized dividend of $1.74 per share of Class A common stock and Class B-3 common stock.

On August 1, 2018, the Company’s board of directors declared a monthly cash dividend of $0.145 per share of Class A common stock and Class B-3 common stock for the month ended August 31, 2018. The common stock dividend will be paid on September 10, 2018 to stockholders of record on August 31, 2018. These distributions represent an annualized dividend of $1.74 per share of Class A common stock and Class B-3 common stock.

New Investments

Loans and Preferred Equity Held for Investment

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 total $139.7 million 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 will provide preferred equity debt 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.

Real Estate, net

In July 2018, the Company purchased a $326.8 million Class A office campus located in Norway from an affiliate of the Company’s Manager. The office campus is 100% leased on a net basis to a multinational company with an A+ credit rating from S&P, with a remaining lease term of 12 years. The multinational company is backed by the Norwegian government. In connection with the purchase, the Company assumed senior mortgage financing from a private bond issuance of $197.7 million. The bonds have a seven-year term remaining, and carry a fixed interest rate of 3.91%.

Other

In August 2018, the Company foreclosed upon a hotel located in Dallas, Texas following the maturity default of the borrower on its $75.0 million senior mortgage loan.

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

The following discussion should be read in conjunction with our unaudited consolidated financial statements and the accompanying notes thereto, which are included in Item 1 of this Quarterly Report, as well as the information contained in our Form 10-K for the year ended December 31, 2017, which is accessible on the SEC's website at www.sec.gov.

Introduction

We are a CRE credit REIT focused on originating, acquiring, financing and managing a diversified portfolio consisting primarily of CRE senior mortgage loans, mezzanine loans, preferred equity, debt securities and net leased properties predominantly in the United States. CRE debt investments include senior mortgage loans, mezzanine loans, preferred equity, and participations in such loans and preferred equity interests. CRE debt securities primarily consist of commercial mortgage backed securities ("CMBS") (including "B-pieces" of a CMBS securitization pool) or CRE collateralized loan obligations ("CLOs") (collateralized by pools of CRE debt investments). 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 were organized in the state of Maryland on August 23, 2017. On September 15, 2017, Colony Capital, a publicly traded REIT listed on the NYSE under the ticker symbol "CLNY," made an initial capital contribution of $1,000 to us. We intend to qualify as a REIT under the Internal Revenue Code of 1986, as amended, beginning with our taxable year ending December 31, 2018. We conduct all of our activities and hold substantially all of our assets and liabilities through our operating subsidiary, Credit RE Operating Company, LLC (the "Operating Partnership" or "OP"). At June 30, 2018, we owned 97.6% of the OP, as its sole managing member. The remaining 2.4% is owned primarily by our affiliate as noncontrolling interests.

We are externally managed by a subsidiary of Colony Capital (formerly known as Colony NorthStar, Inc.), a NYSE-listed global real estate and investment management firm with nearly $23 billion of total consolidated assets and over $27 billion of assets under management. As of June 30, 2018, Colony Capital owned approximately 37% of our common equity on a fully diluted basis, evidencing a strong alignment of interests between Colony Capital and our other stockholders.

Combination

On January 31, 2018, the Combination among the CLNY Contributed Portfolio, NorthStar I, and NorthStar II was completed in an all-stock exchange.

The Combination created a prominent publicly traded real estate credit REIT. Our senior executives include Kevin P. Traenkle as the Chief Executive Officer and Sujan S. Patel as the Chief Financial Officer. Our board of directors consists of seven directors, four of whom are independent.

Refer to Note 3, "Business Combinations" to the Consolidated Financial Statements included in Item 1 of this Quarterly Report for further information related to the Combination. Additional information about the Combination and the Combination Agreement are set forth in the joint proxy statement/prospectus on Form S-4 initially filed by us on November 21, 2017 as amended from time to time and the Current Report on Form 8-K filed by us on January 29, 2018.

Our Manager

We are externally managed by a subsidiary of Colony Capital. Colony Capital and its predecessors have a 26-year track record and have made over $100 billion of investments. Colony Capital's senior management team, which is led by Executive Chairman Thomas J. Barrack, Jr. and Chief Executive Officer and President Richard B. Saltzman, 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, exceptional sourcing capabilities and the local presence required to identify, execute and manage complex transactions. Colony Capital's successful history of external management includes its previous management of Colony Financial, its current management of NorthStar Realty Europe Corp., a publicly traded REIT focused on European CRE with nearly $2 billion in assets, and its management of various non-traded REITs with in excess of $3 billion of equity commitments.

Colony Capital and its affiliates have more than 500 employees located domestically and internationally across 18 cities in ten countries, with its principal offices located in Los Angeles, California and New York, New York. 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 has a highly experienced management team of diverse backgrounds with a demonstrated track record of success and, on average, 32 years of operational and management experience at asset managers and investment firms, private investment funds, investment banks and other financial service companies, which provides an enhanced perspective for managing our portfolio. Kevin P. Traenkle, a 25-year veteran of Colony Capital, serves as our Chief Executive Officer; Sujan S. Patel, an 11-year veteran of Colony Capital, serves as our Chief Financial Officer; Neale W. Redington, a nine-year veteran of Colony

Capital, serves as our Chief Accounting Officer; and David A. Palamé, an 11-year veteran of Colony Capital, serves as our General Counsel.

We draw on Colony Capital's substantial real estate investment platform and relationships to source, underwrite, structure and manage a robust pipeline of investment opportunities as well as to access debt and equity capital to fund our operations. We believe we are able to originate, acquire, finance and manage investments with attractive in-place cash flows and the potential for meaningful capital appreciation over time. 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.

Our operating segments include the loan portfolio, CRE debt securities, net leased real estate, other, and corporate. Our target assets, as more fully described below, are included in different operating segments. Senior mortgage loans, mezzanine loans and preferred equity are included in the loan portfolio segment. Refer to Note 16, "Segment Reporting," for further discussion of our operating segments.

Our Target Assets

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

- ***Senior Mortgage Loans.*** We focus on 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. 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 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 similar to the senior mortgage loans we originate than other loan types given their credit quality and risk profile.

- ***Mezzanine Loans.*** We may originate or acquire mezzanine loans, which are structurally subordinate to senior loans, but senior to the borrower's equity position. 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, similar to such participations in mezzanine loans.

- ***CRE Debt Securities.*** We may make investments that consist of bonds comprising certain tranches of CRE securitization pools, such as CMBS (including "B-pieces" of a CMBS securitization pool) or CLOs (collateralized by pools of CRE debt instruments). These bonds may be 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 generally intend to hold these investments through maturity, but may, from time to time, opportunistically sell positions should liquidity become available or be required.

- ***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.

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 of 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").

Highlights

Significant developments affecting our business and results of operations for the three months ended June 30, 2018 and through August 8, 2018 include:

- Completed name change to Colony Credit Real Estate, Inc. effective June 25, 2018;
- Added to the U.S. Small-cap Russell 2000 on June 25, 2018;
- Declared and paid a monthly dividend of $0.145 per share of Class A common stock and Class B-3 common stock for April, May and June, representing an annualized dividend of $1.74 per share;
- Deployed $478.3 million of capital during the second quarter of 2018;
- Increased master repurchase facility by $250.0 million from $1.7 billion to $2.0 billion during the second quarter of 2018;
- Subsequent to June 30, 2018, purchased a $326.8 million Class A office campus located in Norway from an affiliate of our Manager and also assumed senior mortgage financing of $197.7 million in the form of a private bond issuance. The office campus is 100% leased on a net basis to a multinational company an A+ credit rating, with a remaining lease term of 12 years. The multinational company is backed by the Norwegian government;
- Also subsequent to June 30, 2018, we entered into a joint venture to invest in a development project for land and a Grade A office building in Ireland with two affiliates of our Manager to invest up to $69.9 million of the total $139.7 million commitment. We own 50.0% of the joint venture, with the affiliate entities owning the remaining 50.0%. The joint venture will provide preferred equity debt 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; and
- Additionally, subsequent to June 30, 2018, declared a monthly cash dividend of $0.145 per share of Class A and Class B-3 common stock for July and August.

Results of Operations

As a result of the Combination, comparisons of our period to period financial information as set forth herein may not be meaningful. The historical financial information included herein as of any date, or for any periods, on or prior to January 31, 2018, represents the pre-merger financial information of the CLNY Investment Entities, our accounting predecessor, on a stand-alone basis. The CLNY Investment Entities represent only a portion of our business following the Combination and therefore does not represent the results of operations we would have had for any period prior to the Combination. As of February 1, 2018, our results of operations reflect our operation following the Combination of our accounting predecessor, the CLNY Investment Entities, and NorthStar I and NorthStar II. The results of operations of NorthStar I and NorthStar II are incorporated into ours effective from February 1, 2018.

Comparison of the Three Months Ended June 30, 2018 to 2017 (Dollars in Thousands):

	Three Months Ended June 30,		Increase (Decrease)	
	2018	2017	Amount	%
Net interest income				
Interest income	$ 36,795	$ 36,904	$ (109)	(0.3)%
Interest expense	(9,703)	(5,647)	4,056	71.8 %
Interest income on mortgage loans held in securitization trusts	39,496	—	39,496	100.0 %
Interest expense on mortgage obligations issued by securitization trusts	(36,459)	—	(36,459)	100.0 %
Net interest income	30,129	31,257	(1,128)	(3.6)%
Property and other income				
Property operating income	39,477	5,762	33,715	585.1 %
Other income	899	390	509	130.5 %
Total property and other income	40,376	6,152	34,224	556.3 %
Expenses				
Management fee expense	11,791	—	11,791	100.0 %
Property operating expense	16,256	1,857	14,399	775.4 %
Transaction, investment and servicing expense	3,497	709	2,788	393.2 %
Interest expense on real estate	9,850	1,066	8,784	824.0 %
Depreciation and amortization	23,359	2,745	20,614	751.0 %
Administrative expense (including $1,798 and $0 of equity-based compensation expense)	6,884	3,729	3,155	84.6 %
Total expenses	71,637	10,106	61,531	608.9 %
Other income (loss)				
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	3,696	—	3,696	100.0 %
Realized loss on mortgage loans and obligations held in securitization trusts, net	(2,203)	—	(2,203)	(100.0)%
Other gain (loss) on investments, net	10	(313)	323	103.2 %
Income before equity in earnings of unconsolidated ventures and income taxes	371	26,990	(26,619)	(98.6)%
Equity in earnings of unconsolidated ventures	15,661	6,219	9,442	151.8 %
Income tax expense	(158)	(885)	727	82.1 %
Net income	$ 15,874	$ 32,324	$ (16,450)	(50.9)%

Net Interest Income

Interest income

Interest income decreased by $0.1 million to $36.8 million for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017, due to a decrease of $24.0 million in the CLNY Investment Entities primarily driven by the deconsolidation of certain investment entities and the repayment of loan investments, partially offset by an increase of $23.9 million related to the acquisition of NorthStar I and NorthStar II.

Interest expense

Interest expense increased by $4.1 million to $9.7 million for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017, due to a $7.8 million increase as a result of the acquisition of NorthStar I and NorthStar II, partially offset by a $3.7 million decrease in CLNY Investment Entities driven by the deconsolidation of certain investment entities.

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

Interest income on mortgage loans and obligations held in securitization trusts, net of $3.0 million during the three months ended June 30, 2018 is attributable to our investment in the subordinate tranches of the consolidated securitization trusts acquired as a result of the Combination.

Property and other income

Property operating income

Property operating income increased by $33.7 million to $39.5 million for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II.

Expenses

Management fee expense

Management fee expense represents fees paid to our Manager in accordance with the Management Agreement. During the three months ended June 30, 2018, management fee expense was $11.8 million. We entered into the Management Agreement on January 31, 2018 and therefore did not incur any management fee expenses prior to this date.

Property operating expense

Property operating expense increased by $14.4 million to $16.3 million for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II.

Transaction, investment and servicing expense

Transaction, investment and servicing expense represents costs such as professional fees associated with new investments and transactions. Transaction, investment and servicing expense increased by $2.8 million to $3.5 million for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017, primarily as a result of $2.3 million of transaction costs associated with the Combination.

Interest expense on real estate

Interest expense on real estate increased by $8.8 million to $9.9 million for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II.

Depreciation and amortization

Depreciation and amortization expense increased by $20.6 million to $23.4 million for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II.

Administrative expense

Administrative expense increased by $3.2 million to $6.9 million for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017, primarily due to additional reimbursable expenses allocated to us by our Manager as a result of the acquisition of NorthStar I and NorthStar II in the Combination. See Note 11 to the consolidated financial statements, “Related Party Arrangements,” for further information on reimbursement of expenses.

Other income (loss)

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

During the three months ended June 30, 2018, we recorded an unrealized gain on mortgage loans and obligations held in securitization trusts, net of $3.7 million 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 loss on mortgage loans and obligations held in securitization trusts, net

During the three months ended June 30, 2018, we recorded a realized loss on mortgage loans and obligations held in securitization trusts, net of $2.2 million which represents a loss incurred from lower than expected future cash flows on a subordinate tranche of a securitization trust.

Equity in earnings of unconsolidated ventures

Equity in earnings of unconsolidated ventures increased by $9.4 million to $15.7 million for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017, primarily driven by investments in unconsolidated ventures acquired as a result of the acquisition of NorthStar I and NorthStar II.

Income tax expense

For the three months ended June 30, 2018 and 2017, we recorded income tax expense of $0.2 million and $0.9 million, respectively, related to our PE Investments.

Comparison of the Six Months Ended June 30, 2018 to 2017 (Dollars in Thousands):

	Six Months Ended June 30,		Increase (Decrease)	
	2018	2017	Amount	%
Net interest income				
Interest income	$ 72,934	$ 72,055	$ 879	1.2 %
Interest expense	(17,118)	(11,751)	5,367	45.7 %
Interest income on mortgage loans held in securitization trusts	65,361	—	65,361	100.0 %
Interest expense on mortgage obligations issued by securitization trusts	(60,737)	—	(60,737)	100.0 %
Net interest income	60,440	60,304	136	0.2 %
Property and other income				
Property operating income	68,022	10,901	57,121	524.0 %
Other income	1,416	551	865	157.0 %
Total property and other income	69,438	11,452	57,986	506.3 %
Expenses				
Management fee expense	19,791	—	19,791	100.0 %
Property operating expense	27,969	3,468	24,501	706.5 %
Transaction, investment and servicing expense	34,581	1,410	33,171	2,352.6 %
Interest expense on real estate	16,106	2,042	14,064	688.7 %
Depreciation and amortization	42,151	5,030	37,121	738.0 %
Administrative expense (including $2,083 and $0 of equity-based compensation expense)	10,112	6,741	3,371	50.0 %
Total expenses	150,710	18,691	132,019	706.3 %
Other income (loss)				
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	4,193	—	4,193	100.0 %
Realized loss on mortgage loans and obligations held in securitization trusts, net	(2,203)	—	(2,203)	(100.0)%
Other gain (loss) on investments, net	475	(313)	788	251.8 %
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income taxes	(18,367)	52,752	(71,119)	(134.8)%
Equity in earnings of unconsolidated ventures	31,449	12,257	19,192	156.6 %
Income tax benefit (expense)	391	(662)	1,053	159.1 %
Net income	$ 13,473	$ 64,347	$ (50,874)	(79.1)%

Net Interest Income

Interest income

Interest income increased by $0.9 million to $72.9 million for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, due to an increase of $43.0 million related to the acquisition of NorthStar I and NorthStar II, partially offset by a $42.1 million decrease in the CLNY Investment Entities driven by the deconsolidation of certain investment entities and repayment of loan investments.

Interest expense

Interest expense increased by $5.4 million to $17.1 million for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, due to a $12.9 million increase as a result of the acquisition of NorthStar I and NorthStar II, partially offset by a $7.5 million decrease in CLNY Investment Entities driven by the deconsolidation of certain investment entities.

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

Interest income on mortgage loans and obligations held in securitization trusts, net of $4.6 million for the six months ended June 30, 2018 is attributable to our investment in the subordinate tranches of the consolidated securitization trusts acquired as a result of the Combination.

Property and other income

Property operating income

Property operating income increased by $57.1 million to $68.0 million for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II.

Expenses

Management fee expense

Management fee expense represents fees paid to our Manager in accordance with the Management Agreement. During the six months ended June 30, 2018, management fee expense was $19.8 million. We entered into the Management Agreement on January 31, 2018 and therefore did not incur any management fee expenses prior to this date.

Property operating expense

Property operating expense increased by $24.5 million to $28.0 million for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II.

Transaction, investment and servicing expense

Transaction, investment and servicing expense represents costs such as professional fees associated with new investments and transactions. Transaction, investment and servicing expense increased by $33.2 million to $34.6 million for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, primarily as a result of $32.5 million in transaction costs associated with the Combination.

Interest expense on real estate

Interest expense on real estate increased by $14.1 million to $16.1 million for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II.

Depreciation and amortization

Depreciation and amortization expense increased by $37.1 million to $42.2 million for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II.

Administrative expense

Administrative expense increased by $3.4 million to $10.1 million for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, primarily due to additional reimbursable expenses allocated to us by our Manager as a result of the acquisition of NorthStar I and NorthStar II in the Combination. See Note 11 to the consolidated financial statements, “Related Party Arrangements,” for further information on reimbursement of expenses.

Other income (loss)

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

During the six months ended June 30, 2018, we recorded an unrealized gain on mortgage loans and obligations held in securitization trusts, net of $4.2 million 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 loss on mortgage loans and obligations held in securitization trusts, net

During the six months ended June 30, 2018, we recorded a realized loss on mortgage loans and obligations held in securitization trusts, net of $2.2 million which represents a loss incurred from lower than expected future cash flows on a subordinate tranche of a securitization trust.

Equity in earnings of unconsolidated ventures

Equity in earnings of unconsolidated ventures increased by $19.2 million to $31.4 million for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017, primarily driven by investments in unconsolidated ventures acquired as a result of the acquisition of NorthStar I and NorthStar II.

Income tax benefit (expense)

For the six months ended June 30, 2018 and 2017, we recorded income tax benefit of $0.4 million and income tax expense of $0.7 million, respectively, related to our PE Investments.

Our Portfolio

As of June 30, 2018, our portfolio consisted of 154 investments representing approximately $7.7 billion in book value (excluding cash, cash equivalents and certain other assets). Our loan portfolio consisted of 80 senior mortgage loans, mezzanine loans and preferred equity investments and had a weighted average cash coupon of 6.7% and a weighted average all-in levered yield of 7.4%. Our CRE debt securities portfolio had a weighted average cash coupon of 3.8%. Our owned real estate portfolio (including net lease and other real estate) consisted of approximately 12.7 million total square feet of space and the total annualized base rent of that portfolio was approximately $127.6 million (based on leases in place as of June 30, 2018).

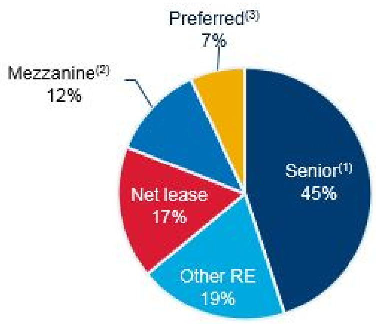
As of June 30, 2018, our portfolio consisted of the following investments (dollars in thousands):

Asset	Count	Book value	Noncontrolling interest[1]	Book value at our share[2]
Senior mortgage loans[3][4]	54	$ 1,777,187	$ 8,144	$ 1,769,043
Mezzanine loans[3][5]	19	490,380	8,767	481,613
Preferred equity[3][6]	7	300,319	—	300,319
CMBS[7]	46	341,625	—	341,625
Mortgage loans held in securitization trusts[7]	—	3,010,641	—	3,010,641
Owned real estate-Net lease[8]	10	700,691	34,739	665,952
Owned real estate-Other[8][9]	12	887,292	132,007	755,285
Private equity interests	6	241,453	—	241,453
Total	154	$ 7,749,588	$ 183,657	$ 7,565,931

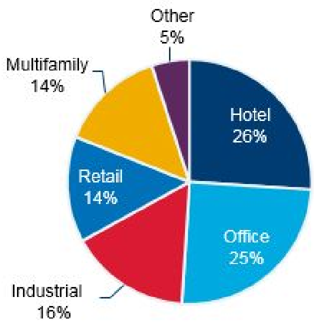
(1) Non-controlling interest ("NCI") represent interests in assets held by third party partners.
(2) Book value at our share represents the proportionate book value based on our ownership by asset; book values at our share for securitization assets are net of the accounting impact from consolidation.
(3) Senior mortgage loans, mezzanine loans, and preferred equity include investments in joint ventures whose underlying investment is in a loan or preferred equity.
(4) 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.
(5) Mezzanine loans include other subordinated loans.
(6) Preferred equity balances include $56.8 million of book value at our share attributable to related equity participation interests.
(7) Mortgage loans held in securitization trusts includes $3.2 billion of book value assets in three securitization trusts in which we own the controlling class of securities and therefore consolidate. The consolidated liabilities related to these consolidated assets are $3.0 billion. The difference between the carrying values of the mortgage loans held in securitization trusts and the carrying value of the mortgage obligations issued by the securitization trusts was $143.5 million as of June 30, 2018 and approximates the fair value of our underlying investments in the subordinate tranches of the securitization trusts.
(8) Owned real estate - net lease and owned real estate - other include deferred leasing costs and intangible assets.
(9) Owned real estate - other consists of multi-tenant office and multifamily residential assets.

The following charts illustrate the diversification of our portfolio (not including CMBS, mortgage loans held in securitization trusts, and private equity interests) based on investment type, underlying property type, and geography, as of June 30, 2018 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

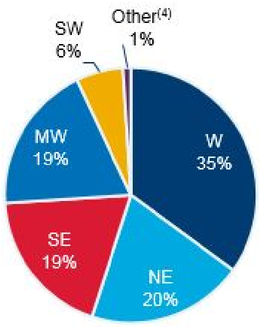
Investment Type



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 $56.8 million of book value at our share attributable to related equity participation interests.
(4) Other includes one non-U.S. collateral asset.

Underwriting Process

We use a rigorous 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 which 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.

The following section describes the major CRE asset classes in which we may invest and actively manage to maximize value and to protect capital.

Loan Portfolio

Our loan portfolio 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 loan portfolio as of June 30, 2018 (dollars in thousands):

		Book Value			Principal Balance			Weighted Average(1)			
Asset	**Count**	**Book value**	**NCI**	**Book value at our share(2)**	**Principal balance**	**NCI**	**Principal balance value at our share(2)**	**Cash Coupon(3)**	**All-in yield(4)**	**Remaining term(5)**	**Extended remaining term(6)**
Senior loans(7)(8)	54	$ 1,777,187	$ 8,144	$ 1,769,043	$ 1,797,157	$ 35,150	$ 1,762,007	6.2%	6.4%	1.6	3.2
Mezzanine loans(7)(9)	19	490,380	8,767	481,613	521,963	41,063	480,900	6.5%	9.0%	2.1	3.2
Preferred equity(7)(10)	7	300,319	—	300,319	251,115	—	251,115	10.2%	10.7%	7.3	7.5
Total / Weighted average	80	$ 2,567,886	$ 16,911	$ 2,550,975	$ 2,570,235	$ 76,213	$ 2,494,022	6.7%	7.4%	2.3	3.7

(1) Weighted average metrics weighted by book value at our share, except for cash coupon which is weighted by principal balance value at our share.
(2) Book and principal value at our share represents the proportionate book and principal value based on our ownership by asset.
(3) Represents the stated coupon on loans; for floating rate loans, assumes USD 1-month LIBOR, which was 2.09% as of June 30, 2018.
(4) In addition to cash coupon, all-in yield includes non-cash payment in-kind interest income and the accrual of both extension and exit fees. All-in yield for the loan portfolio assumes the applicable floating benchmark rate as of June 30, 2018 for weighted average calculations.
(5) Represents the remaining term based on the current contractual maturity date of loans.
(6) Represents the remaining term based on a maximum maturity date assuming all extension options on loans are exercised by the borrower term based on a maximum maturity date assuming all extension options on loans are exercised by the borrower.
(7) Senior mortgage loans, mezzanine loans, and preferred equity include investments in joint ventures whose underlying investment is in a loan or preferred equity.
(8) 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.
(9) Mezzanine loans include other subordinated loans.
(10) Preferred equity balances include $56.8 million of book value at our share attributable to related equity participation interests.

Subsequent to June 30, 2018, we foreclosed upon a hotel located in Dallas, Texas following the maturity default of the borrower on a senior loan with a $75.0 million. We do not expect to realize a loss on this transaction.

The following table details our loan portfolio by rate-type as of June 30, 2018 (dollars in thousands):

		Book Value			Principal Balance			Unfunded Loan Commitments			Weighted Average(1)			
	Number of loans	**Book value**	**NCI**	**Book value at our share(2)**	**Principal balance**	**NCI**	**Principal balance at our share(2)**	**Unfunded loan commitments**	**NCI**	**Unfunded loan commitments at our share(2)**	**Spread to LIBOR**	**All-in yield(3)**	**Remaining term(4)**	**Extended remaining term(5)**
Floating rate loans	59	$ 1,873,339	$ 16,749	$ 1,856,590	$ 1,865,557	$ 16,696	$ 1,848,861	$ 146,738	$ 532	$ 146,206	4.8%	6.8%	1.5	3.1
Fixed rate loans(6)	21	694,547	162	694,385	704,678	59,517	645,161	43,100	—	43,100	—%	9.1%	4.6	5.3
Total/ Weighted average	80	$ 2,567,886	$ 16,911	$ 2,550,975	$ 2,570,235	$ 76,213	$ 2,494,022	$ 189,838	$ 532	$ 189,306	—%	7.4%	2.3	3.7

(1) Weighted average metrics weighted by book value at our share, except for spread to LIBOR which is weighted by principal balance value at our share.
(2) Book value at our share represents the proportionate book value, principal value, and unfunded loan commitments based on our ownership by asset.
(3) In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, purchase price premium and discount, loan origination costs and accrual of both extension and exit fees. All-in yield for the loan portfolio assumes the applicable floating benchmark rate as of June 30, 2018 for weighted average calculations.
(4) Represents the remaining term in years based on the original maturity date or current extension maturity date of loans.
(5) Represents the remaining term in years based on a maximum maturity date assuming all extension options on loans are exercised by the borrower.
(6) Includes preferred equity investments.

The following table details the types of properties securing our loan portfolio and geographic distribution as of June 30, 2018 (dollars in thousands):

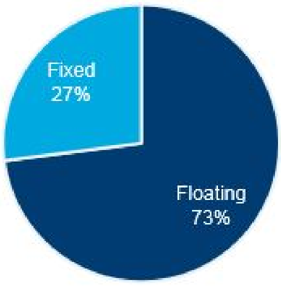
Collateral property type	Book value	NCI	Book value at our share[1]	% of total
Office	$ 345,878	$ 2,754	$ 343,124	13.5%
Multifamily	346,716	—	346,716	13.6%
Industrial	163,586	—	163,586	6.4%
Hotel	1,026,199	7,356	1,018,843	39.9%
Retail	478,554	6,354	472,200	18.5%
Other[2]	206,953	447	206,506	8.1%
Total	$ 2,567,886	$ 16,911	$ 2,550,975	100.0%

Region	Book value	NCI	Book value at our share[1]	% of total
West	$ 1,208,109	$ 8,862	$ 1,199,247	47.0%
Northeast	603,507	2,376	601,131	23.6%
Southwest	235,974	847	235,127	9.2%
Southeast	356,416	3,089	353,327	13.8%
Midwest	143,485	1,737	141,748	5.6%
Other[3]	20,395	—	20,395	0.8%
Total	$ 2,567,886	$ 16,911	$ 2,550,975	100.0%

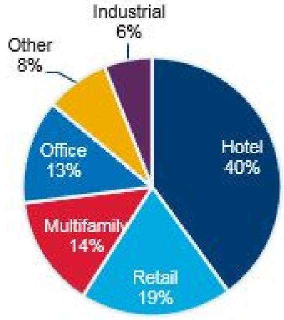
(1) Book value at our share represents the proportionate book value based on our ownership by asset.
(2) Other includes manufactured housing communities and commercial and residential development and predevelopment assets.
(3) Other includes one non U.S. collateral asset.

The following charts illustrate the diversification of our loan portfolio based on interest rate category, property type, and geography as of June 30, 2018 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

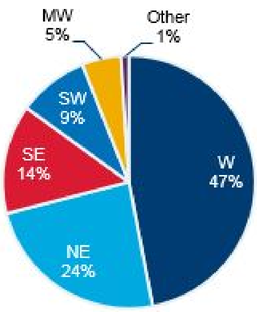
Fixed Floating



Property Type



Geography



In March 2018, the borrower on our $260.2 million NY hospitality loans failed to make its interest payment. We have placed the loans on non-accrual status and have commenced discussions with the borrower to resolve the matter. Interest income is recognized on a cash basis. No provision for loan loss was recorded during the three and six months ended June 30, 2018 as we believe sufficient collateral value exists to cover the outstanding loan balances. During the three months ended June 30, 2018, we received and recognized $1.0 million in interest income on the loans. These discussions typically include numerous points of negotiation as we and the borrower work towards a settlement or other alternative resolution, which can impact the potential for loan repayment or receipt of collateral.

CRE Debt Securities

The following table presents an overview of our CRE debt securities portfolio as of June 30, 2018 (dollars in thousands):

					Weighted Average[1]			
CRE Debt Securities by ratings category[2]	**Number of Securities**	**Book value**	**NCI**	**Book value at our share[3]**	**Cash coupon**	**Unlevered all-in yield**	**Remaining term**	**Ratings**
Investment grade rated	33	$ 195,904	$ —	$ 195,904	3.4%	7.2%	8.1	BBB-
Non-investment grade rated	10	86,985	—	86,985	4.2%	11.7%	5.8	BB / B
Non-rated	3	58,736	—	58,736	4.3%	5.2%	5.0	—
Total/Weighted Average	46	$ 341,625	$ —	$ 341,625	3.8%	8.0%	7.0	—

(1) Weighted average metrics weighted by book value at our share, except for cash coupon which is weighted by principal balance value at our share.
(2) As of June 30, 2018, all CRE debt securities consisted of CMBS.
(3) Book value at our share represents the proportionate book value based on our ownership by asset; at our share values for securitization assets are presented net of the impact from consolidation.

Owned Real Estate

Our operating 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 operating real estate investments through joint ventures with one or more partners. As part of our real estate properties 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.

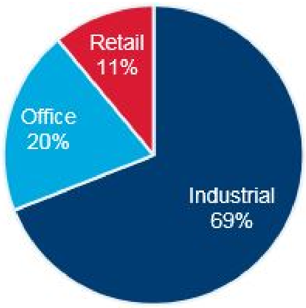
As of June 30, 2018, $1.6 billion, or 20.5%, of our assets were invested in real estate properties and our portfolio was 91.3% occupied. The following table presents our real estate property investments as of June 30, 2018 (dollars in thousands):

Property Type	**Book value**	**NCI**	**Book value at our share[1]**	**% of total**	**Number of Properties**	**Number of Buildings**	**Total Square Feet**	**Units**	**% leased**	**Weighted average lease term[2]**	**Total annualized base rent[3]**
Net lease											
Industrial	$ 493,226	$ 34,739	$ 458,487	31.0%	45	45	8,792,792	—	97.8%	3.5	$ 33,176
Office	135,647	—	135,647	9.0%	4	4	841,689	—	75.3%	4.1	8,042
Retail	71,818	—	71,818	5.0%	10	10	467,971	—	100.0%	5.2	5,627
Total net-lease	700,691	34,739	665,952	45.0%	59	59	10,102,452	—	93.4%	3.8	46,845
Other											
Office	603,892	69,825	534,067	38.0%	16	33	2,600,882	—	88.3%	4.6	51,721
Multifamily	275,460	62,182	213,278	17.0%	6	107	—	3,721	93.6%	n/a	29,053
Other[4]	7,940	—	7,940	—%	1	1	n/a	n/a	n/a	n/a	n/a
Total other	887,292	132,007	755,285	55.0%	23	141	2,600,882	3,721	89.8%	4.6	80,774
Total	$ 1,587,983	$ 166,746	$ 1,421,237	100.0%	82	200	12,703,334	3,721	91.5%	4.2	$ 127,619

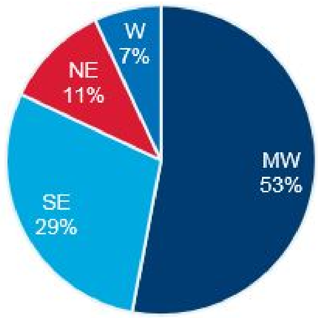
(1) Book value at our share represents the proportionate book value based on our ownership by asset.
(2) The calculation of weighted average lease term is based on leases in-place (defined as occupied and paying leases) as of June 30, 2018; assumes that no renewal options are exercised and is weighted by book value at our share.
(3) Total annualized base rent is based on in-place leases multiplied by 12, excluding straight-line adjustments and rent concessions as of June 30, 2018.
(4) Other owned real estate includes hotel assets and residential development and predevelopment assets.

The following charts illustrate the diversification of our net lease real estate portfolio based on property type and geography as of June 30, 2018 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

Property Type

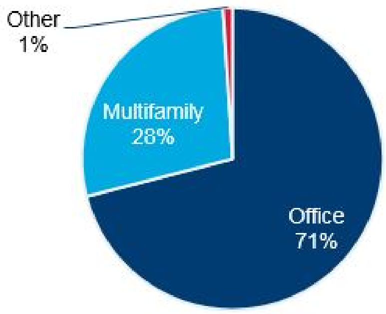


Geography

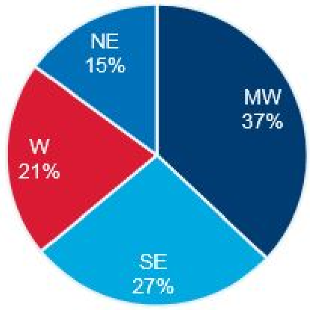


The following charts illustrate the diversification of our other real estate portfolio based on property type and geography as of June 30, 2018 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

Property Type



Geography



Non-GAAP Supplemental Financial Measures

Core Earnings

We present Core Earnings, which is a non-GAAP supplemental financial measure of our performance. We believe that Core 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. This supplemental financial measure 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. We also use Core Earnings to determine the incentive fees we pay to our Manager. For information on the fees we pay our Manager, see Note 11, “Related Party Arrangements” to our consolidated financial statements included in this Form 10-Q. In addition, we believe that our investors also use Core Earnings or a comparable supplemental performance measure to evaluate and compare the performance of us and our peers, and as such, we believe that the disclosure of Core Earnings is useful to our investors.

We define Core 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, (iii) the incentive fee, (iv) acquisition costs from successful acquisitions, (v) depreciation and amortization, (vi) 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, (vii) one-time events pursuant to changes in U.S. GAAP and (viii) certain material non-cash income or expense items that in the judgment of management should not be included in Core Earnings. For clauses (vii) and (viii), 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.

Core 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, including our ability to make cash distributions. In addition, our methodology for calculating Core Earnings may differ from methodologies employed by other companies to calculate the same or similar non-GAAP supplemental financial measures, and accordingly, our reported Core Earnings may not be comparable to the Core Earnings reported by other companies.

The following table presents a reconciliation of net income (loss) attributable to our common stockholders and noncontrolling interest of the Operating Partnership to Core Earnings attributable to our common stockholders and noncontrolling interest of the Operating Partnership (dollars and share amounts in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income attributable to Colony Credit Real Estate, Inc. common stockholders	$ 16,008	$ 22,949	$ 11,294	$ 45,835
Adjustments:				
Net income attributable to noncontrolling interest of the Operating Partnership	336	—	279	—
Non-cash equity compensation expense	1,798	—	2,083	—
Transaction costs	2,342	—	32,521	—
Depreciation and amortization	24,321	2,707	43,155	4,957
Net unrealized gain on investments	(2,898)	—	(1,594)	—
Adjustments related to non-controlling interests	(1,657)	—	(3,099)	—
Core Earnings attributable to Colony Credit Real Estate, Inc. common stockholders and noncontrolling interest of the Operating Partnership	$ 40,250	$ 25,656	$ 84,639	$ 50,792
Core Earnings per share(1)	$ 0.31	$ 0.54	$ 0.73	$ 1.07
Weighted average number of common shares and OP units(1)	130,962	47,475	115,969	47,475

(1) We calculate core earnings 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 Core Earnings per share, we assume the 44.4 million shares of Class B-3 common stock and the 3.1 million OP units (held by members other than us or our subsidiaries) were outstanding prior to January 31, 2018 to reflect the standalone pre-merger financial information of the accounting acquirer. Following January 31, 2018, we assume approximately 131.0 million of shares of Class A common stock, Class B-3 common stock and OP units (held by members other than us or our subsidiaries) were outstanding. This results in a weighted average share count for the three and six months ended June 30, 2018 of approximately 131.0 million and 116.0 million shares, respectively.

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, repurchase our shares and fund other general business needs. We use significant cash to make additional 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 a number of 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, we have access to liquidity through public offerings of debt and equity securities. We also expect to invest 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 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 $400 million secured revolving credit facility, up to approximately $2.0 billion in secured revolving repurchase facilities, non-recourse securitization financing, commercial mortgages and 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 or securitization. We will seek to match the nature and duration of the financing with the underlying asset's cash flow, including through the use of hedges, as appropriate.

Debt-to-Equity Ratio

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

	June 30, 2018	December 31, 2017
Debt-to-equity ratio(1)	0.5x	0.3x

(1) Represents (i) total outstanding secured debt less cash to (ii) total stockholders' equity, in each case, at period end.

The following table presents our total sources of liquidity as of June 30, 2018 (dollars in thousands):

Total Sources of Corporate Liquidity		
Cash and cash equivalents	$	155,377
Bank credit facility availability		375,000
Total sources of corporate liquidity	$	530,377

Potential Sources of Liquidity

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.

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 permit borrowings of up to the entire $400.0 million commitment. The ability to borrow additional amounts under the Bank Credit Facility terminates on February 1, 2022, at which time the OP may, at its election and by written notice to the administrative agent, extend the termination date for two (2) additional terms of six (6) months each, subject to the terms and conditions in the Bank Credit Facility, resulting in a latest termination date of February 1, 2023.

The obligations of the Borrowers under the Bank Credit Facility are guaranteed pursuant to a Guarantee and Collateral Agreement with certain subsidiaries of the OP in favor of JPMorgan Chase Bank, N.A. (the "Guarantee and Collateral Agreement") by substantially all material wholly owned subsidiaries of the OP 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) minimum consolidated tangible net worth of the OP greater than or equal to the sum of (i) $2.105 billion and (ii) 50% 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 ("EBITDA") plus lease expenses to fixed charges for any period of four (4) consecutive fiscal quarters not less than 1.50 to 1.00; (c) the OP's minimum interest coverage ratio not less than 3.00 to 1.00; and (d) the OP's ratio of consolidated total debt to consolidated total assets must not exceed 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. 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.

Master Repurchase Facilities

Currently, our primary source of financing is our master repurchase facilities, which we use to finance the origination of senior loans. Repurchase agreements effectively allow us to borrow against loans, 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.

The following table presents a summary of our master repurchase facilities as of June 30, 2018 (dollars in thousands):

	Maximum Facility Size	Current Borrowings	Weighted Average Final Maturity (Years)	Weighted Average Interest Rate
Master Repurchase Facilities				
Bank 1	$ 300,000	$ 42,840	4.8	LIBOR + 2.42%
Bank 2	400,000	26,742	1.0	LIBOR + 2.41%
Bank 3	500,000	465,811	2.8	LIBOR + 2.36%
Bank 7	500,000	79,113	3.8	LIBOR + 2.00%
Bank 8	250,000	33,672	3.0	LIBOR + 2.00%
Total Master Repurchase Facilities	1,950,000	648,178		
CMBS Credit Facilities				
Bank 1	29,020	29,020	(1)	LIBOR + 1.34%
Bank 6	98,347	98,347	(1)	LIBOR + 1.11%
Bank 3	—	—	—	—
Bank 4	—	—	—	—
Bank 5	—	—	—	—
Total CMBS Credit Facilities	127,367	127,367		
Bank Credit Facility	400,000	25,000	4.6	LIBOR + 2.25%
Total Facilities	$ 2,477,367	$ 800,545		

(1) The maturity dates on CMBS Credit Facilities are dependent upon asset type and will typically range from one to six months.

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.

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.

Cash Flows

The following presents a summary of our consolidated statements of cash flows for the six months ended June 30, 2018 and 2017 (dollars in thousands):

Cash flow provided by (used in):	Six Months Ended June 30, 2018	2017	Change
Operating activities	$ 22,349	$ 47,170	$ (24,821)
Investing activities	103,929	101,532	2,397
Financing activities	3,895	(131,109)	135,004
Net change in cash and cash equivalents	$ 130,173	$ 17,593	$ 112,580

Comparison of the Six Months Ended June 30, 2018 to 2017

Operating Activities

Net cash provided by operating activities decreased $24.8 million from $47.2 million for the six months ended June 30, 2017 to $22.3 million for the six months ended June 30, 2018, primarily as a result of transaction costs paid in connection with the Combination.

Investing Activities

Net cash provided by investing activities increased $2.4 million from $101.5 million for the six months ended June 30, 2017 to $103.9 million for the six months ended June 30, 2018. Cash flows from investing activities for the six months ended June 30, 2018 primarily consist of repayment on loans and preferred equity held for investment in the amount of $272.6 million, cash received in the Combination in the amount of $225.2 million, and distributions in excess of cumulative earnings from unconsolidated ventures in the amount of $49.4 million, partially offset by acquisition, origination and funding of loans and preferred equity held for investment in the amount of $392.3 million, acquisition of real estate securities, available for sale in the amount of $33.3 million, deposit on investments in the amount of $15.7 million, payments for improvements of real estate in the amount of $5.7 million, and investments in unconsolidated ventures in the amount of $5.5 million.

Financing Activities

Net cash provided by financing activities increased $135.0 million from net cash used in financing activities of $131.1 million for the six months ended June 30, 2017 to net cash provided by financing activities of $3.9 million for the six months ended June 30, 2018. Cash flows provided by financing activities for the six months ended June 30, 2018 primarily consist of borrowings from credit facilities in the amount of $326.8 million and borrowings from mortgage notes in the amount of $43.8 million, partially offset by repayment of credit facilities in the amount of $175.1 million, distributions paid on common stock in the amount of $75.8 million, repayment of securitization bonds in the amount of $63.4 million, and repayment of mortgage notes in the amount of $42.1 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)	$ 36,017	$ 2,399	$ 4,799	$ 28,819	$ —
Secured debt(2)	1,992,474	428,771	616,513	173,625	773,565
Securitization bonds payable(3)	130,225	130,225	—	—	—
Ground lease obligations(4)	14,452	2,821	5,582	3,852	2,197
	2,173,168	$ 564,216	$ 626,894	$ 206,296	$ 775,762
Lending commitments(5)	146,622				
Total	$ 2,319,790				

(1) Future interest payments were estimated based on the applicable index at June 30, 2018 and unused commitment fee of 0.35% per annum, assuming principal is repaid on the final maturity date of February 2023.
(2) Amounts include minimum principal and interest obligations through the initial maturity date of the collateral assets. Interest on floating rate debt was determined based on the applicable index at June 30, 2018.

(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 noncancellable 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 under ground leases are recoverable from tenants.
(5) Future lending commitments may be subject to certain conditions that borrowers must meet to qualify for such fundings. Commitment amount assumes future fundings meet the terms to qualify for such fundings.

Guarantees and Off-Balance Sheet Arrangements

As of June 30, 2018, we are not dependent on the use of any off-balance sheet financing arrangements for liquidity. We have made investments in unconsolidated ventures. Refer to Note 5, “Investments in Unconsolidated Ventures” in Item 1. “Financial Statements” for a discussion of such unconsolidated ventures in our consolidated financial statements. In each case, our exposure to loss is limited to the carrying value of our investment.

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 and secondarily through capital appreciation. 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 pricing dislocations and attractive risk-return profiles;
- originating and structuring CRE senior mortgage loans, 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;
- 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;
- 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;
- creating capital appreciation opportunities through active asset management and equity participation opportunities; and
- 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.

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.

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. 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.

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, 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 and student housing 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 and student housing properties.

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

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. There have been no material changes to our critical accounting policies since the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

Interest rate risk relates to the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations 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 June 30, 2018, a hypothetical 100 basis point increase in the applicable interest rate benchmark on our loan portfolio would increase interest income by $9.3 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 receivable 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 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. 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.

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, which could 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.

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.

Item 4. Controls and Procedures

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 assure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Security and Exchange Commission's ("SEC's") rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2018, our disclosure controls and procedures were effective at the reasonable assurance level such that 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.

Internal Control over Financial Reporting

Changes in Internal Control over Financial Reporting.

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

We may be involved in various litigation matters arising in the ordinary course of our business. Although we are unable to predict with certainty the eventual outcome of any litigation, in the opinion of management, any current legal proceedings are not expected to have a material adverse effect on our financial position or results of operations.

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 as filed with the SEC on March 23, 2018.

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

Issuer Repurchase of Equity Securities

During the six months ended June 30, 2018, we did not repurchase any shares of our common stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits

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 Credit Real Estate, Inc., as amended
3.2	Second Amended and Restated Bylaws of Colony Credit Real Estate, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (No. 001-38377) filed on June 25, 2018)
10.1	Amended and Restated Master Repurchase and Securities Contract Agreement, dated as of April 20, 2018, by and among MS Loan NT-I, LLC, MS Loan NT-II, LLC, CLNC Credit 1, LLC, CLNC Credit 2, 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 25, 2018)
10.2	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)
10.3	Master Repurchase Agreement, dated as of April 23, 2018, by and among NSREIT CB Loan, LLC, CB Loan NT-II, LLC, CLNC Credit 3, LLC, CLNC Credit 4, 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 April 25, 2018)
10.4	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)
10.5	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)
10.6	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)
10.7	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)
10.8	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)
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*	The following materials from the Colony Credit Real Estate, Inc. Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2018 (unaudited) and December 31, 2017; (ii) Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2018 and 2017; (iii) Consolidated Statements of Comprehensive Income (Loss) (unaudited) for the three and six months ended June 30, 2018 and 2017; (iv) Consolidated Statements of Equity (unaudited) for the six months ended June 30, 2018 and 2017; (v) Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2018 and 2017; and (vi) Notes to Consolidated Financial Statements (unaudited)

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 9, 2018

COLONY CREDIT REAL ESTATE, INC.

By: /s/ Kevin P. Traenkle

Kevin P. Traenkle
Chief Executive Officer and President and Director
(Principal Executive Officer)

By: /s/ Sujan S. Patel

Sujan S. Patel
Chief Financial Officer (Principal Financial Officer)

By: /s/ Neale W. Redington

Neale W. Redington
Chief Accounting Officer (Principal Accounting Officer)

COLONY NORTHSTAR CREDIT REAL ESTATE, INC.

ARTICLES OF AMENDMENT

THIS IS TO CERTIFY THAT:

FIRST: The charter of Colony NorthStar Credit Real Estate, Inc., a Maryland corporation (the “Corporation”), is hereby amended by deleting existing Article II in its entirety and substituting in lieu thereof a new article to read as follows:

ARTICLE II

NAME

The name of the corporation (the “Corporation”) is:

Colony Credit Real Estate, Inc.

SECOND: The amendment to the charter of the Corporation as set forth above has been duly approved by at least a majority of the entire Board of Directors of the Corporation as required by law. The amendment set forth herein is made without action by the stockholders of the Corporation, pursuant to Section 2-605(a)(1) of the Maryland General Corporation Law.

THIRD: These Articles of Amendment shall become effective as of 12:01 a.m. Eastern time on June 25, 2018.

FOURTH: The undersigned acknowledges these Articles of Amendment to be the corporate act of the Corporation and as to all matters or facts required to be verified under oath, the undersigned acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

(signature page follows)

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to be signed in its name and on its behalf by its Chief Executive Officer and President and attested to by its Secretary on this 22nd day of June, 2018.

ATTEST:	COLONY NORTHSTAR CREDIT REAL ESTATE, INC.
/s/ David A. Palamé	By: /s/ Kevin P. Traenkle
Name: David A. Palamé	Name: Kevin P. Traenkle
Title: Secretary	Title: Chief Executive Officer & President

[CLNC - Signature Page to Articles of Amendment]

COLONY NORTHSTAR CREDIT REAL ESTATE, INC.

ARTICLES OF AMENDMENT AND RESTATEMENT

FIRST: Colony NorthStar Credit Real Estate, Inc., a Maryland corporation (the "Corporation"), desires to amend and restate its charter as currently in effect and as hereinafter amended.

SECOND: The following provisions are all the provisions of the charter currently in effect and as hereinafter amended:

ARTICLE I

INCORPORATOR

James C. Pickel, Jr., whose address is c/o Colony NorthStar, Inc., 515 South Flower Street, 44th Floor, Los Angeles, CA 90071, being at least 18 years of age, formed a corporation under the general laws of the State of Maryland on August 23, 2017.

ARTICLE II

NAME

The name of the corporation (the "Corporation") is:

Colony NorthStar Credit Real Estate, Inc.

ARTICLE III

PURPOSE

The purposes for which the Corporation is formed are to engage in any lawful act or activity (including, without limitation or obligation, engaging in business as a real estate investment trust under the Internal Revenue Code of 1986, as amended, or any successor statute (the "Code")) for which corporations may be organized under the general laws of the State of Maryland as now or hereafter in force. For purposes of the charter of the Corporation (the "Charter"), "REIT" means a real estate investment trust under Sections 856 through 860 of the Code or any successor provisions.

ARTICLE IV

PRINCIPAL OFFICE IN STATE AND RESIDENT AGENT

The address of the principal office of the Corporation in the State of Maryland is c/o CSC-Lawyers Incorporating Service Company, 7 St. Paul Street, Suite 820, Baltimore, MD 21202. The name of the resident agent of the Corporation in the State of Maryland is CSC-Lawyers Incorporating Service Company, whose post address is 7 St. Paul Street, Suite 820, Baltimore, MD 21202. The resident agent is a Maryland corporation.

ARTICLE V

PROVISIONS FOR DEFINING, LIMITING AND REGULATING CERTAIN POWERS OF THE CORPORATION AND OF THE STOCKHOLDERS AND DIRECTORS

Section 5.1 Number of Directors. The business and affairs of the Corporation shall be managed under the direction of the Board of Directors. The number of directors of the Corporation is seven (7), which number may be increased or decreased only by the Board of Directors pursuant to the Bylaws of the Corporation (the "Bylaws"), but shall never be less than the minimum number required by the Maryland General Corporation Law (the "MGCL"). The names of the directors who shall serve until the first annual meeting of stockholders and until their successors are duly elected and qualify are:

Richard B. Saltzman
Catherine D. Rice
Vernon B. Schwartz
Darren J. Tangen
Kevin P. Traenkle
John Westerfield
Winston W. Wilson

The Corporation elects, effective at such time as it becomes eligible under Section 3-802 of the MGCL to make the election provided for under Section 3-804(c) of the MGCL, that, except as may be provided by the Board of Directors in setting the terms of any class or series of stock, any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy shall serve for the remainder of the full term of the directorship in which such vacancy occurred and until his or her successor is duly elected and qualifies.

Section 5.2 Extraordinary Actions. Except as specifically provided in Section 5.8 and Article VIII, notwithstanding any provision of law permitting or requiring any action to be taken or approved by the affirmative vote of stockholders entitled to cast a greater number of votes, any such action shall be effective and valid if declared advisable by the Board of Directors and taken or approved by the affirmative vote of stockholders entitled to cast a majority of all the votes entitled to be cast on the matter.

Section 5.3 Authorization by Board of Stock Issuance. The Board of Directors may authorize the issuance from time to time of shares of stock of the Corporation of any class or series, whether now or hereafter authorized, or securities or rights convertible into shares of its stock of any class or series, whether now or hereafter authorized, for such consideration as the Board of Directors may deem advisable (or without consideration in the case of a stock split or stock dividend), subject to such restrictions or limitations, if any, as may be set forth in the Charter or the Bylaws.

Section 5.4 Preemptive Rights. Except as may be provided by the Board of Directors in setting the terms of classified or reclassified shares of stock of the Corporation pursuant to Section 6.4 or as may otherwise be provided by a contract approved by the Board of Directors, no holder of shares of stock of the Corporation shall, as such holder, have any preemptive right to purchase or subscribe for any additional shares of stock of the Corporation or any other security of the Corporation which it may issue or sell.

Section 5.5 Indemnification. (a) The Corporation shall, to the maximum extent permitted by Maryland law in effect from time to time, indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to, (i) any individual who is a present or former director or officer of the Corporation and who is made, or threatened to be made, a party to, or witness in, the proceeding by reason of his or her service in that capacity or (ii) any individual who, while a director or officer of the Corporation and at the request of the Corporation, serves or has served as a director, officer, trustee, member, manager, employee, partner or agent of another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or any other enterprise and who is made or threatened to be made a party to, or witness in, the proceeding by reason of his or her service in that capacity. The rights to indemnification and advancement of expenses provided by the Charter shall vest immediately upon election of a director or officer. The Corporation shall provide such indemnification and advancement of expenses to an individual who served a predecessor of the Corporation in any of the capacities described in (i) or (ii) above and shall have the power, with the approval of the Board of Directors, to provide the same (or lesser) indemnification and advancement of expenses to any employee or agent of the Corporation or a predecessor of the Corporation. Any amendment of this Section 5.5(a) shall be prospective only and shall not affect the applicability of this section with respect to any act or failure to act that occurred prior to such amendment.

(b) The indemnification provided herein shall not be deemed to limit the right of the Corporation to indemnify any other person for any such expenses to the fullest extent permitted by law, nor shall it be deemed exclusive of any other rights to which any person seeking indemnification from the Corporation may be entitled under the Bylaws, any agreement, resolution of stockholders or directors, or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

Section 5.6 Determinations by Board. The determination as to any of the following matters, made by or pursuant to the direction of the Board of Directors, shall be final and conclusive and shall be binding upon the Corporation and every holder of shares of its stock: the amount of the net income of the Corporation for any period and the amount of assets at any time legally available for the payment of dividends, acquisition of its stock or the payment of other distributions on its stock; the amount of paid-in surplus, net assets, other surplus, cash flow, funds from operations, adjusted funds from operations, net profit, net assets in excess of capital, undivided profits or excess of profits over losses on sales of assets; the amount, purpose, time of creation, increase or decrease, alteration or cancellation of any reserves or charges and the propriety thereof (whether or not any obligation or liability for which such reserves or charges shall have been created shall have been set aside, paid or discharged); any interpretation or resolution of any ambiguity with respect to any provision of the Charter (including any of the terms, preferences, conversion or other rights, voting powers or rights, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption of any shares of any class or series of stock of the Corporation) or of the Bylaws; the number of shares of stock of any class or series of the Corporation; the fair value, or any sale, bid or asked price to be applied in determining the fair value, of any asset owned or held by the Corporation or of any shares of stock of the Corporation; any matter relating to the acquisition, holding and disposition of any assets by the Corporation; any interpretation of the terms and conditions of one or more agreements with any person, corporation, association, company, trust, partnership (limited or general) or other entity; the compensation of directors, officers, employees or agents of the Corporation; or any other matter relating to the business and affairs of the Corporation or required or permitted by applicable law, the Charter or Bylaws or otherwise to be determined by the Board of Directors.

Section 5.7 REIT Qualification. The Board of Directors shall have the authority to cause the Corporation to elect to qualify for U.S. federal income tax treatment as a REIT. If the Corporation elects to qualify for federal income tax treatment as a REIT, the Corporation shall use its reasonable best efforts to take such actions as are necessary or appropriate to preserve the status of the Corporation as a REIT; however, if the Board of Directors determines that it is no longer in the best interests of the Corporation to attempt to, or continue to, qualify as a REIT, the Board of Directors may revoke or otherwise terminate the Corporation's REIT election pursuant to Section 856(g) of the Code. The Board of Directors, in its sole and absolute discretion, also may (a) determine that compliance with any restriction or limitation on stock ownership and transfers set forth in Article VII is no longer required for REIT qualification and (b) make any other determination or take any other action pursuant to Article VII.

Section 5.8 Removal of Directors. Subject to the rights of holders of shares of one or more classes or series of Preferred Stock (as defined below) to elect or remove one or more directors, any director, or the entire Board of Directors, may be removed from office at any time, but 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. For the purpose of this paragraph, "cause" shall mean, with respect to any particular director, conviction of a felony or a final judgment of a court of competent jurisdiction holding that such director caused demonstrable, material harm to the Corporation through bad faith or active and deliberate dishonesty.

Section 5.9 Corporate Opportunities.

Section 5.9.1. Definitions: For the purpose of this Section 5.9, the following terms shall have the following meanings:

Affiliate. The term "Affiliate" shall mean, when used with respect to a Person, any Person that, directly or indirectly, controls or is controlled by or is under common control with such Person and any principal, member, director, partner, shareholder, officer, employee or other representative of the foregoing (other than the Corporation and any Person that is controlled by the Corporation). For the purposes of this definition, "control" (including the correlative meanings of the terms “controlled by” and “under common control with”), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, through the ownership of voting securities or partnership interests, contract or otherwise.

Person. The term “Person” shall mean any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, governmental authority or other entity.

Sponsor Affiliates. The term “Sponsor Affiliates” shall mean CLNC Manager, LLC and its Affiliates.

Section 5.9.2 Corporate Opportunities. (a) The Corporation recognizes that it will derive benefits from its continued contractual, corporate and business relationships with the Sponsor Affiliates and that (i) certain directors, principals, officers, employees or other representatives of the Sponsor Affiliates may serve as directors or officers of the Corporation, its subsidiaries or entities that provide investment advisory services to the Corporation or its subsidiaries or as a member of the investment committee of any such entity, (ii) the Sponsor Affiliates may now engage and may continue to engage in the same or similar activities or related lines of business as those in which the Corporation, directly or indirectly, may engage and other business activities that overlap with or compete with those in which the Corporation or its subsidiaries, directly or indirectly, may engage, and (iii) members of the Board of Directors and their respective Affiliates may now engage and may continue to engage in the same or similar activities or related lines of business as those in which the Corporation, directly or indirectly, may engage and other business activities that overlap with or compete with those in which the Corporation or its subsidiaries, directly or indirectly, may engage.

(b) To the fullest extent permitted by law, except to the extent limited in any agreement with any Sponsor Affiliate, none of the Sponsor Affiliates (including those serving as directors or officers of the Corporation) or any of their respective Affiliates (any such Person, an “Identified Person”) shall have any duty to refrain from directly or indirectly:

(i) engaging in any business opportunity, including but not limited to business opportunities in the same or similar business activities or lines of business in which the Corporation or any of its Affiliates may, from time to time, be engaged or propose to engage (a “Business Opportunity”); or

(ii) competing with the Corporation, and to the fullest extent permitted by law, no Identified Person shall be liable to the Corporation or its stockholders or creditors for breach of any duty (statutory, contractual or otherwise (other than for breach by an Identified Person of any express restrictions on competition contained in any written contract between such Identified Person and the Corporation)) by reason of the fact that such Identified Person engages in any such activities, and, except as provided in subsection (c) of this Section 5.9.2, the doctrine of corporate opportunity or any similar doctrine applicable to the Corporation shall not apply to any Identified Person. To the fullest extent permitted by law, the Corporation hereby renounces any interest or expectancy in, or in being offered an opportunity to participate in, any Business Opportunity presented to an Identified Person, except as provided in subsection (c) of this Section 5.9.2. Subject to subsection (c) of this Section 5.9.2, in the event that any Identified Person acquires knowledge of a Business Opportunity, such Identified Person shall have no duty to communicate or offer such Business Opportunity to the Corporation or any of its Affiliates and, to the fullest extent permitted by law, shall not be liable to the Corporation or its stockholders or creditors for breach of any duty (statutory, contractual or otherwise) as a stockholder, director or officer of the Corporation by reason of the fact that such Identified Person pursues or acquires such Business Opportunity for itself, directs such Business Opportunity to another Person, or does not present such opportunity to the Corporation or its subsidiaries or stockholders. A Business Opportunity shall not be deemed to be a potential Business Opportunity for the

Corporation if it is a Business Opportunity that the Corporation is not financially able or contractually permitted or legally able to undertake, or that is, from its nature, not in line with the Corporation's business or is of no practical advantage to it or that is one in which the Corporation has no reasonable expectancy.

(c) The Corporation does not renounce its interest in any Business Opportunity offered to any director or officer of the Corporation if such opportunity is expressly offered to such Person in his or her capacity as a director or officer of the Corporation.

Section 5.10 Appraisal Rights. Holders of shares of stock shall not be entitled to exercise any rights of an objecting stockholder provided for under Title 3, Subtitle 2 of the MGCL or any successor statute unless the Board of Directors, upon such terms and conditions as specified by the Board of Directors, shall determine that such rights apply, with respect to all or any shares of all or any classes or series of stock, to one or more transactions occurring after the date of such determination in connection with which holders of such shares would otherwise be entitled to exercise such rights.

Section 5.11 Advisor Agreements. Subject to such approval of stockholders and other conditions, if any, as may be required by any applicable statute, rule or regulation, the Board of Directors may authorize the execution and performance by the Corporation of one or more agreements with any person, corporation, association, company, trust, partnership (limited or general) or other organization whereby, subject to the supervision and control of the Board of Directors, any such other person, corporation, association, company, trust, partnership (limited or general) or other organization shall render or make available to the Corporation managerial, investment, advisory and/or related services, office space and other services and facilities (including, if deemed advisable by the Board of Directors, the management or supervision of the investments of the Corporation) upon such terms and conditions as may be provided in such agreement or agreements (including, if deemed fair and equitable by the Board of Directors, the compensation payable thereunder by the Corporation).

ARTICLE VI

STOCK

Section 6.1 Authorized Shares. The Corporation has authority to issue 1,000,000,000 shares of stock, consisting of 905,000,000 shares of Class A Common Stock, $0.01 par value per share ("Class A Common Stock"), 45,000,000 shares of Class B-3 Common Stock, $0.01 par value per share ("Class B-3 Common Stock") (Class A Common Stock and Class B-3 Common Stock, collectively, the "Common Stock"), and 50,000,000 shares of Preferred Stock, $0.01 par value per share ("Preferred Stock"). The aggregate par value of all authorized shares of stock having par value is $10,000,000. If shares of one class of stock are classified or reclassified into shares of another class of stock pursuant to Section 6.2, 6.3 or 6.4 of this Article VI, the number of authorized shares of the former class shall automatically be decreased and the number of shares of the latter class shall automatically be increased, in each case by the number of shares so classified or reclassified, so that the aggregate number of shares of stock of all classes that the Corporation has authority to issue shall not be more than the total number of shares of stock set forth in the first sentence of this paragraph. The Board of Directors, with the approval of a majority of the entire Board of Directors, and without any action by the stockholders of the Corporation, may amend the Charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Corporation has authority to issue.

Section 6.2 Common Stock. Subject to the provisions of Article VII and except as may otherwise be specified in the Charter, each share of Common Stock shall entitle the holder thereof to one vote. The Board of Directors may reclassify any unissued shares of Common Stock from time to time into one or more classes or series of stock.

Section 6.2.1 Dividends and other Distributions. The Board of Directors may from time to time authorize and the Corporation shall declare to the holders of Common Stock such dividends or other distributions in cash or other assets of the Corporation or in securities of the Corporation or from any other source as the Board of Directors in its discretion shall determine, but only out of funds legally available therefor. The exercise of the powers and rights of the Board of Directors pursuant to this Section 6.2.1 shall be subject to the preferences of any class or series of stock at the time outstanding.

Section 6.2.2 Liquidation Rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of, or any distribution of the assets of, the Corporation, the holders of Common Stock shall be entitled to participate, together with the holders of shares of any other class or series of stock now existing or hereafter classified or reclassified having parity rights to the Common Stock as to distributions in the liquidation, dissolution or winding up of the Corporation, in the distribution of any assets of the Corporation remaining after the Corporation shall have paid, or provided for payment of, all debts and liabilities of the Corporation and after the Corporation shall have paid, or set aside for payment, to the holders of any class or series of stock having preferences over the Common Stock as to distributions in the event of dissolution, liquidation or winding up of the Corporation.

Section 6.2.3 Equal Status. Except as expressly provided in this Article VI, all Common Stock shall have the same rights, privileges and limitations and rank equally, share ratably and be identical in all respects as to all matters.

Section 6.2.4 Conversion. The Class A Common Stock is not convertible into or exchangeable for any other property or securities of the Corporation. Each issued and outstanding share of Class B-3 Common Stock shall, automatically and without any action on the part of the holder thereof, convert into one (1) share of Class A Common Stock upon the close of trading on the date that is the one (1) year anniversary of the listing of the Class A Common Stock on a national securities exchange (the "Listing Date"). Each unissued share of Class B-3 Common Stock shall automatically be reclassified as one (1) share of Class A Common Stock at the close of trading on the one (1) year anniversary of the Listing Date.

Section 6.3 Preferred Stock. The Board of Directors may classify any unissued shares of Preferred Stock and reclassify any previously classified but unissued shares of Preferred Stock of any class or series from time to time, into one or more classes or series of stock.

Section 6.4 Classified or Reclassified Shares. Prior to the issuance of classified or reclassified shares of any class or series of stock, the Board of Directors by resolution shall: (a) designate that class or series to distinguish it from all other classes and series of stock of the Corporation; (b) specify the number of shares to be included in the class or series; (c) set or change, subject to the provisions of Article VII and subject to the express terms of any class or series of stock of the Corporation outstanding at the time, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series; and (d) cause the Corporation to file articles supplementary with the State Department of Assessments and Taxation of Maryland (the "SDAT"). Any of the terms of any class or series of stock set or changed pursuant to clause (c) of this Section 6.4 may be made dependent upon facts or events ascertainable outside the Charter (including determinations by the Board of Directors or other facts or events within the control of the Corporation) and may vary among holders thereof; provided that the manner in which such facts, events or variations shall operate upon the terms of such class or series of stock is clearly and expressly set forth in the articles supplementary or other Charter document filed with the SDAT.

Section 6.5 Stockholders' Consent in Lieu of Meeting. Any action required or permitted to be taken at any meeting of the holders of Common Stock entitled to vote generally in the election of directors may be taken without a meeting by consent, in writing or by electronic transmission, in any manner and by any vote permitted by the MGCL and set forth in the Bylaws.

Section 6.6 Charter and Bylaws. The rights of all stockholders and the terms of all stock of the Corporation are subject to the provisions of the Charter and the Bylaws.

Section 6.7 Distributions. The Board of Directors from time to time may authorize the Corporation to declare and pay to stockholders such dividends or other distributions in cash or other assets of the Corporation or in securities of the Corporation, including in shares of one class or series of the Corporation's stock payable to holders of shares of another class or series of stock of the Corporation, or from any other source as the Board of Directors in its sole and absolute discretion shall determine. The exercise of the powers and rights of the Board of Directors pursuant to this Section 6.7 shall be subject to the provisions of any class or series of shares of the Corporation’s stock at the time outstanding.

Section 6.8 Transferable Shares. Notwithstanding any other provision in the Charter, no determination shall be made by the Board of Directors nor shall any transaction be entered into by the Corporation that would cause any shares or other beneficial interest in the Corporation not to constitute “transferable shares” or “transferable certificates of beneficial interest” under Section 856(a)(2) of the Code.

Section 6.9 Tax on Disqualified Organizations. To the extent that the Corporation incurs any tax pursuant to Section 860E(e)(6) of the Code as the result of any “excess inclusion” income (within the meaning of Section 860E of the Code) of the Corporation being allocated to a “disqualified organization” (as defined in Section 860E(e)(5) of the Code) that holds Common Stock or Preferred Stock in record name, the Corporation shall reduce the distributions payable to any such “disqualified organization” whose ownership of Common Stock or Preferred Stock caused such tax to be incurred by an amount equal to such tax, in the manner described in Treasury Regulations Section 1.860E-2(b)(4).

ARTICLE VII

RESTRICTION ON TRANSFER AND OWNERSHIP OF SHARES

Section 7.1 Definitions. For the purpose of this Article VII, the following terms shall have the following meanings:

Aggregate Stock Ownership Limit. The term “Aggregate Stock Ownership Limit” shall mean 9.8 percent in value of the aggregate of the outstanding shares of Capital Stock, or such other percentage determined by the Board of Directors in accordance with Section 7.2.8 of the Charter.

Beneficial Ownership. The term “Beneficial Ownership” shall mean ownership of Capital Stock by a Person, whether the interest in the shares of Capital Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) and 856(h)(3) of the Code. The terms “Beneficial Owner,” “Beneficially Owns” and “Beneficially Owned” shall have the correlative meanings.

Business Day. The term “Business Day” shall mean any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions in New York City are authorized or required by law, regulation or executive order to close.

Capital Stock. The term “Capital Stock” shall mean all classes or series of stock of the Corporation, including, without limitation, Common Stock and Preferred Stock.

Charitable Beneficiary. The term “Charitable Beneficiary” shall mean one or more beneficiaries of the Trust as determined pursuant to Section 7.3.6; provided that each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code.

Common Stock Ownership Limit. The term “Common Stock Ownership Limit” shall mean 9.8 percent (in value or in number of shares, whichever is more restrictive) of the aggregate of the outstanding shares of Common Stock, or such other percentage determined by the Board of Directors in accordance with Section 7.2.8 of the Charter.

Constructive Ownership. The term “Constructive Ownership” shall mean ownership of Capital Stock by a Person, whether the interest in the shares of Capital Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms “Constructive Owner,” “Constructively Owns” and “Constructively Owned” shall have the correlative meanings.

Excepted Holder. The term “Excepted Holder” shall mean a stockholder of the Corporation for whom an Excepted Holder Limit is created by the Charter or by the Board of Directors pursuant to Section 7.2.7.

Excepted Holder Limit. The term “Excepted Holder Limit” shall mean the percentage limit established by the Board of Directors pursuant to Section 7.2.7; provided that the affected Excepted Holder agrees to comply with the requirements established by the Charter or by the Board of Directors pursuant to Section 7.2.7 and subject to adjustment pursuant to Section 7.2.8.

Initial Date. The term “Initial Date” shall mean January 31, 2018.

Market Price. The term “Market Price” on any date shall mean, with respect to any class or series of outstanding shares of Capital Stock, the Closing Price for such Capital Stock on such date. The “Closing Price” on any date shall mean the last sale price for such Capital Stock, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, for such Capital Stock, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the Stock Exchange or, if such Capital Stock is not listed or admitted to trading on the Stock Exchange, as reported on the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such Capital Stock is listed or admitted to trading or, if such Capital Stock is not listed or admitted to trading on any national securities exchange, the last quoted price, or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer in use, the principal other automated quotation system that may then be in use or, if such Capital Stock is not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such Capital Stock selected by the Board of Directors or, in the event that no trading price is available for such Capital Stock, the fair market value of the Capital Stock, as determined by the Board of Directors.

Person. The term “Person” shall mean an individual, corporation, partnership, limited liability company, estate, trust (including, without limitation, a trust qualified under Sections 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity and also includes a group as that term is used for purposes of Rule 13d-5(b) or Section 13(d)(3) of the Securities Exchange Act of 1934, as amended.

Prohibited Owner. The term “Prohibited Owner” shall mean, with respect to any purported Transfer, any Person who, but for the provisions of this Article VII, would Beneficially Own or Constructively Own shares of Capital Stock in violation of Section 7.2.1, and if appropriate in the context, shall also mean any Person who would have been the record owner of the shares that the Prohibited Owner would have so owned.

Restriction Termination Date. The term “Restriction Termination Date” shall mean the first day after the Initial Date on which the Board of Directors determines pursuant to Section 5.7 of the Charter that it is no longer in the best interests of the Corporation to attempt to, or continue to, qualify as a REIT or that compliance with the restrictions and limitations on Beneficial Ownership, Constructive Ownership and Transfers of shares of Capital Stock set forth herein is no longer required in order for the Corporation to qualify as a REIT.

Stock Exchange. The term “Stock Exchange” shall mean the national securities exchange or automated quotation system on which any class or series of outstanding shares of Capital Stock are listed or traded.

Transfer. The term “Transfer” shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event, condition or set of circumstances that causes any Person to acquire or have Beneficial Ownership or Constructive Ownership, or any agreement to take any such actions or cause any such events, of Capital Stock or the right to vote or receive dividends or other distributions on shares of Capital Stock, including

(a) a change in the capital structure of the Corporation or in the relative values of different classes or series of Capital Stock, (b) a change in the relationship between two or more Persons that causes a change in Beneficial Ownership or Constructive Ownership, (c) the granting or exercise of any option or warrant (or any acquisition or disposition of any option or warrant), pledge, security interest, or similar right to acquire shares of Capital Stock, (d) any acquisition or disposition of any securities or rights convertible into or exchangeable for Capital Stock or any interest in Capital Stock or any exercise of any such conversion or exchange right and (e) Transfers of interests in other entities that result in changes in Beneficial Ownership or Constructive Ownership of Capital Stock; in each case, whether voluntary or involuntary, whether owned of record, Constructively Owned or Beneficially Owned and whether by operation of law or otherwise. The terms "Transferring" and "Transferred" shall have the correlative meanings.

Trust. The term "Trust" shall mean any trust provided for in Section 7.3.1.

Trustee. The term "Trustee" shall mean the Person unaffiliated with the Corporation and a Prohibited Owner that is appointed by the Corporation to serve as trustee of the Trust.

Section 7.2 Capital Stock.

Section 7.2.1 Ownership Limitations. During the period commencing on the Initial Date and prior to the Restriction Termination Date, but subject to Section 7.4:

(a) Basic Restrictions.

(i) (1) No Person, other than an Excepted Holder, shall Beneficially Own or Constructively Own shares of Capital Stock in excess of the Aggregate Stock Ownership Limit, (2) no Person, other than an Excepted Holder, shall Beneficially Own or Constructively Own shares of Common Stock in excess of the Common Stock Ownership Limit and (3) no Excepted Holder shall Beneficially Own or Constructively Own shares of Capital Stock in excess of the Excepted Holder Limit for such Excepted Holder.

(ii) No Person shall Beneficially Own or Constructively Own shares of Capital Stock to the extent that (1) such Beneficial Ownership or Constructive Ownership of Capital Stock would result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year), (2) such Beneficial Ownership or Constructive Ownership of Capital Stock would result in the Corporation owning (directly or Constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Corporation (either directly or indirectly through one or more partnerships or limited liability companies) from such tenant for the taxable year of the Corporation during which such determination is being made would reasonably be expected to equal or exceed the lesser of (A) one percent (1%) of the Corporation's gross income (as determined for purposes of Section 856(c) of the Code), or (B) an amount that would (or, in the sole judgment of the Board of Directors, could) cause the Corporation to fail to satisfy any of the gross income requirements of Section 856(c) of the Code, or (3) such Beneficial Ownership or Constructive Ownership of Capital Stock would result in the Corporation otherwise failing to qualify as a REIT.

(iii) Any Transfer of shares of Capital Stock that, if effective, would result in the Capital Stock being beneficially owned by fewer than 100 Persons (determined under the principles of Section 856(a)(5) of the Code) shall be void ab initio, and the intended transferee shall acquire no rights in such shares of Capital Stock.

(b) Transfer in Trust. If any Transfer of shares of Capital Stock occurs which, if effective, would result in any Person Beneficially Owning or Constructively Owning shares of Capital Stock in violation of Section 7.2.1(a)(i) or (ii),

(i) then that number of shares of the Capital Stock the Beneficial Ownership or Constructive Ownership of which otherwise would cause such Person to violate Section 7.2.1(a)(i) or (ii) (rounded up to the nearest whole share) shall be automatically transferred to a Trust for the benefit of a Charitable Beneficiary, as described in Section 7.3, effective as of the close of business on the Business Day prior to the date of such Transfer, and such Person shall acquire no rights in such shares of Capital Stock; or

(ii) if the transfer to the Trust described in clause (i) of this sentence would not be effective for any reason to prevent the violation of Section 7.2.1(a)(i) or (ii), then the Transfer of that number of shares of Capital Stock that otherwise would cause any Person to violate Section 7.2.1(a)(i) or (ii) shall be void ab initio, and the intended transferee shall acquire no rights in such shares of Capital Stock.

(iii) To the extent that, upon a transfer of shares of Capital Stock pursuant to this Section 7.2.1(b), a violation of any provision of this Article VII would nonetheless be continuing (for example where the ownership of shares of Capital Stock by a single Trust would violate the 100 stockholder requirement applicable to REITs), then shares of Capital Stock shall be transferred to that number of Trusts, each having a distinct Trustee and a Charitable Beneficiary or Beneficiaries that are distinct from those of each other Trust, such that there is no violation of any provision of this Article VII.

Section 7.2.2 Remedies for Breach. If the Board of Directors shall at any time determine that a Transfer or other event has taken place that results in a violation of Section 7.2.1 or that a Person intends to acquire or has attempted to acquire Beneficial Ownership or Constructive Ownership of any shares of Capital Stock in violation of Section 7.2.1 (whether or not such violation is intended), the Board of Directors shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or other event, including, without limitation, causing the Corporation to redeem shares of Capital Stock, refusing to give effect to such Transfer on the books of the Corporation or instituting proceedings to enjoin such Transfer or other event; provided, however, that any Transfer or attempted Transfer or other event in violation of Section 7.2.1 shall automatically result in the transfer to the Trust described above, and, where applicable, such Transfer (or other event) shall be void ab initio as provided above irrespective of any action (or non-action) by the Board of Directors.

Section 7.2.3 Notice of Restricted Transfer. Any Person who acquires or attempts or intends to acquire Beneficial Ownership or Constructive Ownership of shares of Capital Stock that will or may violate Section 7.2.1(a), or any Person who would have owned shares of Capital Stock that resulted in a transfer to the Trust pursuant to the provisions of Section 7.2.1(b), shall immediately give written notice to the Corporation of such event or, in the case of such a proposed or attempted transaction, shall give at least fifteen (15) days prior written notice, and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Transfer on the Corporation's status as a REIT.

Section 7.2.4 Owners Required To Provide Information. From the Initial Date and prior to the Restriction Termination Date:

(a) every owner of five percent (5%) or more (or such lower percentage as required by the Code or the Treasury Regulations promulgated thereunder) in number or value of the outstanding shares of Capital Stock, within thirty (30) days after the end of each taxable year, shall give written notice to the Corporation stating (i) the name and address of such owner, (ii) the number of shares of Capital Stock Beneficially Owned and (iii) a description of the manner in which such shares are held. Each such owner shall provide to the Corporation such additional information as the Corporation may request in order to determine the effect, if any, of such Beneficial Ownership on the Corporation's status as a REIT and to ensure compliance with the Aggregate Stock Ownership Limit and the Common Stock Ownership Limit; and

(b) each Person who is a Beneficial Owner or Constructive Owner of Capital Stock and each Person (including the stockholder of record) who is holding Capital Stock for a Beneficial Owner or Constructive Owner shall provide to the Corporation such information as the Corporation may request, in order to determine the Corporation's status as a REIT and to comply with requirements of any taxing authority or governmental authority or to determine such compliance and to ensure compliance with the Aggregate Stock Ownership Limit and the Common Stock Ownership Limit.

Section 7.2.5 Remedies Not Limited. Subject to Section 5.7 of the Charter, nothing contained in this Section 7.2 shall limit the authority of the Board of Directors to take such other action as it deems necessary or advisable to protect the Corporation in preserving the Corporation's status as a REIT.

Section 7.2.6 Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Section 7.2, Section 7.3 or any definition contained in Section 7.1, the Board of Directors may determine the application of the provisions of this Section 7.2 or Section 7.3 or any such definition with respect to any situation based on the facts known to it at such time. In the event Section 7.2 or 7.3 requires an action by the Board of Directors and the Charter fails to provide specific guidance with respect to such action, the Board of Directors may determine the action to be taken so long as such action is not contrary to the provisions of Sections 7.1, 7.2 or 7.3. Absent a decision to the contrary by the Board of Directors, if a Person would have (but for the remedies set forth in Section 7.2.2) acquired Beneficial Ownership or Constructive Ownership of Capital Stock in violation of Section 7.2.1, such remedies (as applicable) shall apply first to the shares of Capital Stock that, but for the remedies, would have actually been owned by such Person, and second to the shares of Capital Stock that, but for such remedies, would have been Beneficially Owned or Constructively Owned (but not actually owned) by such Person, pro rata among the Persons who actually own such shares of Capital Stock based upon the relative number of the shares of Capital Stock held by each such Person.

Section 7.2.7 Exceptions.

(a) The Board of Directors, in its sole discretion, may exempt, prospectively or retroactively, a Person from the Common Stock Ownership Limit or the Aggregate Stock Ownership Limit, as the case may be, and may establish or increase an Excepted Holder Limit for such Person if: (i) such Person submits to the Board of Directors information requested by the Board of Directors, demonstrating that such Person is not an individual for purposes of Section 542(a)(2) of the Code (determined taking into account Section 856(h)(3)(A) of the Code); (ii) such Person submits to the Board of Directors information requested by the Board of Directors, demonstrating that no Person who is an individual for purposes of Section 542(a)(2) of the Code (determined taking into account Section 856(h)(3)(A) of the Code) would be considered to Beneficially Own shares of Common Stock in excess of the Common Stock Ownership Limit or Capital Stock in excess of the Aggregate Stock Ownership Limit; (iii) such Person submits to the Board of Directors information requested by the Board of Directors, demonstrating that clauses (1), (2) and (3) of subparagraph (a)(ii) of Section 7.2.1 will not be violated by reason of such Person's ownership of Common Stock in excess of the Common Stock Ownership Limit or Capital Stock in excess of the Aggregate Stock Ownership Limit pursuant to the exemption granted under this subparagraph 7.2.7(a); and (iv) such Person provides to the Board of Directors such representations and undertakings, if any, as the Board of Directors may require to ensure that the conditions in clauses (i), (ii) and (iii) hereof are satisfied and will continue to be satisfied throughout the period during which such Person owns Common Stock in excess of the Common Stock Ownership Limit or Capital Stock in excess of the Aggregate Stock Ownership Limit pursuant to any exemption thereto granted under this subparagraph (a), and such Person agrees that any violation of such representations and undertakings or any attempted violation thereof will result in the application of the remedies set forth in Section 7.2 (including, without limitation, Section 7.2.5) with respect to shares of Common Stock held in excess of the Common Stock Ownership Limit or Capital Stock held in excess of the Aggregate Stock Ownership Limit with respect to such Person (determined without regard to the exemption granted such Person under this subparagraph (a)).

(b) Prior to granting any exception pursuant to Section 7.2.7(a), the Board of Directors may require a ruling from the Internal Revenue Service or an opinion of counsel, in either case in form and substance satisfactory to the Board of Directors, as it may deem necessary or advisable in order to determine that granting the exception will not cause the Corporation to lose its status as a REIT; provided, however, that the Board of Directors shall not be obligated to require obtaining a favorable ruling or opinion in order to grant an exception hereunder. Notwithstanding the receipt of any ruling or opinion, the Board of Directors may impose such conditions and restrictions as it deems appropriate in connection with granting each exception.

(c) Subject to Section 7.2.1(a)(ii), an underwriter, placement agent or initial purchaser that participates in a public offering, a private placement or other private offering of Capital Stock (or securities convertible into or exchangeable for Capital Stock) may Beneficially Own or Constructively Own shares of Capital Stock (or securities convertible into or exchangeable for Capital Stock) in excess of the Aggregate Stock Ownership Limit or the Common Stock Ownership Limit, but only to the extent necessary to facilitate such public offering, private placement or immediate resale of such Capital Stock, and provided that the restrictions contained in Section 7.2.1(a) will not be violated following the distribution by such underwriter, placement agent or initial purchaser of such shares of Capital Stock.

(d) In connection with granting any exemption or waiver pursuant to Section 7.2.7(a), the Board of Directors may include such terms and conditions in such waiver as it determines are advisable.

(e) The Board of Directors may only reduce the Excepted Holder Limit for an Excepted Holder: (1) with the written consent of such Excepted Holder at any time, or (2) pursuant to the terms and conditions of the agreements and undertakings entered into with such Excepted Holder in connection with the establishment of the Excepted Holder Limit for that Excepted Holder. No Excepted Holder Limit shall be reduced to a percentage that is less than the then-current Common Stock Ownership Limit.

Section 7.2.8 Increase or Decrease in Common Stock Ownership or Aggregate Stock Ownership Limits. Subject to Section 7.2.1(a)(ii) and this Section 7.2.8, the Board of Directors may from time to time increase or decrease the Common Stock Ownership Limit and the Aggregate Stock Ownership Limit for one or more Persons and increase or decrease the Common Stock Ownership Limit and the Aggregate Stock Ownership Limit for all other Persons. No decreased Common Stock Ownership Limit or Aggregate Stock Ownership Limit will be effective for any Person whose percentage of ownership of Capital Stock is in excess of such decreased Common Stock Ownership Limit or Aggregate Stock Ownership Limit, as applicable, until such time as such Person's percentage of ownership of Capital Stock equals or falls below the decreased Common Stock Ownership Limit or Aggregate Stock Ownership Limit, as applicable; provided, however, that any further acquisition of Capital Stock by any such Person (other than a Person for whom an exemption has been granted pursuant to Section 7.2.7(a) or an Excepted Holder) in excess of the Capital Stock owned by such Person on the date the decreased Common Stock Ownership Limit or Aggregate Stock Ownership Limit, as applicable, became effective will be in violation of the Common Stock Ownership Limit or Aggregate Stock Ownership Limit. No increase to the Common Stock Ownership Limit or Aggregate Stock Ownership Limit may be approved if the new Common Stock Ownership Limit and/or Aggregate Stock Ownership Limit would allow five (5) or fewer Persons to Beneficially Own, in the aggregate more than forty-nine and nine-tenths percent (49.9%) in value of the outstanding Capital Stock or would otherwise cause the Corporation to fail to qualify as a REIT.

Section 7.2.9 Legend. Each certificate for shares of Capital Stock, if certificated, shall bear substantially the following legend:

> The shares represented by this certificate are subject to restrictions on Beneficial Ownership and Constructive Ownership and Transfer for the purpose, among others, of the Corporation's maintenance of its status as a Real Estate Investment Trust under the Code. Subject to certain further restrictions and except as expressly provided in the Corporation's Charter, (i) no Person may Beneficially Own or Constructively Own shares of the Corporation's Common Stock in excess of the Common Stock Ownership Limit unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (ii) no Person may Beneficially Own or Constructively Own shares of Capital Stock of the Corporation in excess of the Aggregate Stock Ownership Limit, unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (iii) no Person may Beneficially Own or Constructively Own Capital Stock that would result in the Corporation being "closely held" under Section 856(h) of the Code or otherwise cause the Corporation to fail to qualify as a REIT; and (iv) no Person may Transfer shares of Capital Stock if such Transfer would result in the Capital Stock of the Corporation being owned by fewer than 100 Persons. Any Person who Beneficially Owns or Constructively Owns or attempts to Beneficially Own or Constructively Own shares of Capital Stock that causes or will cause a Person to Beneficially Own or Constructively Own shares of Capital Stock in excess or in violation of the above limitations must immediately notify the Corporation. If any of the restrictions on transfer or ownership provided in (i), (ii) or (iii) above are violated, the shares of Capital Stock in excess or in violation of the above limitations will be automatically transferred to a Trustee of a Trust for the benefit of one or more Charitable Beneficiaries. In addition, the Corporation may redeem shares upon the terms and conditions specified by the Board of Directors in its sole and absolute discretion if the Board of Directors determines that ownership or a Transfer or other event may violate the restrictions described

above. Furthermore, if the ownership restrictions provided in (iv) above would be violated or upon the occurrence of certain events, attempted Transfers in violation of the restrictions described above may be void ab initio. All capitalized terms in this legend have the meanings defined in the Charter of the Corporation, as the same may be amended from time to time, a copy of which, including the restrictions on transfer and ownership, will be furnished to each holder of Capital Stock of the Corporation on request and without charge. Requests for such a copy may be directed to the Secretary of the Corporation at its principal office.

Instead of the foregoing legend, the certificate may state that the Corporation will furnish a full statement about certain restrictions on ownership and transfer to a stockholder on request and without charge.

Section 7.3 Transfer of Capital Stock in Trust.

Section 7.3.1 Ownership in Trust. Upon any purported Transfer or other event described in Section 7.2.1(b) that would result in a transfer of shares of Capital Stock to a Trust, such shares of Capital Stock shall be deemed to have been transferred to the Trustee as trustee of a Trust for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in the transfer to the Trust pursuant to Section 7.2.1(b). The Trustee shall be appointed by the Corporation and shall be a Person unaffiliated with the Corporation and any Prohibited Owner. Each Charitable Beneficiary shall be designated by the Corporation as provided in Section 7.3.6.

Section 7.3.2 Status of Shares Held by the Trustee. Shares of Capital Stock held by the Trustee shall continue to be issued and outstanding shares of Capital Stock of the Corporation. The Prohibited Owner shall have no rights in the shares held by the Trustee. The Prohibited Owner shall not benefit economically from ownership of any shares held in trust by the Trustee, shall have no rights to dividends or other distributions and shall not possess any rights to vote or other rights attributable to the shares held in the Trust. The Prohibited Owner shall have no claim, cause of action or any other recourse whatsoever against the purported transferor of such Capital Stock of the Corporation.

Section 7.3.3 Dividend and Voting Rights. The Trustee shall have all voting rights and rights to dividends or other distributions with respect to shares of Capital Stock held in the Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or other distribution paid to a Prohibited Owner prior to the discovery by the Corporation that the shares of Capital Stock have been transferred to the Trustee shall be paid by the Prohibited Owner to the Trustee upon demand and any dividend or other distribution authorized but unpaid shall be paid when due to the Trustee. Any dividend or other distribution so paid to the Trustee shall be held in trust for the Charitable Beneficiary. The Prohibited Owner shall have no voting rights with respect to shares of Capital Stock held in the Trust and, subject to Maryland law, effective as of the date that the shares of Capital Stock have been transferred to the Trustee, the Trustee shall have the authority (at the Trustee's sole and absolute discretion) (i) to rescind as void any vote cast by a Prohibited Owner prior to the discovery by the Corporation that the shares of Capital Stock have been transferred to the Trustee and (ii) to recast such vote; provided, however, that if the Corporation has already taken irreversible corporate action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding the provisions of this Article VII, until the Corporation has received notification that shares of Capital Stock have been transferred into a Trust, the Corporation shall be entitled to rely on its stock transfer and other stockholder records for purposes of preparing lists of stockholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes and determining the other rights of stockholders.

Section 7.3.4 Sale of Shares by Trustee. Within twenty (20) days of receiving notice from the Corporation that shares of Capital Stock have been transferred to the Trust, the Trustee of the Trust shall sell the shares held in the Trust to a person, designated by the Trustee, whose ownership of the shares will not violate the ownership limitations set forth in Section 7.2.1(a). Upon such sale, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and to the Charitable Beneficiary as provided in this Section 7.3.4. The Prohibited Owner shall receive the lesser of (i) the price paid by the Prohibited Owner for the shares or, if the Prohibited Owner did not give value for the shares in connection with the event causing the shares to be held in the Trust (*e.g.*, in the case of a gift, devise or other such transaction), the Market

Price of the shares on the day of the event causing the shares to be held in the Trust and (ii) the price per share received by the Trustee (net of any commissions and other expenses of sale) from the sale or other disposition of the shares held in the Trust. The Trustee may reduce the amount payable to the Prohibited Owner by the amount of dividends and other distributions that have been paid to the Prohibited Owner and are owed by the Prohibited Owner to the Trustee pursuant to Section 7.3.3 of this Article VII. Any net sales proceeds in excess of the amount payable to the Prohibited Owner shall be immediately paid to the Charitable Beneficiary. If, prior to the discovery by the Corporation that shares of Capital Stock have been transferred to the Trustee, such shares are sold by a Prohibited Owner, then (i) such shares shall be deemed to have been sold on behalf of the Trust and (ii) to the extent that the Prohibited Owner received an amount for such shares that exceeds the amount that such Prohibited Owner was entitled to receive pursuant to this Section 7.3.4, such excess shall be paid to the Trustee upon demand.

Section 7.3.5 Purchase Right in Stock Transferred to the Trustee. Shares of Capital Stock transferred to the Trustee shall be deemed to have been offered for sale to the Corporation, or its designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the Trust (or, in the case of a devise or gift, the Market Price at the time of such devise or gift) and (ii) the Market Price on the date the Corporation, or its designee, accepts such offer. The Corporation may reduce the amount payable to the Prohibited Owner by the amount of dividends and other distributions that have been paid to the Prohibited Owner and are owed by the Prohibited Owner to the Trustee pursuant to Section 7.3.3 of this Article VII. The Corporation may pay the amount of such reduction to the Trustee for the benefit of the Charitable Beneficiary. The Corporation shall have the right to accept such offer until the Trustee has sold the shares held in the Trust pursuant to Section 7.3.4. Upon such a sale to the Corporation, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and any dividends or other distributions with respect to the shares sold that are held by the Trustee shall be paid to the Charitable Beneficiary.

Section 7.3.6 Designation of Charitable Beneficiaries. By written notice to the Trustee, the Corporation shall designate one or more nonprofit organizations to be the Charitable Beneficiary or Charitable Beneficiaries of the interest in the Trust such that (i) the shares of Capital Stock held in the Trust would not violate the restrictions set forth in Section 7.2.1(a) in the hands of such Charitable Beneficiary or Charitable Beneficiaries and (ii) each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code. Neither the failure of the Corporation to make such designation nor the failure of the Corporation to appoint the Trustee before the automatic transfer provided in Section 7.2.1(b) shall make such transfer ineffective; provided, that the Corporation thereafter makes such designation and appointment.

Section 7.3.7 Rights Upon Liquidation. Upon any voluntary or involuntary liquidation, dissolution or winding up of or any distribution of the assets of the Corporation, the Trustee shall be entitled to receive, ratably with each other holder of shares of the class or series of Capital Stock that is held in the Trust, that portion of the assets of the Corporation available for distribution to the holders of such class or series (determined based upon the ratio that the number of shares of such class or series of Capital Stock held by the Trustee bears to the total number of shares of such class or series of Capital Stock then outstanding). The Trustee shall distribute any such assets received in respect of the shares held in the Trust in any liquidation, dissolution or winding up of, or distribution of the assets of the Corporation, in accordance with Section 7.3.4.

Section 7.4 Stock Exchange Transactions. Nothing in this Article VII shall preclude the settlement of any transaction entered into through the facilities of the Stock Exchange or any other national securities exchange or automated inter-dealer quotation system. The fact that the settlement of any transaction occurs shall not negate the effect of any other provision of this Article VII and any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article VII.

Section 7.5 Enforcement. The Corporation is authorized specifically to seek equitable relief, including injunctive relief, to enforce the provisions of this Article VII.

Section 7.6 Non-Waiver. No delay or failure on the part of the Corporation or the Board of Directors in exercising any right hereunder shall operate as a waiver of any right of the Corporation or the Board of Directors, as the case may be, except to the extent specifically waived in writing.

ARTICLE VIII

AMENDMENTS

The Corporation reserves the right from time to time to make any amendment to the Charter, now or hereafter authorized by law, including any amendment altering the terms or contract rights, as expressly set forth in the Charter, of any shares of outstanding stock. All rights and powers conferred by the Charter on stockholders, directors and officers are granted subject to this reservation. Except as otherwise provided below, and except for those amendments permitted to be made without stockholder approval under Maryland law or by a specific provision in the Charter, any amendment to the Charter shall be valid only if declared advisable by the Board of Directors and approved by the affirmative vote of holders of shares entitled to cast a majority of all the votes entitled to be cast on the matter. However, any amendment to Section 5.8 or to this Article VIII shall be valid only if declared advisable by the Board of Directors and approved by the affirmative vote of holders of shares entitled to case at least two-thirds of all the votes entitled to be cast on the matter.

ARTICLE IX

LIMITATION OF LIABILITY

To the maximum extent that Maryland law in effect from time to time permits limitation of the liability of directors and officers of a corporation, no present or former director or officer of the Corporation shall be liable to the Corporation or its stockholders for money damages. Neither the amendment nor repeal of this Article IX, nor the adoption or amendment of any other provision of the Charter or Bylaws inconsistent with this Article IX, shall apply to or affect in any respect the applicability of the preceding sentence with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption.

THIRD: The amendment to and restatement of the charter as hereinabove set forth have been duly advised by the Board of Directors and approved by the stockholders of the Corporation as required by law.

FOURTH: The current address of the principal office of the Corporation is as set forth in Article IV of the foregoing amendment and restatement of the charter.

FIFTH: The name and address of the Corporation’s current resident agent are as set forth in Article IV of the foregoing amendment and restatement of the charter.

SIXTH: The number of directors of the Corporation and the names of those currently in office are as set forth in Article V of the foregoing amendment and restatement of the charter.

SEVENTH: The total number of shares of stock that the Corporation had authority to issue immediately prior to this amendment and restatement was 1,200, consisting of 1,000 shares of Class A Common Stock, $0.01 par value per share, and 200 shares of Preferred Stock, $0.01 par value per share. The aggregate par value of all shares of stock having par value was $12.00.

EIGHTH: The total number of shares of stock that the Corporation has authority to issue pursuant to the foregoing amendment and restatement of the charter is 1,000,000,000, consisting of 905,000,000 shares of Class A Common Stock, $0.01 par value per share, 45,000,000 shares of Class B-3 Common Stock, $0.01 par value per share, and 50,000,000 shares of Preferred Stock, $0.01 par value per share. The aggregate par value of all authorized shares of stock having par value is $10,000,000.

NINTH: These Articles of Amendment and Restatement shall become effective on January 30, 2018.

TENTH: The undersigned officer acknowledges these Articles of Amendment and Restatement to be the corporate act of the Corporation and as to all matters or facts required to be verified under oath, the undersigned officer acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment and Restatement to be signed in its name and on its behalf by its Chief Executive Officer and President and attested to by its General Counsel and Secretary on this 30th day of January, 2018.

ATTEST:	COLONY NORTHSTAR CREDIT REAL ESTATE, INC.
/s/ David A. Palamé	By: /s/ Kevin P. Traenkle (SEAL)
Name: David A. Palamé	Name: Kevin P. Traenkle
Title: General Counsel and Secretary	Title: Chief Executive Officer and President

Exhibit 31.1

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

I, Kevin P. Traenkle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Colony Credit Real Estate, Inc.;

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

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

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

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

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

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

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

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

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

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

By: /s/ Kevin P. Traenkle

Kevin P. Traenkle

Chief Executive Officer and President

Date: August 9, 2018

Exhibit 31.2

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

I, Sujan S. Patel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Colony Credit Real Estate, Inc.;

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

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

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

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

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

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

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

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

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

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

By: /s/ Sujan S. Patel

Sujan S. Patel

Chief Financial Officer and Treasurer

Date: August 9, 2018

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Colony Credit Real Estate, Inc. (the “Company”) for the quarterly period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Kevin P. Traenkle, as Chief Executive Officer and President of the Company, hereby certifies, pursuant to 18 U.S.C. Section §1350, as adopted pursuant to Section §906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

By: /s/ KEVIN P. TRAENKLE
Kevin P. Traenkle
Chief Executive Officer and President
Date: August 9, 2018

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

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Colony Credit Real Estate, Inc. (the "Company") for the quarterly period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Sujan S. Patel, as Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section §1350, as adopted pursuant to Section §906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

By: /s/ SUJAN S. PATEL
Sujan S. Patel
Chief Financial Officer and Treasurer
Date: August 9, 2018

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

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