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 September 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No 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 ☒	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 November 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, the section entitled “Risk Factors” in this Form 10-Q for the quarter ended September 30, 2018 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” herein.

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

PART I. Financial Information

Item 1. Financial Statements

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

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	$ 56,289	$ 25,204
Restricted cash	115,963	41,901
Loans and preferred equity held for investment, net	1,919,122	1,300,784
Real estate securities, available for sale, at fair value	231,241	—
Real estate, net	1,980,180	219,740
Investments in unconsolidated ventures ($210,440 and $24,417 at fair value, respectively)	770,102	203,720
Receivables, net	37,821	35,512
Deferred leasing costs and intangible assets, net	141,576	11,014
Assets held for sale	172,200	—
Other assets	99,581	1,527
Mortgage loans held in securitization trusts, at fair value	3,124,226	—
Total assets	$ 8,648,301	$ 1,839,402
Liabilities		
Securitization bonds payable, net	$ 81,372	$ 108,679
Mortgage and other notes payable, net	1,282,325	280,982
Credit facilities	1,022,318	—
Due to related party (Note 11)	14,581	—
Accrued and other liabilities	101,584	5,175
Intangible liabilities, net	16,268	36
Liabilities related to assets held for sale	324	—
Escrow deposits payable	75,911	36,960
Dividends payable	18,992	—
Mortgage obligations issued by securitization trusts, at fair value	2,982,239	—
Total liabilities	5,595,914	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 September 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 September 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 September 30, 2018 and December 31, 2017, respectively	444	—
Additional paid-in capital	2,898,184	821,031
Retained earnings (accumulated deficit)	(10,619)	258,777
Accumulated other comprehensive income	2,469	—
Total stockholders' equity	2,891,313	1,079,808
Noncontrolling interests in investment entities	90,989	327,762
Noncontrolling interests in the Operating Partnership	70,085	—
Total equity	3,052,387	1,407,570
Total liabilities and equity	$ 8,648,301	$ 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.

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	$ 8,204	$ 1,320
Restricted cash	20,142	24,928
Loans and preferred equity held for investment, net	186,058	379,305
Real estate, net	546,469	8,073
Receivables, net	17,262	11,994
Deferred leasing costs and intangible assets, net	41,538	—
Assets held for sale	172,200	—
Other assets	2,704	38
Mortgage loans held in securitization trusts, at fair value	3,124,226	—
Total assets	$ 4,118,803	$ 425,658
Liabilities		
Securitization bonds payable, net	$ 43,870	$ 108,679
Mortgage and other notes payable, net	423,266	—
Accrued and other liabilities	29,874	3,764
Intangible liabilities, net	12,842	—
Liabilities related to assets held for sale	324	—
Escrow deposits payable	9,807	24,928
Mortgage obligations issued by securitization trusts, at fair value	2,982,239	—
Total liabilities	$ 3,502,222	$ 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net interest income				
Interest income	$ 40,139	$ 36,387	$ 113,073	$ 108,442
Interest expense	(13,148)	(4,694)	(30,266)	(16,445)
Interest income on mortgage loans held in securitization trusts	39,261	—	104,622	—
Interest expense on mortgage obligations issued by securitization trusts	(36,294)	—	(97,031)	—
Net interest income	29,958	31,693	90,398	91,997
Property and other income				
Property operating income	51,684	6,306	119,706	17,207
Other income	2,253	108	3,152	659
Total property and other income	53,937	6,414	122,858	17,866
Expenses				
Management fee expense	11,877	—	31,668	—
Property operating expense	21,217	2,239	49,186	5,707
Transaction, investment and servicing expense	3,631	716	38,212	2,126
Interest expense on real estate	13,341	1,717	29,447	3,759
Depreciation and amortization	30,538	2,537	72,689	7,567
Provision for loan losses	35,059	—	34,542	—
Impairment of operating real estate	29,378	—	29,378	—
Administrative expense (including $1,822, $0, $3,905 and $0 of equity-based compensation expense, respectively)	6,797	2,913	16,909	9,654
Total expenses	151,838	10,122	302,031	28,813
Other income (loss)				
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	(939)	—	3,254	—
Realized loss on mortgage loans and obligations held in securitization trusts, net	(549)	—	(2,752)	—
Other gain (loss), net	(15)	(80)	460	(393)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(69,446)	27,905	(87,813)	80,657
Equity in earnings of unconsolidated ventures	8,324	3,042	39,773	15,299
Income tax benefit (expense)	2,456	535	2,847	(127)
Net income (loss)	(58,666)	31,482	(45,193)	95,829
Net (income) loss attributable to noncontrolling interests:				
Investment entities	4,688	(10,230)	2,788	(28,742)
Operating Partnership	1,275	—	996	—
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	$ (52,703)	$ 21,252	$ (41,409)	$ 67,087
Net income (loss) per common share - basic and diluted (Note 18)	$ (0.42)	$ 0.45	$ (0.36)	$ 1.41
Weighted average shares of common stock outstanding - basic and diluted (Note 18)	127,887	44,399	118,252	44,399
Dividends declared per share of common stock	$ 0.44	$ —	$ 1.16	$ —

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$ (58,666)	$ 31,482	$ (45,193)	$ 95,829
Other comprehensive income (loss)				
Unrealized gain on real estate securities, available for sale	6,192	—	3,347	—
Change in fair value of net investment hedges	(416)	—	(416)	—
Foreign currency translation loss	(402)	—	(402)	—
Total other comprehensive income	5,374	—	2,529	—
Comprehensive income (loss)	(53,292)	31,482	(42,664)	95,829
Comprehensive (income) loss attributable to noncontrolling interests:				
Investment entities	4,688	(10,230)	2,788	(28,742)
Operating Partnership	1,148	—	936	—
Comprehensive income (loss) attributable to common stockholders	$ (47,456)	$ 21,252	$ (38,940)	$ 67,087

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 Income**	**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	—	—	—	—	394,818	—	—	394,818	41,743	—	436,561
Distributions	—	—	—	—	(125,107)	—	—	(125,107)	(66,765)	—	(191,872)
Net income	—	—	—	—	—	67,087	—	67,087	28,742	—	95,829
Balance as of September 30, 2017 (Unaudited)	—	$ —	—	$ —	$ 984,154	$ 237,360	$ —	$ 1,221,514	$ 354,568	$ —	$ 1,576,082
Balance as of December 31, 2017	—	$ —	—	$ —	$ 821,031	$ 258,777	$ —	$ 1,079,808	$ 327,762	$ —	$ 1,407,570
Contributions	—	—	—	—	—	—	—	—	108	—	108
Distributions	—	—	—	—	—	—	—	—	(3,228)	—	(3,228)
Adjustments related to the Combination	82,484	825	44,399	444	2,074,220	(79,774)	—	1,995,715	(230,865)	73,626	1,838,476
Issuance and amortization of equity-based compensation	1,004	10	—	—	3,895	—	—	3,905	—	—	3,905
Other comprehensive income	—	—	—	—	—	—	2,469	2,469	—	60	2,529
Dividends and distributions declared	—	—	—	—	—	(148,213)	—	(148,213)	—	(3,567)	(151,780)
Reallocation of equity	—	—	—	—	(962)	—	—	(962)	—	962	—
Net income (loss)	—	—	—	—	—	(41,409)	—	(41,409)	(2,788)	(996)	(45,193)
Balance as of September 30, 2018 (Unaudited)	83,488	$ 835	44,399	$ 444	$2,898,184	$ (10,619)	$ 2,469	$ 2,891,313	$ 90,989	$ 70,085	$ 3,052,387

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)

	Nine Months Ended September 30,	
	2018	**2017**
Cash flows from operating activities:		
Net income (loss)	$ (45,193)	$ 95,829
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in earnings of unconsolidated ventures	(39,773)	(15,299)
Depreciation and amortization	72,689	7,567
Straight-line rental income	(3,659)	—
Amortization of above/below market lease values, net	486	—
Amortization of premium/accretion of discount and fees on investments and borrowings, net	(5,628)	(6,212)
Amortization of deferred financing costs	3,051	2,840
Paid-in-kind interest	(3,242)	(6,006)
Distributions of cumulative earnings from unconsolidated ventures	34,682	4,113
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	(3,254)	—
Realized loss on mortgage loans and obligations held in securitization trusts, net	2,752	—
Provision for loan losses	34,542	—
Impairment of operating real estate	29,378	—
Amortization of equity-based compensation	3,905	—
Mortgage notes above/below market value amortization	(725)	—
Deferred income tax expense	(4,047)	—
Changes in assets and liabilities:		
Restricted cash	(4,539)	529
Receivables, net	12,153	—
Deferred costs and other assets	(39,151)	(3,444)
Due to related party	5,272	—
Other liabilities	10,156	(5,730)
Net cash provided by operating activities	59,855	74,187
Cash flows from investing activities:		
Acquisition, origination and funding of loans and preferred equity held for investment, net	(524,230)	(155,542)
Repayment on loans and preferred equity held for investment	414,096	295,853
Proceeds from sale of loans and preferred equity held for investment	—	17,509
Cash received in the Combination	225,169	915
Cash received related to foreclosure of loans held for investment	4,900	—
Proceeds from sale of real estate	—	8,872
Acquisition of and additions to real estate, related intangibles and leasing commissions	(408,546)	(312)
Investments in unconsolidated ventures	(72,879)	(15,914)
Distributions in excess of cumulative earnings from unconsolidated ventures	82,130	32,160
Acquisition of real estate securities, available for sale	(52,567)	—
Cash received in excess of accretion on purchased credit impaired loans	—	45,159
Deposit on investments	(28,667)	—
Change in restricted cash	11,949	—
Net cash provided by (used in) investing activities	(348,645)	228,700
Cash flows from financing activities:		
Distributions paid on common stock	(129,221)	—
Distributions paid on common stock to noncontrolling interests	(3,567)	—
Borrowings from mortgage notes	245,039	54,761
Repayment of mortgage notes	(43,165)	(227,180)
Borrowings from credit facilities	920,829	—
Repayment of credit facilities	(547,379)	(717)
Repayment of securitization bonds	(108,246)	—
Payment of deferred financing costs	(11,251)	—
Contributions from noncontrolling interests	108	103,761
Distributions to noncontrolling interests	(3,228)	(191,872)
Net cash provided by (used in) financing activities	319,919	(261,247)
Effect of exchange rates on cash, cash equivalents and restricted cash	(44)	—

Net increase in cash and cash equivalents		31,085		41,640
Cash and cash equivalents - beginning of period		25,204		13,982
Cash and cash equivalents - end of period	$	56,289	$	55,622

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)

	Nine Months Ended September 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	—
Assets transferred to held for sale (Note 7)	172,200	—
Liabilities related to assets held for sale (Note to 7)	324	—
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)	203,475	—
Escrow deposits payable related to loans and preferred equity held for investment	12,010	21,475
Accrual of distribution payable	18,992	—
Foreclosure of loans held for investment	117,878	8,789
Assets acquired through the CLNY Merger (Note 2)	—	493,881
Liabilities assumed through the CLNY Merger (Note 2)	—	161,081
Acquisition of real estate under long term obligations	236,111	—

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 September 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 to 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 September 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 September 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 September 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.

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

	Carrying Value	Maximum Exposure to Loss
Real estate securities, available for sale	$ 231,241	$ 231,241
Investments in unconsolidated ventures	410,118	452,877
Loans and preferred equity held for investment, net	247,035	247,035
Total assets	$ 888,394	$ 931,153

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 September 30, 2018. The Company did not provide financial support to the unconsolidated VIEs during the nine months ended September 30, 2018. As of September 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.

Reclassifications

Certain prior period amounts have been reclassified in the consolidated financial statements to conform to current period presentation.

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 components of OCI include unrealized gain (loss) on CRE debt securities available for sale for which the fair value option was not elected, gain (loss) on derivative instruments used in the Company's risk management activities used for economic hedging purposes ("non-designated hedges"), and gain (loss) on foreign currency translation.

Fair Value Measurement

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

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

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

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

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

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

Fair Value Option

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

The Company has elected the fair value option for PE Investments. The Company has also elected the fair value option to account for the eligible financial assets and liabilities of its consolidated Investing VIEs in order to mitigate potential accounting mismatches between the carrying value of the instruments and the related assets and liabilities to be consolidated. The Company has adopted 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 September 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. During the third quarter of 2018, the Company recorded a $35.1 million provision for loan loss. See Note 4, "Loans and Preferred Equity Held for Investment, net" for further detail.

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)	19 to 48 years
Building leasehold interests	Lesser of remaining term of the lease or remaining life of the building
Building improvements	Lesser of the useful life or remaining life of the building
Land improvements	6 to 15 years
Tenant improvements	Lesser of the useful life or remaining term of the lease
Furniture, fixtures and equipment	2 to 8 years

Impairment—The Company evaluates its real estate held for investment for impairment periodically or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company evaluates 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. The carrying values of the Company's investments represent their depreciated historical cost bases or, for investments that have been previously impaired, their fair values or net realizable values. Such amounts are based upon the Company's current reasonable assumptions about the highest and best use of its investments and its intent and ability to hold them for a reasonable period that would allow for the recovery of its carrying values. If such assumptions change and the Company shorten the expected hold period, the Company may be required to record impairment losses to adjust its carrying values to fair value or fair value less cost to sell. During the third quarter of 2018, the Company recorded a $29.4 million impairment loss on its operating real estate portfolio. See Note 7, "Real Estate, net and Real Estate Held for Sale" and Note 15, "Fair Value," for further detail.

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.

During the third quarter of 2018, the Company classified its multi-tenant office portfolio as held for sale. The sale was completed in October 2018. See Note 7, "Real Estate, net and Real Estate Held for Sale" and Note 19 "Subsequent Events" for further detail.

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 September 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 loss on mortgage loans and obligations held in securitization trust, net as losses occur.

CRE securities for which the fair value option is not elected are evaluated for 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 September 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 September 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.

Derivative Instruments and Hedging Activities

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

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

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

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

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

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

Release of accumulated other comprehensive income related to net investment hedges occurs upon losing a controlling financial interest in an investment or obtaining control over an equity method investment. Upon sale, complete or substantially complete liquidation of an investment in a foreign subsidiary, or partial sale of an equity method investment, the gain or loss on the related net investment hedge is reclassified from accumulated other comprehensive income to earnings.

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), net on the consolidated statements of operations.

Disclosures of non-U.S. dollar amounts to be recorded in the future are translated using exchange rates in effect at the 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.

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

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 September 30, 2018 and 2017, the Company recorded income tax benefit of $2.5 million and $0.5 million, respectively. For the nine months ended September 30, 2018, the Company recorded income tax benefit of $2.8 million. For the nine months ended September 30, 2017, the Company recorded income tax expense of $0.1 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 September 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 September 30, 2018, the Company had six ground lease arrangements with future contractual lease payment obligations of $13.7 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 September 30, 2018, the Company had $116.0 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 nine months ended September 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 September 30, 2018, the Company had 978,946 shares of nonemployee awards outstanding.

Fair Value Disclosures—In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820):Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurements*. The ASU requires new disclosures of changes in unrealized gains and losses in other comprehensive income for recurring Level 3 fair value of instruments held at balance sheet date, as well as the range and weighted average or other quantitative information, if more relevant, of significant unobservable inputs for recurring and nonrecurring Level 3 fair values. Certain disclosures are now eliminated, specifically around the valuation process required for Level 3 fair values, policy for timing of transfers between levels of the fair value hierarchy, as well as amounts and reason for transfers between Levels 1 and 2. ASU No. 2018-13 is effective for fiscal years and interim periods beginning after December 15, 2019. The adoption of this standard is not expected to have a material effect on the Company's existing disclosures.

3. The Combination

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):

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	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 September 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 September 30, 2018			February 1, 2018 to September 30, 2018		
	NorthStar I	NorthStar II	Total	NorthStar I	NorthStar II	Total
Total revenues	$ 55,665	$ 45,640	$ 101,305	$ 144,999	$ 136,426	$ 281,425
Net income (loss) attributable to common stockholders[(1)]	(22,737)	2,607	(20,130)	(22,370)	26,123	3,753

(1) Includes $22.3 million of impairment of operating real estate and $12.3 million provision for loan loss recorded for the three months ended September 30, 2018 and from the Closing Date through September 30, 2018.

Combination-Related Costs

Transaction costs of $0.4 million and $32.9 million were incurred in connection with the Combination in the three and nine months ended September 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 nine months ended September 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.

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 $0.4 million and $32.9 million for the three and nine months ended September 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):

	Nine Months Ended September 30,	
	2018	2017
Pro forma:		
Total revenues	$ 410,027	$ 366,827
Net income (loss) attributable to Colony Credit Real Estate, Inc.	(2,416)	101,954
Net income attributable to common stockholders	1,282	98,732
Earnings per common share:		
Basic	$ 0.01	$ 0.76
Diluted	$ 0.01	$ 0.76

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):

	September 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								
Senior loans	$ 31,205	$ 31,129	13.1%	3.2	$ 493,113	$ 484,592	8.2%	2.4
Mezzanine loans	115,678	115,678	13.1%	4.7	141,931	141,828	13.2%	3.2
Preferred equity interests	112,212	112,013	12.6%	8.0	—	—	—	—
	259,095	258,820			635,044	626,420		
Variable rate								
Senior loans	1,260,339	1,262,486	6.2%	3.9	260,366	260,932	8.1%	2.3
Securitized loans[(3)]	309,585	311,857	7.6%	1.3	377,939	379,670	6.7%	0.3
Mezzanine loans	120,582	121,018	11.1%	1.5	34,391	34,279	9.8%	1.3
	1,690,506	1,695,361			672,696	674,881		
	1,949,601	1,954,181			1,307,740	1,301,301		
Allowance for loan losses	NA	(35,059)			NA	(517)		
Loans and preferred equity held for investment, net	$ 1,949,601	$ 1,919,122			$ 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 September 30, 2018, the weighted average maturity, including extensions, of loans and preferred equity investments was 3.6 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	524,230
Loan maturities/principal repayments	(404,378)
Foreclosure of loans held for investment	(117,878)
Combination adjustment[(2)]	(50,314)
Discount accretion/premium amortization	1,923
Capitalized interest	3,242
Change in allowance for loan loss	(34,542)
Balance at September 30, 2018	$ 1,919,122

(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 September 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 payments. These four loans are secured by the same collateral. The Company placed the loans on non-accrual status and commenced discussions with the borrower to resolve the matter. Interest income is recognized on a cash basis. During the three months ended September 30, 2018, the Company received and recognized $1.5 million in interest income on the loans.

During the third quarter of 2018, discussions with the borrower did not progress as anticipated which has led to the Company exploring additional options for resolution. The Company prepared a weighted average probability analysis of potential resolutions, which included a recapitalization and earlier than expected receipt and sale of collateral. Based on this analysis, the Company recorded a $35.1 million provision for loan loss on the four NY hospitality loans during the third quarter of 2018.

The following table provides an aging summary of loans and preferred equity held for investment at carrying values before allowance for loan losses, if any (dollars in thousands):

	Current or Less Than 30 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due[(1)]	Total Loans
September 30, 2018 (Unaudited)	$ 1,590,986	$ —	$ —	$ 363,195	$ 1,954,181
December 31, 2017	1,122,366	144,241	7,929	26,765	1,301,301

(1) At September 30, 2018, 90 days or more past due loans includes four loans to the same borrower and secured by the same collateral with combined carrying value before allowance for loan losses of $261.1 million on non-accrual status. All other loans in this table remain current on interest payments.

Troubled Debt Restructuring

At September 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 September 30, 2018 and December 31, 2017, while the third loan remained current. Subsequent to September 30, 2018, the third loan went into default. 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 forbearance agreement to allow both parties to review the exit strategy. The forbearance agreement was terminated by the Company in August 2018 when it became clear that the borrower would not complete its exit strategy. At September 30, 2018 and December 31, 2017, no provision for loan loss was recorded as the Company believes sufficient collateral value exists to cover the outstanding loan balances. The Company is working towards possible resolutions, the most likely of which includes the receipt of collateral in connection with the mezzanine loan. The Company has no additional commitments to lend to the borrower with the TDR loan.

There were no loans modified as TDRs during the nine months ended September 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)]	With Allowance for Loan Losses	Without Allowance for Loan Losses	Total	Allowance for Loan Losses
September 30, 2018 (Unaudited)	$ 398,483	$ 261,129	$ 138,981	$ 400,110	$ 35,059
December 31, 2017	237,441	42,176	195,934	238,110	517

(1) At September 30, 2018, includes four loans to the same borrower and secured by the same collateral with combined unpaid principal balance of $260.2 million and gross carrying value of $261.1 million on non-accrual status. All other loans included in this table remain current on interest payments.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Average carrying value before allowance for loan losses	$ 480,547	$ 94,070	$ 407,835	$ 120,287
Interest income	5,886	3,517	16,541	7,959

Allowance for Loan Losses

As of September 30, 2018, the allowance for loan losses was $35.1 million related to $261.1 million in carrying value of loans. 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):

	Nine Months Ended September 30,	
	2018	2017
Allowance for loan losses at beginning of period	$ 517	$ 3,386
Provision for loan losses	35,059	—
Charge-off	—	(3,210)
Recoveries	(517)	—
Allowance for loan losses at end of period	$ 35,059	$ 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 September 30, 2018, there were seven loans held for investment to two 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 nine months ended September 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 September 30, 2018, assuming the terms to qualify for future fundings, if any, have been met, total unfunded lending commitments was $119.8 million for senior loans, $18.3 million for securitized loans and $0.6 million for mezzanine loans. Future funding commitments were $19.2 million for senior 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):

	September 30, 2018 (Unaudited)	December 31, 2017
Equity method investments	$ 559,662	$ 179,303
Investments under fair value option	210,440	24,417
Investments in Unconsolidated Ventures	$ 770,102	$ 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 September 30, 2018 and December 31, 2017, respectively.

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):

			Carrying Value	
Investments	Description	Ownership Interest(1) at September 30, 2018	September 30, 2018 (Unaudited)	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)	$ 169,846	$ 179,303
Other investment ventures	Interests in twelve investments, each with less than $142.3 million carrying value at September 30, 2018	Various	389,816	—

(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

Private Funds

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.

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 September 30, 2018 (dollars in thousands):

					Cumulative Unrealized on Investments			Weighted Average	
As of Date:	Count	Principal Amount[1]	Total Discount	Amortized Cost	Gain	(Loss)	Fair Value	Coupon[2]	Unleveraged Current Yield
September 30, 2018	43	$ 292,284	$ (64,390)	$ 227,894	$ 3,923	$ (576)	$ 231,241	3.19%	7.10%

(1) Certain CRE securities serve as collateral for financing transactions including carrying value of $212.9 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 gain in OCI for the three and nine months ended September 30, 2018 of $6.2 million and $3.3 million, respectively. As of September 30, 2018, the Company held 15 securities with an aggregate carrying value of $87.2 million with an unrealized loss of $0.6 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 expected maturity.

As of September 30, 2018, the weighted average contractual maturity of CRE securities was 31.5 years with an expected maturity of 7.7 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 September 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 September 30, 2018, across the three consolidated securitization trusts, the underlying collateral consisted of 159 underlying commercial mortgage loans, with a weighted average coupon of 4.9% and a weighted average loan to value ratio of 57.7%.

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

	September 30, 2018
Assets	
Mortgage loans held in a securitization trust, at fair value	$ 3,124,226
Receivables, net	13,220
Total assets	$ 3,137,446
Liabilities	
Mortgage obligations issued by a securitization trust, at fair value	$ 2,982,239
Accrued and other liabilities	12,333
Total liabilities	$ 2,994,572

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 $142.0 million as of September 30, 2018 and approximates the fair value of the Company's retained investments in the subordinate tranches of the securitization trusts, which are eliminated in consolidation. Refer to Note 15, "Fair Value" for a description of the valuation techniques used to measure fair value of assets and liabilities of the Investing VIEs.

The below table presents net income attributable to the Company's common stockholders for the three and nine months ended September 30, 2018 generated from the Company's investments in the subordinate tranches of the securitization trusts (dollars in thousands). No income was generated from the Company's investments in the subordinate tranches for the three and nine months ended September 30, 2017.

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Statement of Operations		
Interest income on mortgage loans held in securitization trusts	$ 39,261	$ 104,622
Interest expense on mortgage obligations issued by securitization trusts	(36,294)	(97,031)
Net interest income	2,967	7,591
Administrative expenses	(383)	(745)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	(939)	3,254
Realized loss on mortgage loans and obligations held in securitization trusts, net	(549)	(2,752)
Net income attributable to Colony Credit Real Estate, Inc. common stockholders	$ 1,096	$ 7,348

7. Real Estate, net and Real Estate Held for Sale

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

	September 30, 2018 (Unaudited)	December 31, 2017
Land and improvements	$ 232,256	$ 25,262
Buildings, building leaseholds, and improvements	1,021,728	178,109
Tenant improvements	23,524	2,316
Construction-in-progress	437	21
Subtotal	$ 1,277,945	$ 205,708
Less: Accumulated depreciation	(30,145)	(5,516)
Less: Impairment[(1)]	(7,094)	—
Net lease portfolio, net	$ 1,240,706	$ 200,192

(1) See Note 15, "Fair Value," for discussion of impairment of real estate.

The following table presents the Company's other portfolio, net, including foreclosed properties, as of September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 30, 2018 (Unaudited)	December 31, 2017
Land and improvements	$ 112,417	$ 667
Buildings, building leaseholds, and improvements	622,454	18,477
Tenant improvements	23,986	36
Furniture, fixtures and equipment	17,750	680
Construction-in-progress	1,101	—
Subtotal	$ 777,708	$ 19,860
Less: Accumulated depreciation	(15,950)	(312)
Less: Impairment(1)	(22,284)	—
Other portfolio, net	$ 739,474	$ 19,548

(1) See Note 15, "Fair Value," for discussion of impairment of real estate.

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

At September 30, 2018, the Company held foreclosed properties included in real estate, net with a carrying value of $129.6 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 September 30, 2018 (dollars in thousands):

Remainder of 2018	$ 28,871
2019	113,390
2020	106,606
2021	96,768
2022	87,149
2023 and thereafter	867,121
Total	$ 1,299,905

The rental properties owned at September 30, 2018 are leased under non-cancellable operating leases with current expirations ranging from 2018 to 2038, with certain tenant renewal rights. For certain properties, the tenants pay the Company, in addition to the contractual base rent, their pro rata share of real estate taxes and operating expenses. Certain lease agreements provide for periodic rental increases and others provide for increases based on the consumer price index.

Commitments and Contractual Obligations

Ground Lease Obligation

In connection with real estate acquisitions, the Company assumed certain 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 nine months ended September 30, 2018 was approximately $0.7 million and $2.1 million, respectively. Ground rent expense for each of the three and nine months ended September 30, 2017 was $0.4 million and $1.4 million, respectively.

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

Remainder of 2018	$	705
2019		2,821
2020		2,812
2021		2,720
2022		1,798
2023 and thereafter		2,891
Total	$	13,747

Real Estate Asset Acquisitions

The following table summarizes the Company's real estate asset acquisitions for nine months ended September 30, 2018 (dollars in thousands):

				Purchase Price Allocation					
Acquisition Date	Property Type and Location	Number of Buildings	Purchase Price[(1)]	Land and Improvements[(2)]	Building and Improvements[(2)]	Furniture, Fixtures and Equipment	Lease Intangible Assets[(2)]	Other Assets	Other Liabilities
July	Office - Norway	26	$ 318,860	$ 60,510	$ 271,983	$ —	$ 25,287	$ —	$ (38,920)
August	Hotel - Dallas, TX	1	75,663	8,216	61,580	3,947	465	2,023	(568)
August	Industrial - Various in U.S.	2	292,000	66,844	189,105	—	36,051	—	—
September	Hotel - Pittsburgh, PA	1	42,315	7,247	26,363	3,025	1,408	4,392	(120)
			$ 728,838	$ 142,817	$ 549,031	$ 6,972	$ 63,211	$ 6,415	$ (39,608)

(1) Dollar amounts of purchase price and allocation to assets acquired and liabilities assumed are translated using foreign exchange rate as of the respective dates of acquisitions, where applicable.
(2) Useful life of real estate acquired is 30 to 40 years for buildings, 8 to 15 years for site improvements, 15 to 20 years for tenant improvements, 2 to 3 years for furniture, fixtures and equipment, and 1.5 to 20 years for lease intangibles.

Real Estate Held for Sale

The following table summarizes the Company's assets and related liabilities held for sale related to real estate (dollars in thousands):

	September 30, 2018
Assets	
Real estate, net	$ 156,404
Deferred leasing costs and intangible assets, net	15,796
Total assets held for sale	$ 172,200
Liabilities	
Intangible liabilities, net	$ 324
Total liabilities related to assets held for sale	$ 324

The real estate classified as real estate held for sale does not represent a strategic shift as the Company is not entirely exiting markets or property types and as such they have not been reflected as part of discontinued operations.

Subsequent to September 30, 2018, the Company completed the sale of the real estate held for sale for a sales price of $177.0 million.

8. Deferred Leasing Costs and Other Intangibles

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

	September 30, 2018 (Unaudited)		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Deferred Leasing Costs and Intangible Assets			
In-place lease values	$ 117,377	$ (22,867)	$ 94,510
Deferred leasing costs	37,306	(5,118)	32,188
Above-market lease values	16,201	(2,905)	13,296
Other intangibles	1,559	(15)	1,544
Below-market ground lease obligations	52	(14)	38
	$ 172,495	$ (30,919)	$ 141,576
Intangible Liabilities			
Below-market lease values	$ 19,385	$ (3,117)	$ 16,268

	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
Deferred leasing costs	3,671	(657)	3,014
Above-market lease values	1,682	(283)	1,399
Below-market ground lease obligations	52	(8)	44
	$ 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 nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Above-market lease values	$ (410)	$ (73)	$ (2,622)	$ (211)
Below-market lease values	1,116	4	3,102	11
Net increase (decrease) to property operating income	$ 706	$ (69)	$ 480	$ (200)
Below-market ground lease obligations	$ 2	$ 2	$ 6	$ 6
Increase to property operating expense	$ 2	$ 2	$ 6	$ 6
In-place lease values	$ 3,104	$ 778	$ 20,210	$ 2,497
Deferred leasing costs	2,482	196	4,461	529
Other intangibles	15	—	15	—
Amortization expense	$ 5,601	$ 974	$ 24,686	$ 3,026

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 September 30, 2018 (dollars in thousands):

	Remainder of 2018	2019	2020	2021	2022	2023 and thereafter	Total
Above-market lease values	$ 925	$ 3,772	$ 3,163	$ 1,998	$ 1,422	$ 2,016	$ 13,296
Below-market lease values	(1,163)	(4,500)	(4,055)	(3,850)	(2,417)	(283)	(16,268)
Net increase (decrease) to property operating income	$ (238)	$ (728)	$ (892)	$ (1,852)	$ (995)	$ 1,733	$ (2,972)
Below-market ground lease obligations	$ 2	$ 8	$ 8	$ 8	$ 8	$ 4	$ 38
Increase to property operating expense	$ 2	$ 8	$ 8	$ 8	$ 8	$ 4	$ 38
In-place lease values	$ 4,396	$ 16,643	$ 13,996	$ 11,008	$ 7,861	$ 40,606	$ 94,510
Deferred leasing costs	2,287	6,447	5,607	4,341	3,443	10,063	32,188
Other intangibles	215	860	469	—	—	—	1,544
Amortization expense	$ 6,898	$ 23,950	$ 20,072	$ 15,349	$ 11,304	$ 50,669	$ 128,242

9. Other Assets and Liabilities

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

	September 30, 2018 (Unaudited)	December 31, 2017
Other assets:		
Prepaid taxes and deferred tax assets	$ 73,935	$ 1,050
Deposit on investments	12,967	—
Deferred financing costs, net - credit facilities	6,590	—
Prepaid expenses	5,811	360
Derivative asset	278	117
Total	$ 99,581	$ 1,527

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

	September 30, 2018 (Unaudited)	December 31, 2017
Accrued and other liabilities:		
Current and deferred tax liability	$ 36,796	$ 120
Accounts payable, accrued expenses and other liabilities	25,633	3,532
Interest payable	20,291	924
Prepaid rent and unearned revenue	8,926	481
Trades pending settlement	6,098	—
Tenant security deposits	3,169	118
Derivative liability	671	—
Total	$ 101,584	$ 5,175

10. Debt

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

					September 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 + 3.28%	$ 25,549	$ 25,549	$ 27,119	$ 27,004
2014 FL2[(3)]		Non-recourse	Nov-31	LIBOR + 4.25%	18,320	18,320	55,430	55,430

COLONY CREDIT REAL ESTATE, INC.
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	Capacity ($)	Recourse vs. Non-Recourse[1]	Final Maturity	Contractual Interest Rate	September 30, 2018 (Unaudited) Principal Amount[2]	September 30, 2018 (Unaudited) Carrying Value[2]	December 31, 2017 Principal Amount[2]	December 31, 2017 Carrying Value[2]
2015 FL3[3]		Non-recourse	NA	NA	—	—	26,245	26,245
Securitization 2016-1[3]		Non-recourse	Sep-31	LIBOR + 4.12%	37,503	37,503	—	—
Subtotal securitization bonds payable, net					81,372	81,372	108,794	108,679
Mortgage and other notes payable, net								
Net lease 1		Non-recourse	Oct-27	4.45%	24,723	24,723	25,074	25,022
Net lease 2		Non-recourse	Nov-26	4.45%	3,499	3,390	3,544	3,425
Net lease 3		Non-recourse	Nov-26	4.45%	7,551	7,314	7,647	7,390
Net lease 4		Non-recourse	Jun-21	4.00%	12,867	12,715	13,133	12,939
Net lease 5		Non-recourse	Jul-23	LIBOR + 2.15%	2,182	2,125	2,482	2,416
Net lease 6		Non-recourse	Aug-26	4.08%	32,511	32,176	32,600	32,234
Net lease 7[4]		Non-recourse	Nov-26	4.45%	18,998	18,405	19,241	18,593
Net lease 8		Non-recourse	Mar-28	4.38%	12,486	11,930	—	—
Net lease 9		Non-recourse	Apr-21[5]	LIBOR+2.50%	73,702	73,691	—	—
Net lease 10		Non-recourse	Jul-25	4.31%	250,000	246,388	—	—
Net lease 11[6]		Non-recourse	Jun-25	3.91%	196,416	199,257	—	—
Net lease 12		Non-recourse	Sep-33	4.77%	200,000	198,414	—	—
Multifamily 1		Non-recourse	Dec-23	4.84%	43,500	44,034	—	—
Multifamily 2		Non-recourse	Dec-23	4.94%	43,000	43,527	—	—
Multifamily 3		Non-recourse	Jan-24	5.15%	16,000	16,589	—	—
Multifamily 4[7]		Non-recourse	Dec-20	5.27%	12,042	12,340	—	—
Multifamily 5		Non-recourse	Nov-26	3.98%	24,432	23,602	—	—
Office 1		Non-recourse	Oct-24	4.47%	108,850	109,827	—	—
Office 2		Non-recourse	Jan-25	4.30%	76,869	76,075	—	—
Office 3		Non-recourse	Apr-23	LIBOR + 4.00%	29,800	28,534	—	—
Multi-tenant office[8]		Non-recourse	Aug-20	LIBOR + 1.90%	97,400	97,269		
Hotel development loan[9]		Non-recourse	NA	NA	—	—	130,000	128,649
Hotel A-Note[10]		Non-recourse	NA	NA	—	—	50,314	50,314
Subtotal mortgage and other notes payable, net					1,286,828	1,282,325	284,035	280,982
Bank credit facility								
Bank credit facility	$ 400,000	Recourse	Feb-23 [11]	LIBOR + 2.25%	90,000	90,000	—	—
Subtotal bank credit facility					90,000	90,000	—	—
Master repurchase facilities								
Bank 1 facility 3	$ 300,000	Limited Recourse[12]	Apr-23[13]	LIBOR + 2.00% [14]	143,400	143,400	—	—
Bank 2 facility 2	200,000	Limited Recourse[15]	Jul-19	LIBOR + 2.46% [14]	49,492	49,492	—	—
Bank 3 facility 3	500,000	Limited Recourse[12]	Apr-21	LIBOR + 2.36% [14]	425,311	425,311	—	—
Bank 7 facility 1	500,000	Limited Recourse[12]	Apr-22[16]	LIBOR + 1.97% [14]	90,855	90,855	—	—
Bank 8 facility 1	250,000	Limited Recourse[12]	Jun-21[17]	LIBOR + 2.00% [14]	44,084	44,084	—	—
Subtotal master repurchase facilities	$ 1,750,000				753,142	753,142	—	—
CMBS credit facilities								
Bank 1 facility 1		Recourse	[18]	LIBOR + 1.10% [14]	18,389	18,389	—	—
Bank 1 facility 2		Recourse	[18]	LIBOR + 1.10% [14]	17,151	17,151	—	—

COLONY CREDIT REAL ESTATE, INC.
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	Capacity ($)	Recourse vs. Non-Recourse(1)	Final Maturity	Contractual Interest Rate		September 30, 2018 (Unaudited) Principal Amount(2)	September 30, 2018 (Unaudited) Carrying Value(2)	December 31, 2017 Principal Amount(2)	December 31, 2017 Carrying Value(2)
Bank 3 facility		Recourse	(18)	NA		—	—	—	—
Bank 4 facility		Recourse	(18)	NA		—	—	—	—
Bank 5 facility 1		Recourse	(18)	NA		—	—	—	—
Bank 5 facility 2		Recourse	(18)	NA		—	—	—	—
Bank 6 facility 1		Recourse	(18)	LIBOR + 1.28%	(14)	81,124	81,124	—	—
Bank 6 facility 2		Recourse	(18)	LIBOR + 1.10%	(14)	62,512	62,512	—	—
Subtotal CMBS credit facilities						179,176	179,176	—	—
Subtotal credit facilities						1,022,318	1,022,318	—	—
Total						$ 2,390,518	$ 2,386,015	$ 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) As of September 30, 2018, the outstanding principal of the mortgage payable was NOK 1.6 billion, which translated to $196.4 million. The mortgage payable was assumed in July 2018.
(7) Represents two separate senior mortgage notes with a weighted average maturity of December 1, 2020 and weighted average interest rate of 5.27%.
(8) The current maturity of the mortgage payable is November 2018, with two extension options available at the Company's option, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents. Subsequent to September 30, 2018, the mortgage on the multi-tenant office was repaid in full in conjunction with the sale of the multi-tenant office portfolio.
(9) 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 bore interest at one-month London Interbank Offered Rate ("LIBOR") plus 3.5%, with a 4.0% floor, and was 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").
(10) 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.
(11) The abilities 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.
(12) Recourse solely with respect to 25.0% of the financed amount.
(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 September 30, 2018. The contractual interest rate depends upon asset type and characteristics and ranges from one-month to three-month LIBOR plus 1.10% to 2.63%.
(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 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.
(17) 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.
(18) The maturity dates on the CMBS Credit Facilities are dependent upon asset type and will typically range from one to three months.

Future Minimum Principal Payments

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

	Total	Securitization Bonds Payable, Net	Mortgage Notes Payable, Net	Credit Facilities
Remainder of 2018	$ 179,809	$ —	$ 633	$ 179,176
2019	52,039	—	2,547	49,492
2020	112,087	—	112,087	—
2021	557,623	—	88,228	469,395
2022	93,378	—	2,523	90,855
2023 and thereafter	1,395,582	81,372	1,080,810	233,400
Total	$ 2,390,518	$ 81,372	$ 1,286,828	$ 1,022,318

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 September 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 September 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 September 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 September 30, 2018, the Company had $311.9 million carrying value of CRE debt investments financed with $81.4 million of securitization bonds payable, net.

Master Repurchase Facilities

As of September 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 $1.8 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 September 30, 2018, the Company was in compliance with all of its financial covenants under the Master Repurchase Facilities.

As of September 30, 2018, the Company had $1.0 billion carrying value of CRE debt investments financed with $753.1 million under the term loan facilities.

On April 20, 2018, the Company, through subsidiaries, consolidated two prior master purchase agreements by entering into an 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 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 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 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.

Subsequent to September 2018, on October 23, 2018, the Company, through subsidiaries, terminated Bank 2 Facility 2 and entered into a Master Repurchase Agreement with Bank 2 ("Bank 2 Facility 3"). This agreement provides up to $200.0 million to finance the Company's lending activities and has a one-year term, with three one-year extension options subject to the satisfaction of certain customary conditions. Refer to Note 19, "Subsequent Events" for further discussion.

Subsequent to September 2018, on November 2, 2018, the Company entered into a Master Repurchase and Securities Contract with a major financial institution through a subsidiary ("Bank 9 Facility 1"). This agreement provides up to $300.0 million to finance the Company's lending activities. Refer to Note 19, "Subsequent Events" for further discussion.

CMBS Credit Facilities

As of September 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 September 30, 2018, the Company had $212.9 million carrying value of CRE securities financed with $153.0 million under its CMBS Credit Facilities. As of September 30, 2018, the Company had $49.1 million carrying value of underlying investments in the subordinate tranches of the securitization trusts financed with $26.2 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 nine months ended September 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.

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(Unaudited)

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 $3.9 million to its Manager within administrative expense in the consolidated statement of operations for the three and nine months ended September 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 nine months ended September 30, 2018 and the amount due to related party as of September 30, 2018 and December 31, 2017 (dollars in thousands):

			Nine Months Ended September 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 September 30, 2018 (Unaudited)**
Fees to Manager						
Management	Management fee expense	$ —	$ —	$ 31,668	$ (19,787)	$ 11,881
Reimbursements to Manager						
Operating costs	Administrative expense	—	—	6,910	(4,210)	2,700
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	$ 38,578	$ (33,306)	$ 14,581

(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 nine months ended September 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 nine months ended September 30, 2017, a total of $2.9 million and $9.7 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 September 30, 2018, the Company had an unfunded commitment of $28.9 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.

In July 2018, the Company acquired a $326.8 million Class A office campus located in Norway from an affiliate of the Company's Manager. In connection with the purchase, the Company assumed senior mortgage financing from a private bond issuance of $197.7 million. The bonds have a seven-year term remaining, and carry a fixed interest rate of 3.91%.

In July 2018, the Company entered into a joint venture to invest in a development project for land and a Grade A office building in Ireland. The Company agreed to invest up to $69.9 million of the $139.7 million total commitment. The Company co-invested along with two affiliates of the Manager, with the Company owning 50.0% of the joint venture and the affiliate entities owning the remaining 50.0%. The joint venture invested in a senior mortgage loan of $66.7 million with a fixed interest rate of 12.5% and a maturity date of 3.5 years from origination and common equity.

Subsequent to September 2018, the Company entered into a joint venture to invest in a mixed-use development project in Ireland. The Company agreed to invest up to $162.4 million of the $266.5 million total commitment. The Company co-invested along with two affiliates of the Manager, with the Company owning 61.0% of the joint venture and the affiliate entities owning the remaining 39.0%. The joint venture will invest in a senior mortgage loan with a fixed interest rate of 15.0% and a maturity date of 2.0 years from origination.

Subsequent to September 2018, the Company acquired a $20.0 million mezzanine loan from an affiliate of the Company's Manager, secured by a pledge of an ownership interest in a luxury condominium development project located in New York, NY. The loan bears interest at 9.5% plus LIBOR.

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 nine months ended September 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 September 30, 2018	1,003,818	1,003,818	$ 19.39

No equity awards vested during the nine months ended September 30, 2018. There was no equity-based compensation plan for the nine months ended September 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 September 30, 2018, aggregate unrecognized compensation cost for all unvested equity awards was $18.1 million, which is expected to be recognized over a weighted-average period of 2.4 years.

13. Stockholders' Equity

Authorized Capital

As of September 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 September 30, 2018.

Dividends

During the nine months ended September 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
July 16, 2018	July 31, 2018	August 10, 2018	$0.145
August 1, 2018	August 31, 2018	September 10, 2018	$0.145
September 17, 2018	September 28, 2018	October 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 September 30, 2018, the Company had not repurchased any shares under the Stock Repurchase Program.

Accumulated Other Comprehensive Income (Loss)

The following tables present the changes in each component of Accumulated Other Comprehensive Income ("AOCI") attributable to stockholders and noncontrolling interests in the OP, net of immaterial tax effect. There was no AOCI component in 2017.

Changes in Components of AOCI - Stockholders

(in thousands)	Unrealized gain on real estate securities, available for sale	Unrealized (loss) on net investment hedges	Foreign currency translation (loss)	Total
AOCI at December 31, 2017	$ —	$ —	$ —	$ —
Other comprehensive income (loss)	3,268	(407)	(392)	2,469
AOCI at September 30, 2018	$ 3,268	$ (407)	$ (392)	$ 2,469

Changes in Components of AOCI - Noncontrolling Interests in the OP

(in thousands)	Unrealized gain on real estate securities, available for sale	Unrealized (loss) on net investment hedges	Foreign currency translation (loss)	Total
AOCI at December 31, 2017	$ —	$ —	$ —	$ —
Other comprehensive income (loss)	79	(9)	(10)	60
AOCI at September 30, 2018	$ 79	$ (9)	$ (10)	$ 60

14. Noncontrolling Interests

Operating Partnership

Noncontrolling interests include the aggregate limited partnership interests in the OP held by RED REIT. Net loss attributable to the noncontrolling interests is based on the limited partners' ownership percentage of the OP and was $1.3 million and $1.0 million for the three and nine months ended September 30, 2018, respectively.

Investment Entities

Noncontrolling interests in investment entities represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net loss attributable to noncontrolling interests in the investment entities for the three and nine months ended September 30, 2018 was $4.7 million and $2.8 million. Net income attributable to noncontrolling interests in the investment entities for the three and nine months ended September 30, 2017 was $10.2 million and $28.7 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 September 30, 2018 and December 31, 2017 by level within the fair value hierarchy (dollars in thousands):

	September 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)]	$ —	$ —	$ 210,440	$ 210,440	$ —	$ —	$ 24,417	$ 24,417
Real estate securities, available for sale	—	231,241	—	231,241	—	—	—	—
Mortgage loans held in securitization trusts, at fair value	—	—	3,124,226	3,124,226	—	—	—	—
Liabilities:								
Mortgage obligations issued by securitization trusts, at fair value	$ —	$ 2,982,239	$ —	$ 2,982,239	$ —	$ —	$ —	$ —

(1) Represents PE Investments for which the Company elected the 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 nine months ended September 30, 2018 and year ended December 31, 2017 (dollars in thousands):

	Nine Months Ended September 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/accretion	247,668	3,327,199	72,325
Distributions/paydowns	(62,928)	(135,245)	(49,344)
Equity in earnings	21,709	—	6,829
Unrealized loss in earnings	(20,426)	(64,976)	(5,393)
Unrealized gain in other comprehensive income	—	—	
Realized loss in earnings	—	(2,752)	—
Ending balance	$ 210,440	$ 3,124,226	$ 24,417

(1) For the nine months ended September 30, 2018, unrealized loss of $65.0 million related to mortgage loans held in securitization trusts, at fair value was offset by unrealized gain of $68.3 million related to mortgage obligations issued by securitization trusts, at fair value.
(2) Includes initial investments, before distribution and contribution closing statement adjustments, and subsequent contributions, including deferred purchase price fundings.

For the nine months ended September 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 nine months ended September 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 11.0% to 15.0% and 11.1% to 12.4%, respectively, and timing and amount of expected future cash flow. For the nine months ended September 30, 2018, the key unobservable inputs used in the valuation of mortgage obligations issued by securitization trusts included yields ranging from 13.9% to 21.9% and a weighted average life of 5.6 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 nine months ended September 30, 2018, the Company recorded an unrealized loss on PE Investments of $13.7 million and $20.4 million, respectively. These amounts, when incurred, are recorded as equity in earnings of unconsolidated ventures in the consolidated statements of operations.

For the three and nine months ended September 30, 2018, the Company recorded a net unrealized loss of $0.9 million and a net unrealized gain of $3.3 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 (loss) on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations.

For the three and nine months ended September 30, 2018, the Company recorded a realized loss of $0.5 million and $2.8 million, respectively, 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.

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 September 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 September 30, 2018 and December 31, 2017 (dollars in thousands):

	September 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	$ 1,949,601 [2]	$ 1,919,122	$ 1,920,754	$ 1,307,740 [2]	$ 1,300,784	$ 1,311,783
Financial liabilities:[1]						
Securitization bonds payable, net	$ 81,372	$ 81,372	$ 81,372	$ 108,794	$ 108,679	$ 108,974
Mortgage notes payable, net	1,286,828	1,282,325	1,288,048	284,035	280,982	282,333
Master repurchase facilities	1,022,318	1,022,318	1,022,318	—	—	—

(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 $138.7 million and $19.2 million as of September 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.

Nonrecurring Fair Values

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

The following table summarizes assets carried at fair value on a nonrecurring basis, measured at the time of impairment (dollars in thousands):

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Real estate, net	$ —	$ —	$ 78,616	$ 78,616

There were no assets carried at fair value on a nonrecurring basis at December 31, 2017.

The following table summarizes the fair value write-downs to assets carried at nonrecurring fair values during the periods presented (dollars in thousands):

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Impairment of operating real estate	$ 29,378	$ 29,378

There was no impairment loss recorded for the three and nine months ended September 30, 2017.

Real Estate, net—Impaired real estate held for investment consisted of three properties in the Company's net lease and other segments, resulting from one or more changes including the reduction in the estimated holding period of these properties, tenant vacancy, rent reductions as well as exposure to the retail and student housing markets. Fair value of the impaired properties were determined using a future cash flow analysis that included an eventual sale of the properties, with expected sale price generally based on broker price opinions, and applying terminal capitalization rates ranging from 6.0% to 12.0% and discount rates ranging from 8.0% to 12.0%.

Impairment is discussed in further detail in Note 7, “Real Estate, net and Real Estate Held for Sale.”

16. Derivatives

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

At September 30, 2018, fair value of derivative assets and derivative liabilities were as follows (dollars in thousands):

	Designated Hedges	Non-Designated Hedges	Total
Derivative Assets			
Foreign exchange contracts	$ 127	$ 107	$ 234
Interest rate contracts	—	44	44
Included in other assets	127	151	278
Derivative Liabilities			
Foreign exchange contracts	(543)	—	(543)
Interest rate contracts	—	(128)	(128)
Included in accrued and other liabilities	$ (543)	$ (128)	$ (671)

No collateral was held by counterparties for the derivative contracts as of September 30, 2018.

The following table summarizes the foreign exchange and interest rate contracts as of September 30, 2018:

Type of Derivatives	Notional Currency	Notional Amount (in thousands)		Range of Maturity Dates
		Designated	Non-Designated	
FX Forward	EUR	€ 58,700	€ —	December 2019 - December 2022
FX Forward	NOK	NOK 585,600	NOK 363,500	January 2019 - July 2023
Interest Rate Swap	USD	$ —	$ 259,167	July 2023 - August 2028

The table below represents the effect of the derivative financial instruments on the consolidated statements of operations and of comprehensive income (loss) for the three and nine months ended September 30, 2018 (dollars in thousands):

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Other gain (loss), net		
Non-designated foreign exchange contracts	$ 107	$ 107
Non-designated interest rate contracts	(122)	(87)
	$ (15)	$ 20
Accumulated other comprehensive income (loss)		
Designated foreign exchange contracts	$ (416)	$ (416)
Interest Income		
Non-designated interest rate contracts	$ 1,497	$ 2,176

At the end of each quarter, the Company reassesses the effectiveness of its net investment hedges and as appropriate, dedesignates the portion of the derivative notional that is in excess of the beginning balance of its net investments as non-designated hedges. Any unrealized gain or loss on the dedesignated portion of net investment hedges is transferred into earnings, recorded in other gain (loss), net. During the three and nine months ended September 30, 2018, no gain (loss) was transferred from accumulated other comprehensive income (loss).

Offsetting Assets and Liabilities

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

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(Unaudited)

The following table sets forth derivative positions where the Company has a right of offset under netting arrangements with the same counterparty as of September 30, 2018 (dollars in thousands):

	Gross Amounts of Assets (Liabilities) Included on Consolidated Balance Sheets	Gross Amounts Not Offset on Consolidated Balance Sheets		Net Amounts of Assets (Liabilities)
		(Assets) Liabilities	Cash Collateral Received (Pledged)	
Derivative Assets				
Foreign exchange contracts	$ 234	$ (234)	$ —	$ —
Interest rate contracts	44	—	—	44
	278	(234)	—	44
Derivative Liabilities				
Foreign exchange contracts	(543)	234	—	(309)
Interest rate contracts	(128)	—	—	(128)
	$ (671)	$ 234	$ —	$ (437)

17. 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 nine months ended September 30, 2018 and 2017 (dollars in thousands):

Three Months Ended September 30, 2018	**Loan**	**CRE Debt Securities**	**Net Leased Real Estate**	**Other**	**Corporate[(1)]**	**Total**
Net interest income (loss)	$ 24,652	$ 7,701	$ —	$ —	$ (2,395)	$ 29,958
Property and other income	40	6	23,412	30,112	367	53,937
Management fee expense	—	—	—	—	(11,877)	(11,877)
Property operating expense	—	—	(5,362)	(15,855)	—	(21,217)
Transaction, investment and servicing expense	(2,239)	—	(45)	(65)	(1,282)	(3,631)
Interest expense on real estate	—	—	(8,189)	(5,152)	—	(13,341)
Depreciation and amortization	—	—	(17,509)	(13,029)	—	(30,538)
Provision for loan losses	(35,059)	—	—	—	—	(35,059)
Impairment of operating real estate	—	—	(7,094)	(22,284)	—	(29,378)
Administrative expense	(155)	(416)	(58)	(2)	(6,166)	(6,797)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	(1,834)	—	—	895	(939)
Realized loss on mortgage loans and obligations held in securitization trusts, net	—	(549)	—	—	—	(549)
Other gain (loss), net	—	(128)	113	—	—	(15)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(12,761)	4,780	(14,732)	(26,275)	(20,458)	(69,446)
Equity in earnings (losses) of unconsolidated ventures	15,264	—	—	(6,940)	—	8,324
Income tax benefit	—	—	91	2,365	—	2,456
Net income (loss)	$ 2,503	$ 4,780	$ (14,641)	$ (30,850)	$ (20,458)	$ (58,666)

(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 September 30, 2018, $0.9 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 September 30, 2017	**Loan**	**Net Leased Real Estate**	**Other**	**Corporate**	**Total**
Net interest income	$ 31,693	$ —	$ —	$ —	$ 31,693
Property and other income	828	5,586	—	—	6,414
Property operating expense	(566)	(1,673)	—	—	(2,239)
Transaction, investment and servicing expense	(672)	(30)	(14)	—	(716)
Interest expense on real estate	—	(1,717)	—	—	(1,717)
Depreciation and amortization	(94)	(2,443)	—	—	(2,537)
Administrative expense	(201)	—	—	(2,712)	(2,913)
Other loss, net	(75)	(5)	—	—	(80)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	30,913	(282)	(14)	(2,712)	27,905
Equity in earnings (losses) of unconsolidated ventures	5,734	—	(2,692)	—	3,042
Income tax benefit	418	—	117	—	535
Net income (loss)	$ 37,065	$ (282)	$ (2,589)	$ (2,712)	$ 31,482

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Nine Months Ended September 30, 2018	Loan	CRE Debt Securities	Net Leased Real Estate	Other	Corporate[(1)]	Total
Net interest income (loss)	$ 76,893	$ 18,403	$ —	$ —	$ (4,898)	$ 90,398
Property and other income	215	19	51,897	69,824	903	122,858
Management fee expense	—	—	—	—	(31,668)	(31,668)
Property operating expense	—	—	(14,703)	(34,483)	—	(49,186)
Transaction, investment and servicing expense	(3,089)	—	(62)	(232)	(34,829)	(38,212)
Interest expense on real estate	—	—	(16,786)	(12,661)	—	(29,447)
Depreciation and amortization	—	—	(32,989)	(39,700)	—	(72,689)
Provision for loan loss	(34,542)	—	—	—	—	(34,542)
Impairment of operating real estate	—	—	(7,094)	(22,284)	—	(29,378)
Administrative expense	(456)	(817)	(68)	(20)	(15,548)	(16,909)
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	—	655	—	—	2,599	3,254
Realized loss on mortgage loans and obligations held in securitization trusts, net	—	(2,752)	—	—	—	(2,752)
Other gain (loss), net	—	(128)	146	442	—	460
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	39,021	15,380	(19,659)	(39,114)	(83,441)	(87,813)
Equity in earnings of unconsolidated ventures	38,490	—	—	1,283	—	39,773
Income tax benefit	—	—	91	2,756	—	2,847
Net income (loss)	$ 77,511	$ 15,380	$ (19,568)	$ (35,075)	$ (83,441)	$ (45,193)

(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 nine months ended September 30, 2018, $2.6 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Corporate column.

Nine Months Ended September 30, 2017	Loan	Net Leased Real Estate	Other	Corporate	Total
Net interest income	$ 91,997	$ —	$ —	$ —	$ 91,997
Property and other income	2,481	15,385	—	—	17,866
Property operating expense	(1,782)	(3,925)	—	—	(5,707)
Transaction, investment and servicing expense	(1,880)	(232)	(14)	—	(2,126)
Interest expense on real estate	—	(3,759)	—	—	(3,759)
Depreciation and amortization	(261)	(7,306)	—	—	(7,567)
Administrative expense	(570)	(9)	—	(9,075)	(9,654)
Other loss, net	(388)	(5)	—		(393)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	89,597	149	(14)	(9,075)	80,657
Equity in earnings of unconsolidated ventures	14,503		796	—	15,299
Income tax expense	(48)		(79)	—	(127)
Net income (loss)	$ 104,052	$ 149	$ 703	$ (9,075)	$ 95,829

The following table presents total assets by segment as of September 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
September 30, 2018 (Unaudited)	$ 2,570,137	$ 3,519,691	$ 1,365,671	$ 1,291,953	$ (99,151)	$ 8,648,301
December 31, 2017	1,573,714	—	241,271	24,417	—	1,839,402

(1) Includes investments in unconsolidated ventures totaling $559.7 million and $179.3 million as of September 30, 2018 and December 31, 2017.
(2) Includes PE Investments totaling $210.4 million and $24.4 million as of September 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. Geography information on total income and long lived assets are presented as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Total income by geography:				
United States	$ 135,743	$ 44,936	$ 373,458	$ 138,898
Europe	5,559	—	5,559	—
Other	359	907	1,309	2,709
Total(1)	$ 141,661	$ 45,843	$ 380,326	$ 141,607

	September 30, 2018
Long-lived assets by geography:	
United States	$ 1,767,887
Europe	353,869
Total(2)	$ 2,121,756

(1) Includes interest income, interest income on mortgage loans held in securitization trusts, property and other income and equity in earnings of unconsolidated ventures.
(2) Long-lived assets comprise real estate, real estate related intangible assets, and exclude financial instruments and assets held for sale. As of December 31, 2017, all long-lived assets are located in United States.

18. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$ (58,666)	$ 31,482	$ (45,193)	$ 95,829
Net (income) loss attributable to noncontrolling interests:				
Investment Entities	4,688	(10,230)	2,788	(28,742)
Operating Partnership(1)	1,275	(1,377)	996	(4,346)
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	$ (52,703)	$ 19,875	$ (41,409)	$ 62,741
Numerator:				
Net income allocated to participating securities (nonvested shares)	(436)	—	(1,019)	—
Net income (loss) attributable to common stockholders	$ (53,139)	$ 19,875	$ (42,428)	$ 62,741
Denominator:				
Weighted average shares outstanding(2)	127,887	44,399	118,252	44,399
Net income (loss) per common share - basic and diluted(3)	$ (0.42)	$ 0.45	$ (0.36)	$ 1.41

(1) For earnings per share for the three and nine months ended September 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.

19. Subsequent Events

Dividends

On October 17, 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 October 31, 2018. The common stock dividend will be paid on November 9, 2018 to stockholders of record on October 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 November 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 November 30, 2018. The common stock dividend will be paid on December 10, 2018 to stockholders of record on November 30, 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

Investments in Unconsolidated Ventures

In October 2018, the Company entered into a joint venture to invest in a mixed-use development project in Ireland. The Company agreed to invest up to $162.4 million of the $266.5 million total commitment. The Company co-invested along with two affiliates of the Manager, with the Company owning 61.0% of the joint venture and the affiliate entities owning the remaining 39.0%. The joint venture will invest in a senior mortgage loan with a fixed interest rate of 15.0% and a maturity date of 2.0 years from origination.

Loans and Preferred Equity Held for Investment

In October 2018, the Company acquired a $20.0 million mezzanine loan from an affiliate of the Company's Manager, secured by a pledge of an ownership interest in a luxury condominium development project located in New York, NY. The loan bears interest at 9.5% plus LIBOR.

In October 2018, the Company refinanced a $34.4 million mezzanine loan into a $145.2 million first mortgage loan, including $10.0 million in unfunded commitments. The loan bears interest at 4.8% plus LIBOR and is secured by a hotel in San Diego, California.

Sale of Investments

Real Estate Held for Sale

In October 2018, the Company sold its multi-tenant office portfolio located in Bothell, Washington for a total sales price of $177.0 million. The $97.4 million mortgage on the multi-tenant office portfolio was repaid in full in connection with the sale.

Master Repurchase Agreement

On October 23, 2018, the Company entered into a Master Repurchase Agreement with a major financial institution. This agreement provides up to $200.0 million to finance the Company's lending activities and has a one-year term, with three one-year extension options subject to the satisfaction of certain customary conditions. Assets pledged as collateral under this agreement are limited to first mortgage loans, mezzanine loans, senior loan participations and other commercial mortgage loan debt instruments secured by commercial real estate.

On November 2, 2018, the Company entered into a Master Repurchase and Securities Contract with a major financial institution. This agreement provides up to $300.0 million to finance the Company's lending activities and has a three-year term, with two one-year extension options subject to the satisfaction of certain customary conditions. Assets pledged as collateral under this agreement are limited to first mortgage loans, mezzanine loans, senior loan participations and other commercial mortgage loan debt instruments secured by commercial real estate.

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 September 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, a NYSE-listed global real estate and investment management firm with over $22 billion of total consolidated assets and over $29 billion of third party assets under management. As of September 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 Neale W. Redington 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 27-year track record and have made over $100 billion of investments. Colony Capital's senior management team, which is led by Executive Chairman and Chief Executive Officer Thomas J. Barrack, Jr. and President Darren J. Tangen, 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 over $1 billion in assets, and its management of various non-traded REITs with in excess of $3 billion of equity commitments.

Colony Capital is headquartered in Los Angeles, California, with over 400 employees in 17 locations in ten countries, with key offices in New York, Paris and London. Its operations are broad and diverse and include the management of real estate, both owned and on behalf of a diverse set of institutional and individual investors. Colony Capital 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; Neale W. Redington, a 10-year veteran of Colony Capital, serves as our Chief

Financial Officer; Frank V. Saracino, a three-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. Colony Capital also has a captive, fully-functional, separate asset management company that engages primarily in loan servicing for performing, sub-performing and non-performing commercial loans, including senior secured loans, revolving lines of credit, loan participations, subordinated loans, unsecured loans and mezzanine debt. Colony Capital's asset management company is a commercial special servicer rated by both Standard & Poor's and Fitch's rating services.

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 17, "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").

We believe that events in the financial markets from time to time have created and will create significant dislocation between price and intrinsic value in certain asset classes as well as a supply and demand imbalance of available credit to finance these assets. We believe that the Company is well positioned to capitalize on such opportunities while remaining flexible to adapt our strategy as market conditions change, including with respect to existing investments that may be directly or indirectly impacted by such events. We believe that our Manager's in-depth understanding of CRE and real estate-related investments, and in-house underwriting, asset management and resolution capabilities, provides the Company and management with a sophisticated full- service value-add platform to regularly evaluate our investments and determine primary, secondary or alternative disposition strategies. This includes intermediate servicing and complex and creative negotiating, restructuring of non-performing investments, foreclosure considerations, intense management or development of owned real estate, in each case to reposition and achieve optimal value realization for the Company and its stockholders. Depending on the nature of the underlying investment, we may pursue repositioning strategies through judicious capital investment in order to extract maximum value from the investment or recognize unanticipated losses to reinvest resulting liquidity in higher-yielding performing investments.

Significant Developments

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

- Declared and paid a monthly dividend of $0.145 per share of Class A common stock and Class B-3 common stock for July, August and September, representing an annualized dividend of $1.74 per share;
- Acquired two net lease portfolios for a gross purchase price of $618.9 million;
- Originated four senior mortgage loans totaling $173.2 million, including $26.8 million in unfunded commitments;
- Originated two preferred equity investments totaling $24.3 million, including $3.2 million in unfunded commitments;
- Purchased seven CMBS investments with an aggregate face value of $30.2 million at a 16% discount;
- Recorded a $35.1 million provision for loan loss on four NY hospitality loans following discussions with the borrower which did not progress as anticipated and led us to explore additional options for a potential resolution, including a recapitalization and earlier than expected receipt and sale of collateral;
- Recorded an impairment of operating real estate of $29.4 million, resulting from reductions in the estimated holding periods, rent reductions and tenant vacancies;
- Subsequent to September 30, 2018, entered into a joint venture to invest in a mixed-use development in Ireland with two affiliates of our Manager to invest up to $162.4 million of the $266.5 million total commitment. We own 61.0% of the joint venture and the affiliate entities own the remaining 39.0%;
- Subsequent to September 30, 2018, refinanced a $34.4 million mezzanine loan into a $145.2 million first mortgage loan, including $10.0 million in unfunded commitments;
- Subsequent to September 30, 2018, sold a multi-tenant office portfolio for a sales price of $177.0 million;
- Subsequent to September 30, 2018, declared a monthly cash dividend of $0.145 per share of Class A and Class B-3 common stock for October and November.

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 September 30, 2018 to 2017 (Dollars in Thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	%
Net interest income				
Interest income	$ 40,139	$ 36,387	$ 3,752	10.3 %
Interest expense	(13,148)	(4,694)	8,454	180.1 %
Interest income on mortgage loans held in securitization trusts	39,261	—	39,261	100.0 %
Interest expense on mortgage obligations issued by securitization trusts	(36,294)	—	(36,294)	100.0 %
Net interest income	29,958	31,693	(1,735)	(5.5)%
Property and other income				
Property operating income	51,684	6,306	45,378	719.6 %
Other income	2,253	108	2,145	1,986.1 %
Total property and other income	53,937	6,414	47,523	740.9 %
Expenses				
Management fee expense	11,877	—	11,877	100.0 %
Property operating expense	21,217	2,239	18,978	847.6 %
Transaction, investment and servicing expense	3,631	716	2,915	407.1 %
Interest expense on real estate	13,341	1,717	11,624	677.0 %
Depreciation and amortization	30,538	2,537	28,001	1,103.7 %
Provision for loan losses	35,059	—	35,059	100.0 %
Impairment of operating real estate	29,378	—	29,378	100.0 %
Administrative expense (including $1,822 and $0 of equity-based compensation expense)	6,797	2,913	3,884	133.3 %
Total expenses	151,838	10,122	141,716	1,400.1 %
Other income (loss)				
Unrealized loss on mortgage loans and obligations held in securitization trusts, net	(939)	—	(939)	(100.0)%
Realized loss on mortgage loans and obligations held in securitization trusts, net	(549)	—	(549)	(100.0)%
Other gain (loss), net	(15)	(80)	65	81.3 %
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(69,446)	27,905	(97,351)	(348.9)%
Equity in earnings of unconsolidated ventures	8,324	3,042	5,282	173.6 %
Income tax benefit	2,456	535	1,921	359.1 %
Net income (loss)	$ (58,666)	$ 31,482	$ (90,148)	(286.3)%

Net Interest Income

Interest income

Interest income increased by $3.8 million to $40.1 million for the three months ended September 30, 2018, as compared to the three months ended September 30, 2017, due to an increase of $22.5 million related to the acquisition of NorthStar I and NorthStar II and an increase of $8.5 million related to the originations and acquisitions in 2018, partially offset by a decrease of $27.2 million in the CLNY Investment Entities primarily driven by the deconsolidation of certain investment entities and the repayment of loan investments.

Interest expense

Interest expense increased by $8.5 million to $13.1 million for the three months ended September 30, 2018, as compared to the three months ended September 30, 2017, primarily due to an $8.3 million increase as a result of the acquisition of NorthStar I and NorthStar II.

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 September 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 $45.4 million to $51.7 million for the three months ended September 30, 2018, as compared to the three months ended September 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II of $34.9 million, two net lease portfolios acquired during the third quarter of 2018 of $6.9 million and the two real estate properties acquired through the legal foreclosure process of $3.5 million.

Expenses

Management fee expense

Management fee expense represents fees paid to our Manager in accordance with the Management Agreement. During the three months ended September 30, 2018, management fee expense was $11.9 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 $19.0 million to $21.2 million for the three months ended September 30, 2018, as compared to the three months ended September 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II of $15.1 million and the two real estate properties acquired through the legal foreclosure process of $3.1 million.

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 $2.9 million to $3.6 million for the three months ended September 30, 2018, as compared to the three months ended September 30, 2017, primarily as a result of $1.7 million of servicing fees incurred for a loan portfolio, $0.7 million of legal fees and $0.4 million of transaction costs associated with the Combination.

Interest expense on real estate

Interest expense on real estate increased by $11.6 million to $13.3 million for the three months ended September 30, 2018, as compared to the three months ended September 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 $28.0 million to $30.5 million for the three months ended September 30, 2018, as compared to the three months ended September 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II.

Provision for loan losses

A provision for loan losses of $35.1 million was recorded for the three months ended September 30, 2018, which is attributable to our four NY hospitality loans. See Note 4 to the consolidated financial statements, “Loans and Preferred Equity Held for Investment, net” for further detail.

Impairment of operating real estate

Impairment of operating real estate of $29.4 million for the three months ended September 30, 2018 is attributable to certain retail and student housing properties in our operating real estate portfolio. See Note 7 to the consolidated financial statements, “Real Estate, net and Real Estate Held for Sale” and Note 15, “Fair Value” for further detail.

Administrative expense

Administrative expense increased by $3.9 million to $6.8 million for the three months ended September 30, 2018, as compared to the three months ended September 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 loss on mortgage loans and obligations held in securitization trusts, net

During the three months ended September 30, 2018, we recorded an unrealized loss on mortgage loans and obligations held in securitization trusts, net of $0.9 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 September 30, 2018, we recorded a realized loss on mortgage loans and obligations held in securitization trusts, net of $0.5 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 $5.3 million to $8.3 million for the three months ended September 30, 2018, as compared to the three months ended September 30, 2017, primarily driven by investments in unconsolidated ventures acquired as a result of the acquisition of NorthStar I and NorthStar II. The $8.3 million of income earned includes $13.7 million of unrealized loss related to our PE investments, which was partially offset by $6.8 million of income earned on our PE Investments.

Income tax benefit

For the three months ended September 30, 2018 and 2017, we recorded an income tax benefit of $2.5 million and $0.5 million, respectively, related to our PE Investments.

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

	Nine Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	%
Net interest income				
Interest income	$ 113,073	$ 108,442	$ 4,631	4.3 %
Interest expense	(30,266)	(16,445)	13,821	84.0 %
Interest income on mortgage loans held in securitization trusts	104,622	—	104,622	100.0 %
Interest expense on mortgage obligations issued by securitization trusts	(97,031)	—	(97,031)	100.0 %
Net interest income	90,398	91,997	(1,599)	(1.7)%
Property and other income				
Property operating income	119,706	17,207	102,499	595.7 %
Other income	3,152	659	2,493	378.3 %
Total property and other income	122,858	17,866	104,992	587.7 %
Expenses				
Management fee expense	31,668	—	31,668	100.0 %
Property operating expense	49,186	5,707	43,479	761.9 %
Transaction, investment and servicing expense	38,212	2,126	36,086	1,697.4 %
Interest expense on real estate	29,447	3,759	25,688	683.4 %
Depreciation and amortization	72,689	7,567	65,122	860.6 %
Provision for loan losses	34,542	—	34,542	100.0 %
Impairment of operating real estate	29,378	—	29,378	100.0 %
Administrative expense (including $3,905 and $0 of equity-based compensation expense)	16,909	9,654	7,255	75.2 %
Total expenses	302,031	28,813	273,218	948.2 %
Other income (loss)				
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	3,254	—	3,254	100.0 %
Realized loss on mortgage loans and obligations held in securitization trusts, net	(2,752)	—	(2,752)	(100.0)%
Other gain (loss), net	460	(393)	853	217.0 %
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(87,813)	80,657	(168,470)	(208.9)%
Equity in earnings of unconsolidated ventures	39,773	15,299	24,474	160.0 %
Income tax benefit (expense)	2,847	(127)	2,974	2,341.7 %
Net income (loss)	$ (45,193)	$ 95,829	$ (141,022)	(147.2)%

Net Interest Income

Interest income

Interest income increased by $4.6 million to $113.1 million for the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017, due to an increase of $64.0 million related to the acquisition of NorthStar I and NorthStar II and an increase of $11.1 million related to the originations and acquisitions in 2018, partially offset by a $70.4 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 $13.8 million to $30.3 million for the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017, due to a $21.2 million increase as a result of the acquisition of NorthStar I and NorthStar II, partially offset by a $7.4 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 $7.6 million for the nine months ended September 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 $102.5 million to $119.7 million for the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II of $90.8 million, two net lease portfolios acquired during the third quarter of 2018 of $6.9 million and the two real estate properties acquired through the legal foreclosure process of $3.5 million.

Expenses

Management fee expense

Management fee expense represents fees paid to our Manager in accordance with the Management Agreement. During the nine months ended September 30, 2018, management fee expense was $31.7 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 $43.5 million to $49.2 million for the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II of $37.8 million and the two real estate properties acquired through the legal foreclosure process of $3.1 million, as well as an increase in the CLNY Investment Entities net lease portfolio of $2.2 million.

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 $36.1 million to $38.2 million for the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017, primarily as a result of $32.9 million in transaction costs associated with the Combination.

Interest expense on real estate

Interest expense on real estate increased by $25.7 million to $29.4 million for the nine months ended September 30, 2018, as compared to the nine months ended September 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 $65.1 million to $72.7 million for the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017, primarily as a result of the operating real estate properties acquired in connection with the acquisition of NorthStar I and NorthStar II.

Provision for loan losses

Provision for loan losses of $34.5 million was recorded for the nine months ended September 30, 2018, which is attributable to our four NY hospitality loans. See Note 4 to the consolidated financial statements, “Loans and Preferred Equity Held for Investment, net” for further detail.

Impairment of operating real estate

Impairment of operating real estate of $29.4 million for the nine months ended September 30, 2018 is attributable to certain retail and student housing properties in our operating real estate portfolio. See Note 7 to the consolidated financial statements, “Real Estate, net and Real Estate Held for Sale” and Note 15, “Fair Value” for further detail.

Administrative expense

Administrative expense increased by $7.3 million to $16.9 million for the nine months ended September 30, 2018, as compared to the nine months ended September 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 nine months ended September 30, 2018, we recorded an unrealized gain on mortgage loans and obligations held in securitization trusts, net of $3.3 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 nine months ended September 30, 2018, we recorded a realized loss on mortgage loans and obligations held in securitization trusts, net of $2.8 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 $24.5 million to $39.8 million for the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017, primarily driven by investments in unconsolidated ventures acquired as a result of the acquisition of NorthStar I and NorthStar II. The $39.8 million of income earned includes $21.5 million of income earned on our PE Investments, offset by $20.4 million of unrealized loss related to our PE Investments.

Income tax benefit (expense)

For the nine months ended September 30, 2018 and 2017, we recorded an income tax benefit of $2.8 million and income tax expense of $0.1 million, respectively, related to our PE Investments.

Our Portfolio

As of September 30, 2018, our portfolio consisted of 163 investments representing approximately $8.3 billion in book value (excluding cash, cash equivalents and certain other assets). Our loan portfolio consisted of 78 senior mortgage loans, mezzanine loans and preferred equity investments and had a weighted average cash coupon of 6.4% and a weighted average all-in unlevered yield of 7.8%. Our CRE debt securities portfolio had a weighted average cash coupon of 3.7%. Our owned real estate portfolio (including net lease and other real estate) consisted of approximately 15.6 million total square feet of space and the total annualized base rent of that portfolio was approximately $147.5 million (based on leases in place as of September 30, 2018).

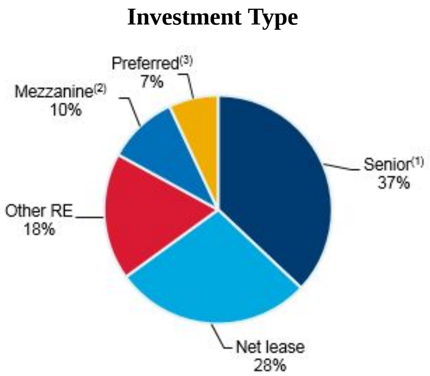
As of September 30, 2018, our portfolio consisted of the following investments (dollars in thousands):

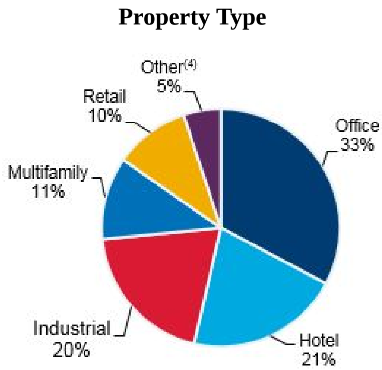
Asset	Count	Book value	Noncontrolling interest(1)	Book value at our share(2)
Senior mortgage loans(3)(4)	51	$ 1,713,570	$ 8,145	$ 1,705,425
Mezzanine loans(3)(5)	19	469,446	8,766	460,680
Preferred equity(3)(6)	8	295,768	—	295,768
CMBS(7)	53	373,228	—	373,228
Mortgage loans held in securitization trusts(7)	—	2,982,239	—	2,982,239
Owned real estate-Net lease(8)	12	1,332,771	34,520	1,298,251
Owned real estate-Other(8)(9)	14	961,185	125,482	835,703
Private equity interests	6	210,440	—	210,440
Total	163	$ 8,338,647	$ 176,913	$ 8,161,734

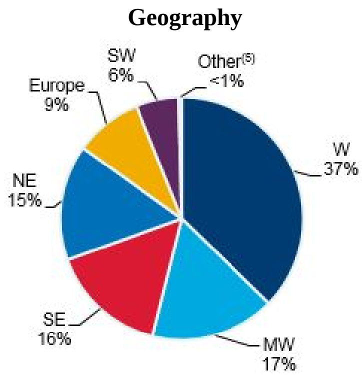
(1) Noncontrolling interest ("NCI") represent interests in assets held by third party partners.
(2) Book value at our share represents the proportionate book value based on our ownership by asset; book values at our share for securitization assets are net of the accounting impact from consolidation.
(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 $57.0 million of book value at our share attributable to related equity participation interests.

(7) Mortgage loans held in securitization trusts includes $3.1 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 $142.0 million as of September 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, multifamily residential and hotel 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 September 30, 2018 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):







(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 $57.0 million of book value at our share attributable to related equity participation interests.
(4) Other includes: (i) manufactured housing communities, (ii) commercial and residential development and predevelopment and (iii) mixed-use assets.
(5) Other includes one collateral asset located in Latin America.

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 September 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 unlevered yield(4)**	**Remaining term(5)**	**Extended remaining term(6)**
Senior loans(7)(8)	51	$ 1,713,570	$ 8,145	$ 1,705,425	$ 1,707,610	$ 8,092	$ 1,699,518	5.9%	6.7%	1.6	3.3
Mezzanine loans(7)(9)	19	469,446	8,766	460,680	504,334	8,777	495,557	6.6%	9.9%	1.6	2.8
Preferred equity(7)(10)	8	295,768	—	295,768	241,141	—	241,141	9.3%	10.8%	7.3	7.7
Total / Weighted average	78	$ 2,478,784	$ 16,911	$ 2,461,873	$ 2,453,085	$ 16,869	$ 2,436,216	6.4%	7.8%	2.3	3.8

(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 2.26% as of September 30, 2018.
(4) In addition to cash coupon, all-in unlevered 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 September 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 $57.0 million of book value at our share attributable to related equity participation interests.

The following table details our loan portfolio by rate-type as of September 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 unlevered yield(3)**	**Remaining term(4)**	**Extended remaining term(5)**
Floating rate loans	53	$ 1,711,632	$ 16,750	$ 1,694,882	$ 1,705,947	$ 16,707	$ 1,689,240	$ 138,856	$ 667	$ 138,189	4.3%	6.7%	1.5	3.3
Fixed rate loans(6)	25	767,152	161	766,991	747,138	162	746,976	42,759	—	42,759	—%	10.2%	4.1	4.8
Total/ Weighted average	78	$ 2,478,784	$ 16,911	$ 2,461,873	$ 2,453,085	$ 16,869	$ 2,436,216	$ 181,615	$ 667	$ 180,948	—%	7.8%	2.3	3.8

(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 unlevered 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 September 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 September 30, 2018 (dollars in thousands):

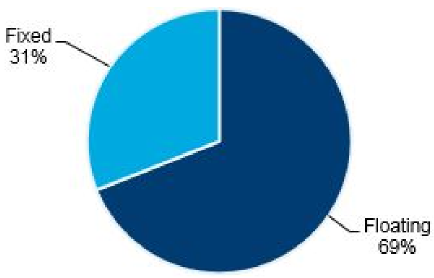
Collateral property type		Book value		NCI		Book value at our share[1]	% of total
Office	$	479,812	$	2,773	$	477,039	19.4%
Multifamily		324,868		—		324,868	13.2%
Industrial		150,271		—		150,271	6.1%
Hotel		868,679		7,346		861,333	35.0%
Retail		418,610		6,342		412,268	16.8%
Other[2]		236,544		450		236,094	9.5%
Total	$	2,478,784	$	16,911	$	2,461,873	100.0%

Region		Book value		NCI		Book value at our share[1]	% of total
West	$	1,240,554	$	8,863	$	1,231,691	50.0%
Northeast		487,689		2,391		485,298	19.7%
Southwest		188,113		797		187,316	7.6%
Southeast		346,457		3,111		343,346	14.0%
Midwest		139,180		1,749		137,431	5.6%
Europe		56,632		—		56,632	2.3%
Other[3]		20,159		—		20,159	0.8%
Total	$	2,478,784	$	16,911	$	2,461,873	100.0%

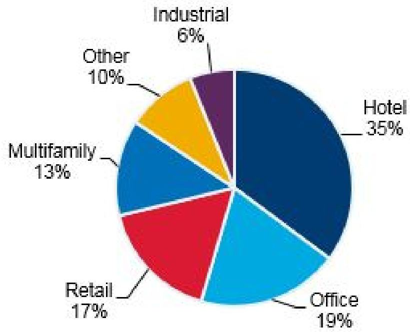
(1) Book value at our share represents the proportionate book value based on our ownership by asset.
(2) Other includes manufactured housing communities and commercial and residential development and predevelopment assets.
(3) Other includes one non U.S. collateral asset.

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

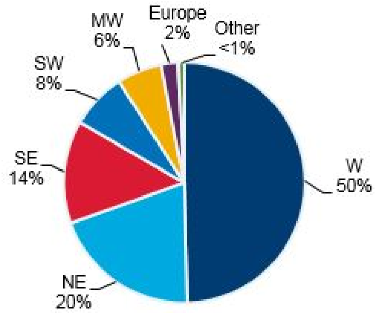
Interest Rate Category



Property Type



Geography



In March 2018, the borrower on our four NY hospitality loans with an unpaid principal balance of $260.2 million failed to make its interest payments. These four loans are secured by the same collateral. We placed the loans on non-accrual status and commenced discussions with the borrower to resolve the matter. Interest income is recognized on a cash basis. During the three months ended September 30, 2018, we received and recognized $1.5 million in interest income on the loans.

During the third quarter of 2018, discussions with the borrower did not progress as anticipated which has led to us exploring additional options for resolution. We prepared a weighted average probability analysis of potential resolutions, which included a recapitalization and earlier than expected receipt and sale of collateral. Based on this analysis, we recorded a $35.1 million provision for loan loss on the four NY hospitality loans during the third quarter of 2018.

CRE Debt Securities

The following table presents an overview of our CRE debt securities portfolio as of September 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	39	$ 206,835	$ —	$ 206,835	3.2%	6.3%	7.8	BBB-
Non-investment grade rated	4	24,406	—	24,406	3.4%	11.9%	6.5	BB / B
“B-pieces” of CMBS securitization pools	10	141,987	—	141,987	4.5%	9.4%	5.6	—
Total/Weighted Average	53	$ 373,228	$ —	$ 373,228	3.7%	7.9%	6.9	—

(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 September 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.

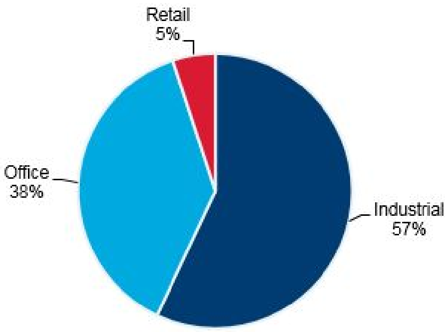
As of September 30, 2018, $2.3 billion, or 27.5%, of our assets were invested in real estate properties and our portfolio was 93.1% occupied. The following table presents our real estate property investments as of September 30, 2018 (dollars in thousands):

Property Type	Book value	NCI	Book value at our share(1)	% of total	Number of Properties	Number of Buildings	Total Square Feet	Units	Weighted average % leased	Weighted average lease term(2)	Total annualized base rent(3)
Net lease											
Industrial	$ 773,908	$ 34,520	$ 739,388	34.6%	47	47	11,577,199	—	95%	9.9	$ 47,298
Office	494,886	—	494,886	23.2%	5	30	961,620	—	93%	9.6	25,486
Retail	63,977	—	63,977	3.0%	10	10	467,971	—	100%	5.8	5,704
Total net-lease	1,332,771	34,520	1,298,251	60.8%	62	87	13,006,790	—	95%	9.6	78,489
Other											
Office	590,644	68,891	521,753	24.5%	16	33	2,600,882	—	89%	4.7	47,349
Multifamily	250,885	56,313	194,572	9.1%	6	107	—	3,721	92%	n/a	21,710
Hotel	119,656	278	119,378	5.6%	3	3	n/a	n/a	n/a	n/a	n/a
Total other	961,185	125,482	835,703	39.2%	25	143	2,600,882	3,721	90%	4.7	69,058
Total	$ 2,293,956	$ 160,002	$ 2,133,954	100.0%	87	230	15,607,672	3,721	93%	7.7	$ 147,547

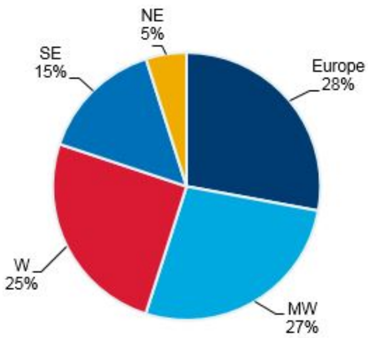
(1) Book value at our share represents the proportionate book value based on our ownership by asset.
(2) The calculation of weighted average lease term is based on leases in-place (defined as occupied and paying leases) as of September 30, 2018; assumes that no renewal options are exercised and is weighted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

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

Property Type

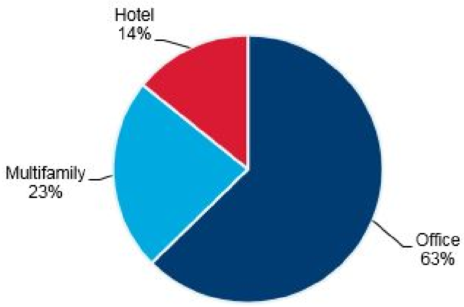


Geography

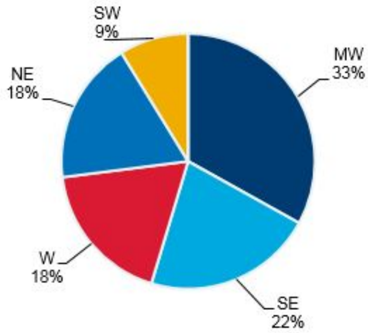


The following charts illustrate the diversification of our other real estate portfolio based on property type and geography as of September 30, 2018 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

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 reflects adjustments to U.S. GAAP net income to exclude impairment of real estate and provision for loan losses. Such impairment and losses may ultimately be realized, in part or full, upon a sale or monetization of the related investments and such realized losses would be reflected in Core Earnings.

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	$ (52,703)	$ 21,252	$ (41,409)	$ 67,087
Adjustments:				
Net income attributable to noncontrolling interest of the Operating Partnership	(1,275)	—	(996)	—
Non-cash equity compensation expense	1,822	—	3,905	—
Transaction costs	406	—	32,927	—
Depreciation and amortization	30,956	2,646	74,111	7,603
Net unrealized loss (gain):				
Impairment of operating real estate	29,378	—	29,378	—
Provision for loan losses	35,059	—	35,059	—
Other unrealized loss (gain)	921	—	(673)	—
Adjustments related to noncontrolling interests	(5,751)	—	(8,850)	—
Core Earnings attributable to Colony Credit Real Estate, Inc. common stockholders and noncontrolling interest of the Operating Partnership	$ 38,813	$ 23,898	$ 123,452	$ 74,690
Core Earnings per share[1]	$ 0.30	$ 0.50	$ 1.02	$ 1.57
Weighted average number of common shares and OP units[1]	130,962	47,475	121,328	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 nine months ended September 30, 2018 of approximately 131.0 million and 121.3 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 $1.8 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:

	September 30, 2018	December 31, 2017
Debt-to-equity ratio[(1)]	0.8x	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 September 30, 2018 (dollars in thousands):

Total Sources of Corporate Liquidity		
Cash and cash equivalents	$	56,289
Bank credit facility availability		310,000
Total sources of corporate liquidity	$	366,289

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 September 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	$ 143,400	4.6	LIBOR + 2.00%
Bank 2	200,000	49,492	0.8	LIBOR + 2.46%
Bank 3	500,000	425,311	2.6	LIBOR + 2.36%
Bank 7	500,000	90,855	3.6	LIBOR + 1.97%
Bank 8	250,000	44,084	2.7	LIBOR + 2.00%
Total Master Repurchase Facilities	1,750,000	753,142		
CMBS Credit Facilities				
Bank 1	35,540	35,540	(1)	LIBOR + 1.10%
Bank 6	143,636	143,636	(1)	LIBOR + 1.20%
Bank 3	—	—	—	—
Bank 4	—	—	—	—
Bank 5	—	—	—	—
Total CMBS Credit Facilities	179,176	179,176		
Bank Credit Facility	400,000	90,000	4.3	LIBOR + 2.25%
Total Facilities	$ 2,329,176	$ 1,022,318		

(1) The maturity dates on CMBS Credit Facilities are dependent upon asset type and will typically range from one to three 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 nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Nine Months Ended September 30,		
Cash flow provided by (used in):	**2018**	**2017**	**Change**
Operating activities	$ 59,855	$ 74,187	$ (14,332)
Investing activities	(348,645)	228,700	(577,345)
Financing activities	319,919	(261,247)	581,166

Comparison of the Nine Months Ended September 30, 2018 to 2017

Operating Activities

Net cash provided by operating activities decreased $14.3 million from $74.2 million for the nine months ended September 30, 2017 to $59.9 million for the nine months ended September 30, 2018, primarily as a result of transaction costs paid in connection with the Combination.

Investing Activities

Net cash used in investing activities was $348.6 million for the nine months ended September 30, 2018, compared with net cash provided by investing activities of $228.7 million for the nine months ended September 30, 2017. Cash flows used in investing activities for the nine months ended September 30, 2018 primarily consist of acquisition, origination and funding of loans and preferred equity held for investment, net in the amount of $524.2 million, acquisition of and additions to real estate, related intangibles and leasing commissions in the amount of $408.5 million, investment in unconsolidated ventures in the amount of $72.9 million, acquisition of real estate securities, available for sale in the amount of $52.6 million, and deposit on investments in the amount of $28.7 million, partially offset by repayment on loans and preferred equity held for investment in the amount of $414.1 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 $82.1 million.

Financing Activities

Net cash provided by financing activities was $319.9 million for the nine months ended September 30, 2018, compared with net cash used in financing activities of $261.2 million for the nine months ended September 30, 2017. Cash flows provided by financing activities for the nine months ended September 30, 2018 primarily consist of borrowings from credit facilities in the amount of $920.8 million and borrowings from mortgage notes in the amount of $245.0 million, partially offset by repayment of credit facilities in the amount of $547.4 million, distributions paid on common stock in the amount of $132.8 million, repayment of securitization bonds in the amount of $108.2 million, and repayment of mortgage notes in the amount of $43.2 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]	$ 112,344	$ 5,149	$ 10,297	$ 96,898	$ —
Secured debt[2]	2,828,982	529,510	718,816	212,920	1,367,736
Securitization bonds payable[3]	83,943	83,943	—	—	—
Ground lease obligations[4]	13,747	2,821	5,557	3,477	1,892
	3,039,016	$ 621,423	$ 734,670	$ 313,295	$ 1,369,628
Lending commitments[5]	138,740				
Total	$ 3,177,756				

(1) Future interest payments were estimated based on the applicable index at September 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 September 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 September 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.

We believe that events in the financial markets from time to time have created and will create significant dislocation between price and intrinsic value in certain asset classes as well as a supply and demand imbalance of available credit to finance these assets. While taking advantage of such market opportunities, our existing investments may be directly or indirectly impacted by such events. We believe that our Manager's in-depth understanding of CRE and real estate-related investments, and in-house underwriting, asset management and resolution capabilities, provides the Company and management with a sophisticated full-service value-add platform to regularly evaluate our investments and determine primary, secondary or alternative disposition strategies. This includes intermediate servicing and complex and create negotiations, restructuring of non-performing investments, foreclosure considerations, intense management or development of owned real estate, in each case to reposition and achieve optimal value realization for the Company and its stockholders. Depending on the nature of the underlying investment, we may pursue repositioning strategies through judicious capital contributions in order to extract maximum value from the investment or recognize unanticipated losses to reinvest resulting liquidity in higher-yielding performing investments.

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. Under these circumstances, certain assets will require intensified asset management in order to achieve optimal value realization.

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

In addition, the audit committee, 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. The carrying values of our investments represent their depreciated historical cost bases or, for investments that have been previously impaired, their fair values or net realizable values. Such amounts are based upon our current reasonable assumptions about the highest and best use of our investments and our intent and ability to hold them for a reasonable period that would allow for the recovery of our carrying values. If such assumptions change and we shorten our expected hold period, we may be required to record impairment losses to adjust our carrying values to fair value or fair value less cost to sell.

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, capital market risk and foreign currency risk, either directly through the assets held or indirectly through investments in unconsolidated ventures.

Interest Rate Risk

Interest rate risk relates to the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations 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 September 30, 2018, a hypothetical 100 basis point increase in the applicable interest rate benchmark on our loan portfolio would increase interest income by $7.1 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.

Foreign Currency Risk

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

At September 30, 2018, we had approximately NOK 951.2 million and €48.6 million or a total of $173.2 million, in net investments in our European subsidiaries. A 1% change in these foreign currency rates would result in a $1.7 million increase or decrease in translation gain or loss included in other comprehensive income in connection with our European subsidiaries.

A summary of the foreign exchange contracts in place at September 30, 2018, including notional amount and key terms, is included in Note 16 to the consolidated financial statements. The maturity dates of these instruments approximate the projected dates of related cash flows for specific investments. Termination or maturity of currency hedging instruments may result in an obligation for payment to or from the counterparty to the hedging agreement. We are exposed to credit loss in the event of non-performance by counterparties for these contracts. To manage this risk, we select major international banks and financial institutions as counterparties and perform a quarterly review of the financial health and stability of our trading counterparties. Based on our review at September 30, 2018, we do not expect any counterparty to default on its obligations.

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 September 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

Except as described below, 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.

Risk Related to Our Foreign Investments

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

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

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

We are subject to additional risks from our international investments.

We may purchase real estate investments located internationally or make loans secured by real estate located internationally. These investments may be affected by factors particular to the laws and business practices of the jurisdictions in which the properties are located. These laws and business practices may expose us to risks that are different from and in addition to those commonly found in the United States. Foreign investments are subject to risk, including the following risks:

- the burden of complying with multiple and potentially conflicting foreign laws;
- changing governmental rules and policies, including changes in land use and zoning laws, more stringent environmental laws or changes in such environmental laws;
- existing or new laws relating to the foreign ownership of real property or loans and laws restricting the ability of foreign persons or companies to remove profits earned from activities within the country to the person's or company's country of origin;
- the potential for expropriation;
- possible currency transfer restrictions;
- imposition of adverse or confiscatory taxes;
- our REIT tax status not being respected under foreign laws, in which case any income or gains from foreign sources could be subject to foreign taxes and withholding taxes;
- changes in real estate and other tax rates and changes in other operating expenses in particular countries;
- possible challenges to the anticipated tax treatment of the structures that allow us to acquire and hold investments;
- adverse market conditions caused by terrorism, civil unrest and changes in national or local governmental or economic conditions;
- the willingness of domestic or foreign lenders to make loans in certain countries and changes in the availability, cost and terms of loan funds resulting from varying national economic policies;
- general political and economic instability in certain regions; and
- the potential difficulty of enforcing our contractual rights, including in perfecting our security interests, collecting accounts receivable, foreclosing on secured assets and protecting our interests as a creditor in bankruptcies in certain geographic regions.

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

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

In addition, increased uncertainty in the wake of the “Brexit” referendum in the United Kingdom in June 2016, in which the majority of voters voted in favor of an exit from the European Union, has resulted in an increase in volatility in the global financial markets. Uncertainty about global or regional economic conditions poses a risk as consumers and businesses may postpone spending in response to tighter credit, negative financial news, and declines in income or asset values, which could adversely affect the availability of financing, our business and our results of operations.

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

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

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

Issuer Repurchase of Equity Securities

During the nine months ended September 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

On October 23, 2018, we terminated the following agreements, among others, in connection with entering into that certain Master Repurchase Agreement, dated as of October 23, 2018, by and among DB LOAN NT-II, LLC, CLNC Credit 5, LLC and Deutsche Bank AG, Cayman Islands Branch and that certain Guaranty, made as of October 23, 2018, by the OP for the benefit of Deutsche Bank AG, Cayman Islands Branch: (i) the Master Repurchase Agreement, dated as of March 11, 2013, by and among NS Income DB Loan, LLC and Deutsche Bank AG, Cayman Islands Branch (the “Repurchase Agreement”), (ii) the First Amendment to the Repurchase Agreement, dated as of October 8, 2013, by and among NS Income DB Loan, LLC and Deutsche Bank AG, Cayman Islands Branch, and acknowledged and agreed to by NS Income DB Loan Member, LLC, (iii) the Second Amendment to the Repurchase Agreement, dated as of January 6, 2016, by and among NS Income DB Loan, LLC, NorthStar Real Estate Income Trust, Inc., NorthStar Real Estate Income Trust Operating Partnership, LP and Deutsche Bank AG, Cayman Islands Branch, and acknowledged and agreed to by NS Income DB Loan Member, LLC, (iv) the Third Amendment to the Repurchase Agreement, dated as of January 31, 2018, by and between NS Income DB Loan, LLC and Deutsche Bank AG, Cayman Islands Branch, and acknowledged and agreed to by Credit RE Operating Company, LLC and NS Income DB Loan Member, LLC and (v) the Amended and Restated Guaranty, made as of January 31, 2018, by Credit RE Operating Company, LLC for the benefit of Deutsche Bank AG, Cayman Islands Branch.

The Repurchase Agreement provided, and the Master Repurchase Agreements provides, up to $200.0 million to finance the Company’s lending activities. The OP guaranteed the payment and performance obligations under the Repurchase Agreement and similarly guarantees the obligations under the Master Repurchase Agreement.

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 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018
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)
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 September 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2018 (unaudited) and December 31, 2017; (ii) Consolidated Statements of Operations (unaudited) for the three and nine months ended September 30, 2018 and 2017; (iii) Consolidated Statements of Comprehensive Income (Loss) (unaudited) for the three and nine months ended September 30, 2018 and 2017; (iv) Consolidated Statements of Equity (unaudited) for the nine months ended September 30, 2018 and 2017; (v) Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 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: November 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/ Neale W. Redington

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

By: /s/ Frank V. Saracino

Frank V. Saracino
Chief Accounting Officer (Principal Accounting Officer)

Exhibit 31.1

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

I, 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: November 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, Neale W. Redington, 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/ Neale W. Redington

Neale W. Redington

Chief Financial Officer and Treasurer

Date: November 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 September 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: November 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 September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Neale W. Redington, 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/ Neale W. Redington

Neale W. Redington

Chief Financial Officer and Treasurer

Date: November 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.