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, 2019

OR

☐ **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)

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

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

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

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

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

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

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

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

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

As of November 7, 2019, Colony Credit Real Estate, Inc. had 128,538,703 shares of Class A 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 for the year ended December 31, 2018 included in our Form 10-K filed with the U.S. Securities and Exchange Commission (the "SEC") on February 28, 2019.

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;
- our operating results may differ materially from the information presented in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as well as in Colony Credit Real Estate’s other filings with the Securities and Exchange Commission;
- the fair value of our investments may be subject to uncertainties;
- our use of leverage could hinder our ability to make distributions and may significantly impact our liquidity position;
- given our dependence on our external manager, an affiliate of Colony Capital, Inc., any adverse changes in the financial health or otherwise of our manager or Colony Capital, Inc. could hinder our operating performance and return on stockholder’s investment;
- the ability to realize substantial efficiencies as well as anticipated strategic and financial benefits, including, but not limited to expected returns on equity and/or yields on investments;
- adverse impacts on our liquidity, including our ability to continue to generate liquidity from sales of legacy, non-strategic assets;
- our ability to liquidate our legacy, non-strategic assets within the projected timeframe or at the projected values;
- the timing of and ability to deploy available capital;
- our ability to maintain or grow the dividend at all in the future;
- the timing of and ability to complete repurchases of our stock;
- our ability to refinance certain mortgage debt on similar terms to those currently existing or at all;
- and the impact of legislative, regulatory and competitive changes.

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, 2018, the section entitled “Risk Factors” in this Form 10-Q for the quarter ended September 30, 2019 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, 2019 (Unaudited)	December 31, 2018
Assets		
Cash and cash equivalents	$ 60,332	$ 77,317
Restricted cash	139,549	110,146
Loans and preferred equity held for investment, net	2,516,197	2,020,497
Real estate securities, available for sale, at fair value	255,937	228,185
Real estate, net	1,568,682	1,959,690
Investments in unconsolidated ventures ($14,323 and $160,851 at fair value, respectively)	571,365	903,037
Receivables, net	42,559	48,806
Deferred leasing costs and intangible assets, net	125,072	134,068
Assets held for sale	183,895	—
Other assets	76,266	62,006
Mortgage loans held in securitization trusts, at fair value	1,904,003	3,116,978
Total assets	$ 7,443,857	$ 8,660,730
Liabilities		
Securitization bonds payable, net	$ —	$ 81,372
Mortgage and other notes payable, net	1,245,721	1,173,019
Credit facilities	1,907,556	1,365,918
Due to related party (Note 11)	14,227	15,019
Accrued and other liabilities	138,024	106,187
Intangible liabilities, net	23,916	15,096
Liabilities related to assets held for sale	5,487	—
Escrow deposits payable	87,349	65,995
Dividends payable	19,087	18,986
Mortgage obligations issued by securitization trusts, at fair value	1,793,435	2,973,936
Total liabilities	5,234,802	5,815,528
Commitments and contingencies (Note 17)		
Equity		
Stockholders' equity		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	—	—
Common stock, $0.01 par value per share		
Class A, 950,000,000 and 905,000,000 shares authorized, 128,538,703 and 83,410,376 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	1,285	834
Class B-3, no shares authorized, issued and outstanding as of September 30, 2019 and 45,000,000 shares authorized and 44,399,444 shares issued and outstanding as of December 31, 2018	—	444
Additional paid-in capital	2,905,906	2,899,353
Accumulated deficit	(809,344)	(193,327)
Accumulated other comprehensive income (loss)	28,915	(399)
Total stockholders' equity	2,126,762	2,706,905
Noncontrolling interests in investment entities	31,410	72,683
Noncontrolling interests in the Operating Partnership	50,883	65,614
Total equity	2,209,055	2,845,202
Total liabilities and equity	$ 7,443,857	$ 8,660,730

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, 2019 (Unaudited)	December 31, 2018
Assets		
Cash and cash equivalents	$ 13,877	$ 12,561
Restricted cash	18,022	18,464
Loans and preferred equity held for investment, net	14,085	167,219
Real estate, net	392,147	547,444
Receivables, net	19,764	17,811
Deferred leasing costs and intangible assets, net	41,186	38,681
Assets held for sale	112,024	—
Other assets	28,437	1,698
Mortgage loans held in securitization trusts, at fair value	1,904,003	3,116,978
Total assets	$ 2,543,545	$ 3,920,856
Liabilities		
Securitization bonds payable, net	$ —	$ 43,870
Mortgage and other notes payable, net	342,559	325,187
Credit facilities	23,124	—
Accrued and other liabilities	60,749	32,452
Intangible liabilities, net	21,727	11,993
Liabilities related to assets held for sale	5,487	—
Escrow deposits payable	5,796	9,603
Mortgage obligations issued by securitization trusts, at fair value	1,793,435	2,973,936
Total liabilities	$ 2,252,877	$ 3,397,041

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,	
	2019	2018	2019	2018
Net interest income				
Interest income	$ 46,991	$ 40,139	$ 127,473	$ 113,073
Interest expense	(23,167)	(13,148)	(63,505)	(30,266)
Interest income on mortgage loans held in securitization trusts	22,586	39,261	99,718	104,622
Interest expense on mortgage obligations issued by securitization trusts	(20,299)	(36,294)	(91,690)	(97,031)
Net interest income	26,111	29,958	71,996	90,398
Property and other income				
Property operating income	63,492	51,684	191,393	119,706
Other income	820	2,253	1,431	3,152
Total property and other income	64,312	53,937	192,824	122,858
Expenses				
Management fee expense	11,355	11,877	34,070	31,668
Property operating expense	29,756	21,217	86,076	49,186
Transaction, investment and servicing expense	1,433	3,631	3,013	38,212
Interest expense on real estate	14,281	13,341	41,786	29,447
Depreciation and amortization	25,934	30,538	82,853	72,689
Provision for loan losses	110,314	35,059	220,572	34,542
Impairment of operating real estate	272,722	29,378	282,846	29,378
Administrative expense (including $2,910, $1,822, $7,466 and $3,905 of equity-based compensation expense, respectively)	7,732	6,797	22,395	16,909
Total expenses	473,527	151,838	773,611	302,031
Other income (loss)				
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	(1,976)	(939)	4,602	3,254
Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net	2,724	(549)	2,772	(2,752)
Other loss, net	(2,688)	(15)	(13,829)	460
Loss before equity in earnings of unconsolidated ventures and income taxes	(385,044)	(69,446)	(515,246)	(87,813)
Equity in earnings (loss) of unconsolidated ventures	(15,905)	8,324	17,962	39,773
Income tax benefit (expense)	(1,046)	2,456	(544)	2,847
Net loss	(401,995)	(58,666)	(497,828)	(45,193)
Net loss attributable to noncontrolling interests:				
Investment entities	37,445	4,688	38,623	2,788
Operating Partnership	8,519	1,275	10,741	996
Net loss attributable to Colony Credit Real Estate, Inc. common stockholders	$ (356,031)	$ (52,703)	$ (448,464)	$ (41,409)
Net loss per common share - basic and diluted (Note 19)	$ (2.77)	$ (0.42)	$ (3.51)	$ (0.36)
Weighted average shares of common stock outstanding - basic and diluted (Note 19)	128,541	127,887	128,341	118,252

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,	
	2019	2018	2019	2018
Net loss	$ (401,995)	$ (58,666)	$ (497,828)	$ (45,193)
Other comprehensive income (loss)				
Unrealized gain on real estate securities, available for sale	5,102	6,192	22,723	3,347
Change in fair value of net investment hedges	12,791	(416)	21,124	(416)
Foreign currency translation loss	(14,445)	(402)	(13,832)	(402)
Total other comprehensive income	3,448	5,374	30,015	2,529
Comprehensive loss	(398,547)	(53,292)	(467,813)	(42,664)
Comprehensive (income) loss attributable to noncontrolling interests:				
Investment entities	37,445	4,688	38,623	2,788
Operating Partnership	8,439	1,148	10,040	936
Comprehensive loss attributable to common stockholders	$ (352,663)	$ (47,456)	$ (419,150)	$ (38,940)

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 (Loss)	Total Stockholders' Equity	Noncontrolling Interests in Investment Entities	Noncontrolling Interests in the Operating Partnership	Total Equity
Balance at December 31, 2017	—	$ —	—	$ —	$ 821,031	$ 258,777	$ —	$ 1,079,808	$ 327,762	$ —	$ 1,407,570
Distributions	—	—	—	—	—	—	—	—	(1,003)	—	(1,003)
Adjustments related to the Combination	82,484	825	44,399	444	2,073,186	(79,774)	—	1,994,681	(230,818)	73,626	1,837,489
Issuance and amortization of equity-based compensation	1,004	10	—	—	275	—	—	285	—	—	285
Other comprehensive loss	—	—	—	—	—	—	(1,848)	(1,848)	—	—	(1,848)
Dividends declared ($0.29 per share)	—	—	—	—	—	(37,843)	—	(37,843)	—	—	(37,843)
Net income (loss)	—	—	—	—	—	(4,714)	—	(4,714)	2,370	(57)	(2,401)
Balance at March 31, 2018	83,488	$ 835	44,399	$ 444	$2,894,492	$ 136,446	$ (1,848)	$ 3,030,369	$ 98,311	$ 73,569	$ 3,202,249
Contributions	—	—	—	—	—	—	—	—	87	—	87
Distributions	—	—	—	—	—	—	—	—	(928)	—	(928)
Adjustments related to the Combination	—	—	—	—	1,070	—	—	1,070	(47)	—	1,023
Issuance and amortization of equity-based compensation	—	—	—	—	1,798	—	—	1,798	—	—	1,798
Other comprehensive loss	—	—	—	—	—	—	(930)	(930)	—	(67)	(997)
Dividends declared ($0.44 per share)	—	—	—	—	—	(54,739)	—	(54,739)	—	(2,230)	(56,969)
Reallocation of equity	—	—	—	—	(665)	—	—	(665)	—	665	—
Net income (loss)	—	—	—	—	—	16,008	—	16,008	(470)	336	15,874
Balance at June 30, 2018	83,488	$ 835	44,399	$ 444	$2,896,695	$ 97,715	$ (2,778)	$ 2,992,911	$ 96,953	$ 72,273	$ 3,162,137
Contributions	—	—	—	—	—	—	—	—	21	—	21
Distributions	—	—	—	—	—	—	—	—	(1,297)	—	(1,297)
Adjustments related to the Combination	—	—	—	—	(36)	—	—	(36)	—	—	(36)
Issuance and amortization of equity-based compensation	—	—	—	—	1,822	—	—	1,822	—	—	1,822
Other comprehensive income	—	—	—	—	—	—	5,247	5,247	—	127	5,374
Dividends declared ($0.44 per share)	—	—	—	—	—	(55,631)	—	(55,631)	—	(1,337)	(56,968)
Reallocation of equity	—	—	—	—	(297)	—	—	(297)	—	297	—
Net income (loss)	—	—	—	—	—	(52,703)	—	(52,703)	(4,688)	(1,275)	(58,666)
Balance as of September 30, 2018	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 EQUITY (Continued)
(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 (Loss)	Total Stockholders' Equity	Noncontrolling Interests in Investment Entities	Noncontrolling Interests in the Operating Partnership	Total Equity
Balance at December 31, 2018	83,410	$ 834	44,399	$ 444	$ 2,899,353	$ (193,327)	$ (399)	$ 2,706,905	$ 72,683	$ 65,614	$ 2,845,202
Contributions	—	—	—	—	—	—	—	—	24	—	24
Distributions	—	—	—	—	—	—	—	—	(394)	—	(394)
Conversion of Class B-3 common stock	44,399	444	(44,399)	(444)	—	—	—	—	—	—	—
Issuance and amortization of equity-based compensation	800	8	—	—	1,835	—	—	1,843	—	—	1,843
Other comprehensive income	—	—	—	—	—	—	13,519	13,519	—	324	13,843
Dividends declared ($0.44 per Class A share and $0.15 per Class B-3 share)	—	—	—	—	—	(55,726)	—	(55,726)	—	(1,340)	(57,066)
Shares canceled for tax withholding on vested stock awards	(96)	(1)	—	—	(1,496)	—	—	(1,497)	—	—	(1,497)
Reallocation of equity	—	—	—	—	(23)	—	—	(23)	—	23	—
Net income (loss)	—	—	—	—	—	14,908	—	14,908	(298)	347	14,957
Balance at March 31, 2019	128,513	$ 1,285	—	$ —	$ 2,899,669	$ (234,145)	$ 13,120	$ 2,679,929	$ 72,015	$ 64,968	$ 2,816,912
Contributions	—	—	—	—	—	—	—	—	11	—	11
Distributions	—	—	—	—	—	—	—	—	(1,198)	—	(1,198)
Issuance and amortization of equity-based compensation	32	—	—	—	2,713	—	—	2,713	—	—	2,713
Other comprehensive income	—	—	—	—	—	—	12,427	12,427	—	297	12,724
Dividends declared ($0.44 per share)	—	—	—	—	—	(55,912)	—	(55,912)	—	(1,342)	(57,254)
Shares canceled for tax withholding on vested stock awards	—	—	—	—	—	—	—	—	—	—	—
Reallocation of equity	—	—	—	—	744	—	—	744	—	(744)	—
Net income (loss)	—	—	—	—	—	(107,341)	—	(107,341)	(880)	(2,569)	(110,790)
Balance at June 30, 2019	128,545	$ 1,285	—	$ —	$ 2,903,126	$ (397,398)	$ 25,547	$ 2,532,560	$ 69,948	$ 60,610	$ 2,663,118
Contributions	—	—	—	—	—	—	—	—	17	—	17
Distributions	—	—	—	—	—	—	—	—	(1,110)	—	(1,110)
Issuance and amortization of equity-based compensation	—	—	—	—	2,910	—	—	2,910	—	—	2,910
Other comprehensive income	—	—	—	—	—	—	3,368	3,368	—	80	3,448
Dividends declared ($0.44 per share)	—	—	—	—	—	(55,915)	—	(55,915)	—	(1,338)	(57,253)
Shares canceled for tax withholding on vested stock awards	(6)	—	—	—	(80)	—	—	(80)	—	—	(80)
Reallocation of equity	—	—	—	—	(50)	—	—	(50)	—	50	—
Net income (loss)	—	—	—	—	—	(356,031)	—	(356,031)	(37,445)	(8,519)	(401,995)
Balance at September 30, 2019	128,539	$ 1,285	—	$ —	$ 2,905,906	$ (809,344)	$ 28,915	$ 2,126,762	$ 31,410	$ 50,883	$ 2,209,055

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,	
	2019	2018
Cash flows from operating activities:		
Net loss	$ (497,828)	$ (45,193)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in earnings of unconsolidated ventures	(17,962)	(39,773)
Depreciation and amortization	82,853	72,689
Straight-line rental income	(5,049)	(3,659)
Amortization of above/below market lease values, net	(2,401)	486
Amortization of premium/accretion of discount and fees on investments and borrowings, net	(9,239)	(5,628)
Amortization of deferred financing costs	6,803	3,051
Amortization of right-of-use lease assets and operating lease liabilities	73	—
Paid-in-kind interest added to loan principal, net of interest received	(5,634)	(3,242)
Distributions of cumulative earnings from unconsolidated ventures	53,509	34,682
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	(4,602)	(3,254)
Realized (gain) loss on mortgage loans and obligations held in securitization trusts, net	(2,772)	2,752
Provision for loan loss	220,572	34,542
Impairment of operating real estate	282,846	29,378
Amortization of equity-based compensation	7,466	3,905
Mortgage notes above/below market value amortization	276	(725)
Deferred income tax (benefit) expense	(3,298)	(4,047)
Changes in assets and liabilities:		
Receivables, net	(1,097)	12,153
Deferred costs and other assets	718	(39,151)
Due to related party	(792)	5,272
Other liabilities	8,763	10,156
Net cash provided by operating activities	113,205	64,394
Cash flows from investing activities:		
Acquisition, origination and funding of loans and preferred equity held for investment, net	(1,250,018)	(524,230)
Repayment on loans and preferred equity held for investment	426,438	414,096
Cash and restricted cash received in the Combination	—	302,342
Cash and restricted cash received related to foreclosure of loans held for investment	3,436	4,900
Acquisition of and additions to real estate, related intangibles and leasing commissions	(16,773)	(408,546)
Investments in unconsolidated ventures	(28,344)	(72,879)
Proceeds from sale of investments in unconsolidated ventures	115,298	—
Distributions in excess of cumulative earnings from unconsolidated ventures	202,732	82,130
Acquisition of real estate securities, available for sale	—	(52,567)
Proceeds from sale of mortgage loans held in securitization trusts	39,848	—
Net receipts on settlement of derivative instruments	27,699	—
Deposit on investments	(372)	(28,667)
Change in escrow deposits	20,817	4,299
Net cash used in investing activities	(459,239)	(279,122)
Cash flows from financing activities:		
Distributions paid on common stock	(167,452)	(129,221)
Distributions paid on common stock to noncontrolling interests	(4,020)	(3,567)
Shares canceled for tax withholding on vested stock awards	(1,576)	—
Borrowings from mortgage notes	85,660	245,039
Repayment of mortgage notes	(4,448)	(43,165)
Borrowings from credit facilities	1,830,412	920,829
Repayment of credit facilities	(1,288,773)	(547,379)
Repayment of securitization bonds	(81,372)	(108,246)
Payment of deferred financing costs	(7,413)	(11,251)
Contributions from noncontrolling interests	52	108
Distributions to noncontrolling interests	(2,702)	(3,228)
Net cash provided by financing activities	358,368	319,919
Effect of exchange rates on cash, cash equivalents and restricted cash	84	(44)

Net increase (decrease) in cash, cash equivalents and restricted cash	12,418	105,147
Cash, cash equivalents and restricted cash - beginning of period	187,463	67,105
Cash, cash equivalents and restricted cash - end of period	$ 199,881	$ 172,252

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,	
	2019	2018
Reconciliation of cash, cash equivalents, and restricted cash to consolidated balance sheets		
Beginning of the period		
Cash and cash equivalents	$ 77,317	$ 25,204
Restricted cash	110,146	41,901
Total cash, cash equivalents and restricted cash, beginning of period	$ 187,463	$ 67,105
End of the period		
Cash and cash equivalents	$ 60,332	$ 56,289
Restricted cash	139,549	115,963
Total cash, cash equivalents and restricted cash, end of period	$ 199,881	$ 172,252

	Nine Months Ended September 30,	
	2019	2018
Supplemental disclosure of non-cash investing and financing activities:		
Assets acquired in the Combination	$ —	$ 6,916,046
Liabilities assumed in the Combination	—	4,812,353
Noncontrolling interests assumed in the Combination	—	82,320
Common stock issued for acquisition of NorthStar I and NorthStar II (Note 3)	—	2,021,373
Consolidation of certain CLNY Contributed Portfolio investments (Note 2)	—	313,133
Secured Financing	—	50,314
Other Payables to Manager adjustment (refer to Note 11)	—	2,934
Noncontrolling interests in the Operating Partnership	—	73,626
Consolidation of securitization trust (VIE asset / liability)	59,126	203,475
Deconsolidation of securitization trust (VIE asset / liability)	(1,239,627)	—
Accrual of distribution payable	19,087	18,992
Foreclosure of loans held for investment, net of provision for loan loss	127,356	117,878
Right-of-use lease assets and operating lease liabilities	26,781	—
Assets transferred to held for sale (Note 7)	183,895	172,200
Liabilities related to assets held for sale (Note to 7)	5,487	324
Acquisition of real estate under long term obligations		236,111
Conversion of Class B-3 common stock to Class A common stock	444	—

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

1. Business and Organization

Colony Credit Real Estate, Inc. (together with its consolidated subsidiaries, the "Company") is a commercial real estate ("CRE") credit real estate investment trust ("REIT") focused on originating, acquiring, financing and managing a diversified portfolio consisting primarily of CRE 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 elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), beginning with its taxable year ended December 31, 2018. Effective June 25, 2018, the Company changed its name from Colony NorthStar Credit Real Estate, Inc. to Colony Credit Real Estate, Inc. Also on June 25, 2018, Colony NorthStar, Inc. changed its name to Colony Capital, Inc. The Company conducts all of its activities and holds substantially all of its assets and liabilities through its operating subsidiary, Credit RE Operating Company, LLC (the "Operating Partnership" or "OP"). At September 30, 2019, the Company owned 97.7% of the OP, as its sole managing member. The remaining 2.3% is owned by an affiliate of the Company as noncontrolling interests.

The Company is externally managed and has no employees. The Company is managed by CLNC Manager, LLC (the "Manager"), a Delaware limited liability company and a wholly-owned and indirect subsidiary of Colony Capital Operating Company, LLC ("CLNY OP"), a Delaware limited liability company and the operating company of Colony Capital. Colony Capital manages capital on behalf of its stockholders, as well as institutional and retail investors in private funds, non-traded and traded REITs and registered investment companies.

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 Combination" and the accounting treatment thereof in Note 2, "Summary of Significant Accounting Policies."

Segment Realignment

During the third quarter of 2019, the Company realigned the business and reportable segment information to reflect how the Chief Operating Decision Makers ("CODM") regularly reviews and manages the business. Refer to Note 18, "Segment Reporting" for further detail.

2. Summary of Significant Accounting Policies

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

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by 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, 2019, or for any other future period. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in, or presented as exhibits to, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

The consolidated financial statements include the results of operations of Colony Credit Real Estate, Inc. and certain consolidated investment entities contributed by Colony Capital (the "CLNY Investment Entities") for periods on or prior to the closing of the Combination on January 31, 2018 and the combined operations of Colony Credit Real Estate, Inc., NorthStar I and NorthStar II beginning February 1, 2018, following the closing of the Combination.

The assets and liabilities contributed by Colony Capital to the Company consisted of its ownership interests in the CLNY Investment Entities, ranging from 38% to 100%. The remaining interests in the CLNY Investment Entities are owned by investment vehicles sponsored by Colony Capital or third parties and were not contributed to the Company.

The CLNY Contributions were accounted for as a reorganization of entities under common control, since both the Company and the CLNY Investment Entities were under common control of Colony Capital at the time the contributions were made. Accordingly, the contributed assets and liabilities were recorded at carryover basis and the Company's financial statements for prior periods were recast to reflect the consolidation of the CLNY Investment Entities as if the contribution had occurred on the date of the earliest period presented. The assets, liabilities and noncontrolling interests of the CLNY Investment Entities in the consolidated financial statements for periods prior to the Combination were carved out of the books and records of Colony Capital at their historical carrying amounts. Accordingly, the historical consolidated financial statements were prepared giving consideration to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") and related guidance provided by the SEC Staff with respect to carve-out financial statements and reflect allocations of certain corporate costs from Colony Capital. These charges were based on either specifically identifiable costs incurred on behalf of the CLNY Investment Entities or an allocation of costs estimated to be applicable to the CLNY Investment Entities, primarily based on the relative assets under management of the CLNY Investment Entities to Colony Capital's total assets under management. Such costs do not necessarily reflect what the actual costs would have been if the Company had been operating as a separate stand-alone public entity for periods prior to the Combination.

Following the Combination, the Company reconsidered whether it was the primary beneficiary of certain variable interest entities ("VIEs"), which resulted in the deconsolidation of certain of the CLNY Investment Entities and the consolidation of certain securitization trusts in which NorthStar I or NorthStar II held an interest, as more fully described below. Accordingly, comparisons of financial information for periods prior to the Combination with subsequent periods may not be meaningful.

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.

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.

Principles of Consolidation

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

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

Variable Interest Entities

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

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

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

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

As of September 30, 2019, the Company has identified certain consolidated and unconsolidated VIEs. Assets of each of the VIEs, other than the OP, may only be used to settle obligations of the respective VIE. Creditors of each of the VIEs have no recourse to the general credit of the Company.

Consolidated VIEs

The Company's operating subsidiary, the OP, is a limited liability company that has governing provisions that are the functional equivalent of a limited partnership. The Company holds the majority of membership interest in the OP, is the managing member of the OP and exercises full responsibility, discretion and control over the day-to-day management of the OP. The noncontrolling interests in the OP do not have substantive liquidation rights, substantive kick-out rights without cause, or substantive participating rights that could be exercised by a simple majority of noncontrolling interest members (including by such a member unilaterally). The absence of such rights, which represent voting rights in a limited partnership equivalent structure, would render the OP to be a VIE. The Company, as managing member, has the power to direct the core activities of the OP that most significantly affect the OP's performance, and through its majority interest in the OP, has both the right to receive benefits from and the obligation to absorb losses of the OP. Accordingly, the Company is the primary beneficiary of the OP and consolidates the OP. As the Company conducts its business and holds its assets and liabilities through the OP, the total assets and liabilities of the OP represent substantially all of the total consolidated assets and liabilities of the Company.

Other consolidated VIEs include the Investing VIEs (as defined and discussed below) and certain operating real estate properties that have noncontrolling interests. The noncontrolling interests in the operating real estate properties represent third party joint venture partners with ownership ranging from 3.5% to 20.0%. These noncontrolling interests do not have substantive kick-out nor participating rights.

Investing VIEs

The Company's investments in securitization financing entities ("Investing VIEs") include subordinate first-loss tranches of securitization trusts, which represent interests in such VIEs. Investing VIEs are structured as pass through entities that receive principal and interest payments from the underlying debt collateral assets and distribute those payments to the securitization trust's certificate holders, including the most subordinate tranches of the securitization trust. Generally, a securitization trust designates the most junior subordinate tranche outstanding as the controlling class, which entitles the holder of the controlling class to unilaterally appoint and remove the special servicer for the trust, and as such may qualify as the primary beneficiary of the trust.

If it is determined that the Company is the primary beneficiary of an Investing VIE as a result of acquiring the subordinate first-loss tranches of the securitization trust, the Company would consolidate the assets, liabilities, income and expenses of the entire Investing VIE. The assets held by an Investing VIE are restricted and can only be used to fulfill its own obligations. The obligations of an Investing VIE have neither any recourse to the general credit of the Company as the consolidating parent entity of an Investing VIE, nor to any of the Company's other consolidated entities.

As of September 30, 2019, the Company held subordinate tranches of securitization trusts in two Investing VIEs for which the Company has determined it is the primary beneficiary because it has the power to direct the activities that most significantly impact the economic performance of the securitization trusts. The Company's subordinate tranches of the securitization trusts, which represent the retained interest and related interest income, are eliminated in consolidation. As a result, all of the assets, liabilities (obligations to the certificate holders of the securitization trusts, less the Company's retained interest from the subordinate tranches of the securitization trusts), income and expenses of the Investing VIEs are presented in the consolidated financial statements of the Company although the Company legally owns the subordinate tranches of the securitization trusts only. Regardless of the presentation, the Company's consolidated financial statements of operations ultimately reflect the net income attributable to its retained interest in the subordinate tranches of the securitization trusts. Refer to Note 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 are presented separately on the consolidated statements of operations, and the assets and liabilities of the Investing VIEs are separately presented as "Mortgage loans held in securitization trusts, at fair value" and "Mortgage obligations issued by securitization trusts, at fair value," respectively, on the consolidated balance sheets. Refer to Note 15, "Fair Value" for further discussion.

The Company has adopted guidance issued by the Financial Accounting Standards Board ("FASB"), allowing the Company to measure both the financial assets and liabilities of a qualifying collateralized financing entity ("CFE"), such as its Investing VIEs, using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable. A CFE is a VIE that holds financial assets, issues beneficial interests in those assets and has no more than nominal equity, and the beneficial interests have contractual recourse only to the related assets of the CFE. As the liabilities of the Company's Investing VIEs are marketable securities with observable trade data, their fair value is more observable and is referenced to determine fair value of the assets of its Investing VIEs. Refer to Note 15, "Fair Value" for further discussion.

Unconsolidated VIEs

As of September 30, 2019, the Company identified unconsolidated VIEs related to its securities investments, indirect interests in real estate through real estate private equity funds ("PE Investments") and CRE debt investments. Based on management's analysis, the Company determined that it is not the primary beneficiary of the above VIEs. Accordingly, the VIEs are not consolidated in the Company's financial statements as of September 30, 2019.

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, 2019 (dollars in thousands):

	Carrying Value	Maximum Exposure to Loss
Real estate securities, available for sale	$ 255,937	$ 234,543
Investments in unconsolidated ventures	449,033	516,578
Loans and preferred equity held for investment, net	69,569	69,569
Total assets	$ 774,539	$ 820,690

The Company did not provide financial support to the unconsolidated VIEs during the nine months ended September 30, 2019. As of September 30, 2019, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to the unconsolidated VIEs. The maximum exposure to loss of real estate securities, available for sale was determined as the amortized cost, which represents the purchase price of the investments adjusted by any unamortized premiums or discounts as of the reporting date. The maximum exposure to loss of investments in unconsolidated ventures and loans and preferred equity held for investment, net was determined as the carrying value plus any future funding commitments. Refer to Note 4, "Loans and Preferred Equity Held for Investment, net" and Note 17, "Commitments and Contingencies" for further discussion.

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)

Prior to the deconsolidation of the CLNY Investment Entities, noncontrolling interest as recorded in the CLNY Investment Entities combined financial statements consisted of interests in the held by third party joint ventures. Following the deconsolidation of the CLNY Investment Entities, the noncontrolling interest in the Company's consolidated financial statements additionally consists of Colony Capital ownership interests in joint ventures. These interests were previously classified as other owners in the CLNY Investment Entities combined financial statements, but have been reclassified to noncontrolling interests in the Company's consolidated financial statements.

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 Combination," 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.

Comprehensive Income (Loss)

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

Fair Value Measurement

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

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

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

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

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

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

Fair Value Option

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

The Company has elected the fair value option for PE Investments. The Company has also elected the fair value option to account for the eligible financial assets and liabilities of its consolidated Investing VIEs in order to mitigate potential accounting mismatches between the carrying value of the instruments and the related assets and liabilities to be consolidated. The Company has adopted 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

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

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

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

Cash and Cash Equivalents

Short-term, highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Company did not have any cash equivalents at September 30, 2019 or December 31, 2018. 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 collected is recognized on a cash basis by crediting income when received; or if ultimate collectability of loan and preferred equity principal is uncertain, interest collected is recognized using a cost recovery method by applying interest collected as a reduction to loan and preferred equity carrying value. Loans and preferred equity investments may be restored to accrual status when all principal and interest are current and full repayment of the remaining contractual principal and interest are reasonably assured.

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 three and nine months ended September 30, 2019, the Company recorded $110.3 million and $220.6 million of provision for loan losses, respectively. 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, through a provision and a charge-off against allowance for loan losses.

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") Arrangements

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

Operating Real Estate

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

Real Estate Held for Investment

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

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

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

Real Estate Assets	Term
Building (fee interest)	7 to 48 years
Building leasehold interests	Lesser of remaining term of the lease or remaining life of the building
Building improvements	Lesser of the useful life or remaining life of the building
Land improvements	1 to 15 years
Tenant improvements	Lesser of the useful life or remaining term of the lease
Furniture, fixtures and equipment	2 to 8 years

Impairment—The Company evaluates its real estate held for investment for impairment periodically or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company evaluates real estate for impairment generally on an individual property basis. If an impairment indicator exists, the Company evaluates the undiscounted future net cash flows that are expected to be generated by the property, including any estimated proceeds from the eventual disposition of the property. If multiple outcomes are under consideration, the Company may apply a probability-weighted approach to the impairment analysis. Based upon the analysis, if the carrying value of a property exceeds its undiscounted future net cash flows, an impairment loss is recognized for the excess of the carrying value of the property over the estimated fair value of the property. In evaluating and/or measuring impairment, the Company considers, among other things, current and estimated future cash flows associated with each property, market information for each sub-market, including, where applicable, competition levels, foreclosure levels, leasing trends, occupancy trends, lease or room rates, and the market prices of similar properties recently sold or currently being offered for sale, and other quantitative and qualitative factors. Another key consideration in this assessment is the Company's assumptions about the highest and best use of its real estate investments and its intent and ability to hold them for a reasonable period that would allow for the recovery of their carrying values. If such assumptions change and the Company shortens its expected hold period, this may result in the recognition of impairment losses. During the three and nine months ended September 30, 2019, the Company recorded $272.7 million and $282.8 million impairment loss on its operating real estate portfolio, respectively. 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

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

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

During the three months ended September 30, 2019, the Company classified several of its properties in its Legacy, Non-Strategic Portfolio as held for sale, in addition to one net leased property in its Core Portfolio previously classified as held for sale. See Note 7, "Real Estate, net and Real Estate Held for Sale", Note 18, "Segment Reporting" and Note 20, "Subsequent Events" for further detail.

Foreclosed Properties

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

Real Estate Securities

The Company classifies its CRE securities investments as available for sale on the acquisition date, which are carried at fair value. Unrealized gains (losses) are recorded as a component of accumulated OCI in the consolidated statements of equity. However, the Company has elected the fair value option for the assets and liabilities of its consolidated Investing VIEs, and as a result, any unrealized gains (losses) on the consolidated Investing VIEs are recorded in unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations. As of September 30, 2019, the Company held subordinate tranches of two securitization trusts, which represent the Company's retained interest in the securitization trusts, which the Company consolidates under U.S. GAAP. Refer to Note 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.

Investments in Unconsolidated Ventures

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

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

Equity Method Investments

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

At September 30, 2019 and December 31, 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 arrangements accounted for as equity method investments.

Impairment

Evaluation of impairment applies to equity method investments and equity investments under the measurement alternative. If indicators of impairment exist, the Company will first estimate the fair value of its investment. In assessing fair value, the Company generally considers, among others, the estimated enterprise value of the investee or fair value of the investee's underlying net assets, including net cash flows to be generated by the investee as applicable.

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

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

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

During the three and nine months ended September 30, 2019, the Company's equity in earnings of unconsolidated ventures included its $39.6 million and $48.4 million proportionate share of impairment, respectively, on three loans and two equity participation interests in joint ventures. See Note 5, "Investments in Unconsolidated Ventures" for further information.

Identifiable Intangibles

In a business combination or asset acquisition, the Company may recognize identifiable intangibles that meet either or both the contractual-legal criterion or the separability criterion. An indefinite-lived intangible is not subject to amortization until such time that its useful life is determined to no longer be indefinite, at which point, it will be assessed for impairment and its adjusted carrying amount amortized over its remaining useful life. Finite-lived intangibles are amortized over their useful life in a manner that reflects the pattern in which the intangible is being consumed if readily determinable, such as based upon expected cash flows; otherwise they are amortized on a straight line basis. The useful life of all identified intangibles will be periodically reassessed and if useful life changes, the carrying amount of the intangible will be amortized prospectively over the revised useful life.

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

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

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

Transfers of Financial Assets

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

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

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

Derivative Instruments and Hedging Activities

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

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

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

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

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

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

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

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 noncancellable term of the related lease which includes the effects of minimum rent increases and rent abatements under the lease. Rents received in advance are deferred.

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

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

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

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

Real Estate Securities

Interest income is recognized using the effective interest method with any premium or discount amortized or accreted through earnings based on expected cash flow through the expected maturity date of the security. 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 the balance sheet date and the corresponding results of operations for such entities are translated using the average exchange rate in effect during the period. The resulting foreign currency translation adjustments are recorded as a component of accumulated other comprehensive income or loss in stockholders’ equity. Upon sale, complete or substantially complete liquidation of a foreign subsidiary, or upon partial sale of a foreign equity method investment, the translation adjustment associated with the investment, or a proportionate share related to the portion of equity method investment sold, is reclassified from accumulated other comprehensive income or loss into earnings.

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

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

Equity-Based Compensation

Equity-classified stock awards granted to executive officers and both independent and non-independent directors are based on the closing price of the Class A common stock on the grant date and recognized on a straight-line basis over the requisite service period of the awards.

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

Earnings Per Share

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

Income Taxes

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

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

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

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

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

For the three months ended September 30, 2019 and 2018, the Company recorded income tax expense of $1.0 million and income tax benefit of $2.5 million, respectively. For the nine months ended September 30, 2019 and 2018, the Company recorded income tax expense of $0.5 million and income tax benefit of $2.8 million, respectively.

Reclassifications

The Company adopted ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, upon changing its status from an emerging growth company to a large accelerated filer at the beginning of fiscal year 2018. The Company adjusted the presentation of the cash flows retrospectively. The required retrospective application of this new standard resulted in changes to the previously reported statements of cash flow as follows:

	Nine Months Ended September 30, 2018	
(In thousands)	**As previously Reported**	**After Adoption of ASU 2016-18**
Net cash provided by operating activities	$ 59,855	$ 64,394
Net cash used in investing activities	(348,645)	(279,122)
Net cash provided by financing activities	319,919	319,919

The increase in net cash provided by investing activities is primarily due to restricted cash received in the Combination, net of deconsolidation of restricted cash of certain CLNY Investment Entities.

Accounting Standards Adopted in 2019

Leases—In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*, which amended lease accounting standards. ASU 2016-02, along with several clarifying amendments were codified in ASC Topic 842. The new standard primarily requires lessees to recognize their rights and obligations under most leases on balance sheet, to be capitalized as a right-of-use asset and a corresponding liability for future lease obligations. Targeted changes were made to lessor accounting, primarily to align to the lessee model and the new revenue recognition standard.

The Company adopted the new lease standard and related amendments on January 1, 2019 using the modified retrospective method to leases existing or commencing on or after January 1, 2019. The impact to beginning retained earnings is de minimis. Comparative periods have not been restated and continue to be reported under the standards in effect for those prior periods.

ASC 842 limits the definition of initial direct costs to only the incremental costs of obtaining a lease, such as leasing commissions, for both lessee and lessor accounting. Indirect costs such as allocated overhead, certain legal fees and negotiation costs are no longer capitalized under the new standard. The application of ASC 842 did not have a material impact on the statement of operations.

The Company applied the package of practical expedients, which exempts the Company 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 also elected the practical expedient related to land easements, allowing the Company to carry forward the accounting treatment for land easements on existing agreements. The Company did not, however, elect the hindsight practical expedient to determine the lease terms for existing leases.

Lessee Accounting—The Company determines if an arrangement contains a lease and determines the classification of leasing arrangements at inception. A leasing arrangement is classified by the lessee either as a finance lease, which represents a financed purchased of the leased asset, or as an operating lease. The Company's operating leases relate primarily to ground leases acquired with real estate. For these ground leases, the Company has elected the accounting policy to combine lease and related nonlease components as a single lease component.

Right-of-use assets and lease liabilities are recognized at the lease commencement date based upon the present value of lease payments over the lease term. The right-of-use assets also include capitalized initial direct costs offset by lease incentives. Variable lease payments are excluded from the right-of-use assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred. The Company does not have any variable lease payments. The Company made the accounting policy election to recognize lease payments from short-term leases on a straight-line basis over the lease term and will not record these leases on the balance sheet.

Lease renewal or termination options are factored into the lease asset and lease liability only if it is reasonably certain that the option to extend or the option to terminate would be exercised.

As the implicit rate is not readily determinable in most leases, the present value of the remaining lease payments was calculated for each lease using an estimated incremental borrowing rate, which is the interest rate that the Company would have to pay to borrow over the lease term on a collateralized basis.

Lease expense is recognized over the lease term based on an effective interest method for finance leases and on a straight-line basis for operating leases.

The Company recognized an operating lease right-of-use asset totaling $26.3 million in other assets and a corresponding operating lease liability totaling $26.3 million in accrued and other liabilities for ground leases in its real estate portfolio. There was no impact to beginning equity as a result of adoption related to lessee accounting as the difference between the asset and liability balance is attributable to the derecognition of pre-existing balances, including below-market ground lease obligations.

Lessor Accounting—The Company determines if an arrangement contains a lease and determines the classification of leasing arrangements at inception. The Company has operating leases with property tenants that expire at various dates through 2046 with renewal options typically exercised at the lessee's election. Therefore, such options are only recognized once they are deemed reasonably certain, typically at the time the option is exercised. Lease revenue is composed of rental income, which includes the effect of minimum rent increases and rent abatements, and tenant reimbursements, such as common area maintenance costs and other costs associated to the leases.

As lessor, the Company made the accounting policy election to treat the lease and nonlease components in a contract as a single component to the extent that the timing and pattern of transfer are similar for the lease and nonlease components and the lease component qualifies as an operating lease. Nonlease components of tenant reimbursements for net leases qualify for the practical expedient to be combined with their respective lease component and accounted for as a single component under the lease standard as the lease component is predominant.

Lease revenue is recognized on a straight-line basis over the remaining lease term and is included in property operating income on the consolidated statements of operations. The Company receives variable lease revenues from tenant reimbursements.

Under the new standard, lessors are required to evaluate the collectability of all lease payments based upon the creditworthiness of the lessee. Lease revenue is recognized only to the extent collection is determined to be probable. If collection is subsequently determined to no longer be probable, any previously accrued lease revenue that has not been collected is subject to reversal. If collection is subsequently determined to be probable, lease revenue and corresponding receivable would be reestablished to an amount that would have been recognized if collection had always been deemed to be probable. The impact to the Company’s financial condition and results of operations is de minimis on adoption of this standard.

Beginning January 1, 2019, the Company also made the accounting policy election to present on a net basis sales and similar taxes assessed by a governmental authority that is imposed on specific lease revenue producing transactions with related collections from lessees. Property taxes and insurance paid directly by lessees to third parties on behalf of the Company are no longer recognized in the statement of operations, while such amounts paid by the Company and reimbursed by lessees continue to be presented as gross property operating income and expenses.

Hedge Accounting—In August 2017, the FASB issued ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which simplifies and expands the application of hedge accounting. This standard amends hedge accounting recognition and presentation, including eliminating the requirement to separately measure and present hedge ineffectiveness as well as presenting the entire fair value change of a hedging instrument in the same income statement line as the hedged item. The new guidance also provides alternatives for applying hedge accounting to additional hedging strategies, and easing requirements for effectiveness testing and hedging documentation, although the "highly effective" threshold for a qualifying hedging relationship has not changed. Revised disclosures include tabular disclosures that focus on the effect of hedge accounting by income statement line item. Transition will generally be on a modified retrospective basis applied to existing hedging relationships as of date of adoption, with prospective application for income statement presentation and disclosure, and specific transition elections are available to modify existing hedge documentation.

The Company adopted the standard on its effective date of January 1, 2019. Upon adoption, as it relates to the Company's net investment hedges, the Company recorded the entire change in fair value of the hedging instrument (other than amounts excluded from assessment of hedge effectiveness for net investment hedges) in other comprehensive income and there was no hedge ineffectiveness recorded in earnings. Additionally, subsequent to initial quantitative hedge assessment, the Company may elect to perform effectiveness testing qualitatively so long as the Company can reasonably support an expectation that the hedge is highly effective now and in subsequent periods. As the standard allows more flexibility in hedging interest rate risk in cash flow hedges beyond a specified benchmark rate, the Company may be able to designate in the future other contractually specified variable interest rate as the hedged risk, which if effective, could decrease fluctuations in earnings. There was no impact to the Company's financial condition and results of operations on adoption of this standard.

Future Application of Accounting Standards

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 available-for-sale ("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. 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. The Company continues to develop its credit loss models and is in the process of testing these models and validating data inputs, while continuing to develop the policies, systems and controls that will be required for the implementation and ongoing management of CECL.

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 the balance sheet date, as well as the range and weighted average or other quantitative information, if more relevant, of significant unobservable inputs for recurring and nonrecurring Level 3 fair values. Certain 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.

Variable Interest Entities—In November 2018, the FASB issued ASU No. 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*. The ASU amends the VIE guidance to align the evaluation of a decision maker's or service provider's fee in assessing a variable interest with the guidance in the primary beneficiary test. Specifically, indirect interests held by a related party that is under common control will now be considered on a proportionate basis, rather than in their entirety, when assessing whether the fee qualifies as a variable interest. The proportionate basis approach is consistent with the treatment of indirect interests held by a related party under common control when evaluating the primary beneficiary of a VIE. This effectively means that when a decision maker or service provider has an interest in a related party, regardless of whether they are under common control, it will consider that related party's interest in a VIE on a proportionate basis throughout the VIE model, for both the assessment of a variable interest and the determination of a primary beneficiary. Transition is generally on a modified retrospective basis, with the cumulative effect adjusted to retained earnings at the beginning of the earliest period presented. ASU No. 2018-17 is effective for fiscal years and interim periods beginning after December 15, 2019, with early adoption permitted in an interim period for which financial statements have not been issued. The Company is currently evaluating the impact of this new guidance but does not expect the adoption of this standard to have a material effect on its financial condition or results of operations.

3. Business Combination

Business Combination

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

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 automatically converted 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 agreed that it and its affiliates would 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 funds from operations ("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 the final allocation of the Combination consideration to assets acquired, liabilities assumed and noncontrolling interests of NorthStar I and NorthStar II based on their respective fair values as of the Closing Date (dollars in thousands):

	Final Adjusted Amounts at December 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	792,999	494,324	1,287,323
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	18,666	24,401	43,067
Mortgage loans held in securitization trusts, at fair value	1,894,404	1,432,795	3,327,199
Total assets acquired	3,643,528	3,281,520	6,925,048
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	25,680	22,959	48,639
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	2,537,832	2,283,301	4,821,133
Noncontrolling interests	73,045	9,497	82,542
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 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.

Combination-Related Costs

Transaction costs of $0.7 million were incurred in connection with the Combination in the nine months ended September 30, 2019. No such costs were incurred in the three months ended September 30, 2019. 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. No fees were paid to investment banks that were contingent upon consummation of the Combination for the three and nine months ended September 30, 2019 or the three months ended September 30, 2018. 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.

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, 2019				December 31, 2018			
	Unpaid Principal Balance	Carrying Value	Weighted Average Coupon[1]	Weighted Average Maturity in Years	Unpaid Principal Balance	Carrying Value	Weighted Average Coupon[1]	Weighted Average Maturity in Years
Fixed rate								
Mezzanine loans	$ 224,597	$ 223,868	12.6%	4.4	$ 175,448	$ 174,830	12.7%	4.9
Preferred equity interests	115,973	115,877	12.5%	7.1	113,860	113,687	12.6%	7.7
Other loans[2]	11,333	11,197	15.0%	4.7	15,000	15,000	16.0%	0.5
	351,903	350,942			304,308	303,517		
Variable rate								
Senior loans	2,417,097	2,407,618	5.8%	4.2	1,432,416	1,430,635	6.3%	4.2
Securitized loans[3]	—	—	—%	0.0	302,868	305,106	7.9%	1.1
Mezzanine loans	40,698	40,845	11.1%	2.4	90,265	90,567	12.2%	2.0
	2,457,795	2,448,463			1,825,549	1,826,308		
	2,809,698	2,799,405			2,129,857	2,129,825		
Allowance for loan losses[4]	NA	(283,208)			NA	(109,328)		
Loans and preferred equity held for investment, net	$ 2,809,698	$ 2,516,197			$ 2,129,857	$ 2,020,497		

[1] Calculated based on contractual interest rate.
[2] Includes one corporate term loan secured by the borrower's limited partnership interests in a fund.
[3] Represents loans transferred into securitization trusts that are consolidated by the Company.
[4] At December 31, 2018, allowance for loan losses does not include $5.1 million of provision for loan loss associated with a receivable for operating expenses paid by the Company on the borrower's behalf in connection with four loans for which the Company took ownership of the underlying collateral in January 2019.

As of September 30, 2019, the weighted average maturity, including extensions, of loans and preferred equity investments was 4.3 years.

The Company had $8.6 million and $8.6 million of interest receivable related to its loans and preferred equity held for investment, net as of September 30, 2019 and December 31, 2018, respectively.

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, 2019	$ 2,020,497
Acquisitions/originations/additional funding	1,250,018
Loan maturities/principal repayments	(419,906)
Foreclosure of loans held for investment	(174,048)
Discount accretion/premium amortization	4,211
Capitalized interest	9,304
Change in allowance for loan loss	(173,879)
Balance at September 30, 2019	$ 2,516,197

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, 2019, 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 in its Legacy, Non-Strategic Portfolio failed to make all required interest payments and the loans were placed on nonaccrual status. These four loans are secured by the same collateral.

The Company believes ultimate sale of the underlying collateral and repayment of the loans from the sales proceeds is the most likely outcome. During 2018, the Company recorded $53.8 million of provision for loan losses to reflect the estimated value to be recovered from the borrower following a sale. During the three and nine months ended September 30, 2019, the Company recorded additional provision for loan loss of $50.0 million and $154.3 million, respectively, based on significant deterioration in the NY hospitality market, feedback from the sales process and the estimated value to be recovered from the borrower following a potential sale.

Within its Legacy, Non-Strategic Portfolio, the Company holds seven loans to five separate borrowers, all secured by regional malls. While these loans are current on interest payments and not in default of loan covenants, given the ongoing challenges and deterioration of the retail market, the Company has been monitoring the estimated fair value of each loan's underlying collateral. As a result, the Company has recognized the loan loss provisions where it does not expect full principal payment upon maturity, as follows:

- During 2018, the Company recorded $23.8 million of provision for loan losses for two separate borrowers on three of the Company's regional mall loans that are secured by two regional malls ("Northeast Regional Mall A" and "Northeast Regional Mall B") to reflect the estimated fair value of the collateral. In June 2019, the Company completed foreclosure proceedings on two loans secured by Northeast Regional Mall A with unpaid principal balances of $36.9 million. See Note 7, "Real estate, net and Real Estate Held for Sale" for further information.

- During the three and nine months ended September 30, 2019, the Company recognized additional provisions for loan loss of $6.5 million and $10.5 million, respectively, on Northeast Regional Mall B. The additional provisions are based on current and prospective leasing activity to reflect the estimated fair value of the collateral. Interest payments are current and the Company has been and is continuing to sweep all cash.

- Also, during three and nine months ended September 30, 2019, the Company separately recognized provisions for loan loss of $16.5 million and $18.5 million, respectively, on two loans secured by one regional mall ("West Regional Mall") to reflect the estimated fair value of the collateral. Interest payments are current and the Company has been and is continuing to sweep all cash.

- Furthermore, during the three months ended September 30, 2019, the Company recognized a $37.3 million provision for loan loss on four loans to three separate borrowers ("South Regional Mall A", "South Regional Mall B", and "Midwest Regional Mall") to reflect the estimated fair value of the collateral. Interest payments for South Regional Mall A, South Regional Mall B and Midwest Regional Mall are all current. The Company has been and is continuing to sweep all cash related to South Regional Mall A and South Regional Mall B.

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, 2019	$ 2,541,276	$ —	$ —	$ 258,129	$ 2,799,405
December 31, 2018	1,632,817	58,751	42,995	395,262	2,129,825

[1] At September 30, 2019, 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 $258.1 million on nonaccrual status. All other loans in this table remain current on interest payments.

Troubled Debt Restructuring

During the three and nine months ended September 30, 2019, there were no loans modified as TDRs.

At September 30, 2019, the Company did not have any TDR loans. At December 31, 2018, there was one mezzanine loan previously modified in a TDR with carrying value before allowance for loan losses of $28.6 million. At December 31, 2018, the Company also had three other loans with a combined carrying value before provision for loan loss of $108.5 million that are cross-collateralized with the TDR loan to the same borrower. All three loans were in default at December 31, 2018. All four loans were cross-collateralized with 28 office, retail, multifamily and industrial properties. The Company recorded a $31.7 million provision for loan loss on the four loans and an additional $5.1 million provision for loan loss associated with a receivable for operating expenses paid on behalf of the borrower during the year ended December 31, 2018.

The Company completed foreclosure proceedings under the mezzanine loan to take control of the 28 cross-collateralized properties in January 2019. To improve the operating performance of the 28 properties, the Company has engaged new property managers, working under the oversight of its asset management team. See Note 7 “Real Estate, net and Real Estate Held for Sale” for further discussion.

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, as well as loans in maturity default. 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[2]	Without Allowance for Loan Losses	Total[2]	Allowance for Loan Losses[3]
September 30, 2019	$ 392,109	$ 393,448	$ —	$ 393,448	$ 283,208
December 31, 2018	456,703	458,942	—	458,942	109,328

[1] At September 30, 2019, includes four loans to the same borrower and secured by the same collateral with combined unpaid principal balance of $257.2 million and gross carrying value of $258.1 million on nonaccrual status. All other loans included in this table remain current on interest payments.
[2] Includes unpaid principal balance plus any applicable exit fees less net deferred loan fees.
[3] At December 31, 2018, allowance for loan losses does not include $5.1 million of provision for loan loss associated with a receivable for operating expenses paid by the Company on the borrower’s behalf in connection with four loans for which the Company took possession of the underlying collateral in January 2019.

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,	
	2019	2018	2019	2018
Average carrying value before allowance for loan losses	$ 356,753	$ 480,547	$ 426,195	$ 407,835
Interest income	2,737	5,886	8,282	16,541

Allowance for Loan Losses

As of September 30, 2019, the allowance for loan losses was $283.2 million related to $393.4 million in carrying value of loans. As of December 31, 2018, the allowance for loan losses was $109.3 million related to $458.9 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,	
	2019	2018
Allowance for loan losses at beginning of period	$ 109,328	$ 517
Provision for loan losses	220,572	35,059
Charge-off	(46,692)	—
Recoveries	—	(517)
Allowance for loan losses at end of period	$ 283,208	$ 35,059

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, 2019, there were four loans to one borrower with contractual payments past due, which represent the NY hospitality loans in our Legacy, Non-Strategic Portfolio previously discussed. 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 13 loans held for investment with contractual payments past due as of December 31, 2018. For the nine months ended September 30, 2019, 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, 2019, assuming the terms to qualify for future fundings, if any, have been met, total unfunded lending commitments was $251.5 million. Refer to Note 17, "Commitments and Contingencies" for further details.

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, 2019	December 31, 2018
Equity method investments	$ 557,042	$ 742,186
Investments under fair value option	14,323	160,851
Investments in Unconsolidated Ventures	$ 571,365	$ 903,037

Equity Method Investments

Investment Ventures

Certain of the Company's equity method investments are structured as joint ventures with one or more private funds or other investment vehicles managed by Colony Capital with third party joint venture partners. These investment entities are generally capitalized through equity contributions from the members, although certain investments are leveraged through various financing arrangements.

The assets of the equity method investment entities may only be used to settle the liabilities of these entities and there is no recourse to the general credit of the Company nor the other investors for the obligations of these investment entities. Neither the Company nor the other investors are required to provide financial or other support in excess of their capital commitments. The Company's exposure to the investment entities is limited to its equity method investment balance as of September 30, 2019 and December 31, 2018, respectively.

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

		Carrying Value	
Investments	Description	September 30, 2019	December 31, 2018
ADC investments[(1)(2)]	Interests in four 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	$ 65,025	$ 165,823
Other investment ventures[(1)]	Interests in fifteen investments, each with less than $167.4 million carrying value at September 30, 2019	492,017	576,363

[(1)] The Company's ownership interest in ADC investments and other investment ventures varies and represents capital contributed to date and may not be reflective of the Company's economic interest in the entity because of provisions in operating agreements governing various matters, such as classes of partner or member interests, allocations of profits and losses, preferential returns and guaranty of debt. Each equity method investment has been determined to be a VIE for which the Company was not deemed to be the primary beneficiary or a voting interest entity in which the Company does not have the power to control through a majority of voting interest or through other arrangements.

[(2)] The Company owns varying levels of stated equity interests in certain ADC investments, as well as profit participation interests in real estate ventures without a stated ownership interest in other ADC investments.

Impairment

During the three and nine months ended September 30, 2019, the Company recognized its proportionate share of impairment loss totaling $5.9 million and $14.7 million, respectively on one senior loan secured by a regional mall ("Southeast Regional Mall") of which the Company owns 50.0% of the joint venture. Southeast Regional Mall is included in the Company's Legacy, Non-

Strategic Portfolio. The impairments recorded are a result of the ongoing deterioration of the retail market and reflect the estimated fair value of the collateral.

Also during the three months ended September 30, 2019, the Company recorded its proportionate share of impairment loss totaling $16.1 million on two loans and an equity partnership interest secured by residential development projects included in its Legacy, Non-Strategic Portfolio. The impairment losses are as a result of revised property sales expectations. The Company also recorded a $17.6 million impairment loss related to an equity participation interest in a joint venture, within its Core Portfolio, to reflect the estimated fair value of the collateral.

The impairment recorded on each of these investments is included in equity in earnings of unconsolidated ventures on the Company's consolidated statements of operations.

Investments under Fair Value Option

Private Funds

The Company elected to account for its limited partnership interests, which range from 0.1% to 22.0%, in PE Investments under the fair value option. The Company records equity in earnings for these investments based on a change in fair value of its share of projected future cash flows.

During the first quarter of 2019, the Company sold a portion of its PE Investments for $48.9 million and recognized a loss of $0.7 million, which is included in earnings from investments in unconsolidated ventures on the Company's consolidated statements of operations. During the three months ended March 31, 2019, the Company received $42.3 million in proceeds related to the sale of its PE Investments.

During the second quarter of 2019, the Company received $44.6 million in proceeds related to the sale of its PE Investments.

During the three months ended September 30, 2019, the Company received $38.4 million in proceeds related to the sale of its PE Investments. As of September 30, 2019, the Company has collectively received $139.8 million related to the sale of its PE Investments and expects to receive the remaining $1.9 million during the fourth quarter of 2019.

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, 2019 and December 31, 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, 2019	43	$ 292,284	$ (57,743)	$ 234,541	$ 21,757	$ (361)	$ 255,937	3.19%	7.12%
December 31, 2018	43	292,284	(62,772)	229,512	2,167	(3,494)	228,185	3.19%	7.10%

[1] CRE securities serve as collateral for financing transactions including carrying value of $254.1 million for the CMBS Credit Facilities (refer to Note 10). The remainder is unleveraged.
[2] All CMBS are fixed rate.

The Company recorded an unrealized gain in OCI of $5.1 million and $22.7 million for the three and nine months ended September 30, 2019 and an unrealized gain in OCI of $6.2 million and $3.3 million for the three and nine months ended September 30, 2018, respectively. As of September 30, 2019, the Company held one security with a carrying value of $8.3 million and an unrealized loss of $0.4 million, which was not in an unrealized loss position for a period of greater than 12 months. Based on management's quarterly evaluation, no OTTI was identified related to this security. The Company does not intend to sell this security and it is more likely than not that the Company will not be required to sell this security prior to recovery of its amortized cost basis, which may be at expected maturity.

As of September 30, 2019, the weighted average contractual maturity of CRE securities was 31.3 years with an expected maturity of 6.7 years.

The Company had $0.7 million and $0.8 million of interest receivable related to its real estate securities, available for sale as of September 30, 2019 and December 31, 2018, respectively.

Investments in Investing VIEs

The Company is the directing certificate holder of two securitization trusts and has the ability to appoint and replace the special servicer on all mortgage loans. As such, U.S. GAAP requires the Company to consolidate the assets, liabilities, income and expenses of the securitization trusts as Investing VIEs. Refer to Note 2, "Summary of Significant Accounting Policies" for further discussion on Investing VIEs.

In July 2019, the Company sold its retained investments in the subordinate tranches of one securitization trust for $33.4 million in total proceeds. As a result of the sale, the Company deconsolidated one of the securitization trusts with gross assets and liabilities of approximately $1.2 billion and $1.2 billion, respectively.

Other than the securities represented by the Company's subordinate tranches of the securitization trusts, the Company does not have any claim to the assets or exposure to the liabilities of the securitization trusts. The original issuers, who are unrelated third parties, guarantee the interest and principal payments related to the investment grade securitization bonds in the securitization trusts, therefore these obligations do not have any recourse to the general credit of the Company as the consolidator of the securitization trusts. The Company's maximum exposure to loss would not exceed the carrying value of its retained investments in the securitization trusts, or the subordinate tranches of the securitization trusts.

As of September 30, 2019, the mortgage loans and the related mortgage obligations held in the securitization trusts had an unpaid principal balance of $1.8 billion and $1.6 billion, respectively. As of December 31, 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, 2019, across the two consolidated securitization trusts, the underlying collateral consisted of 116 underlying commercial mortgage loans, with a weighted average coupon of 4.5% and a weighted average loan to value ratio of 56.8%.

The following table presents the assets and liabilities recorded on the consolidated balance sheets attributable to the securitization trust as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Assets		
Mortgage loans held in a securitization trust, at fair value	$ 1,904,003	$ 3,116,978
Receivables, net	6,939	13,178
Total assets	$ 1,910,942	$ 3,130,156
Liabilities		
Mortgage obligations issued by a securitization trust, at fair value	$ 1,793,435	$ 2,973,936
Accrued and other liabilities	6,281	12,233
Total liabilities	$ 1,799,716	$ 2,986,169

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 $110.6 million and $143.0 million as of September 30, 2019 and December 31, 2018, respectively, and approximates the fair value of the Company's retained investments in the subordinate tranches of the securitization trusts, which are eliminated in consolidation. Refer to Note 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, 2019 and 2018 generated from the Company's investments in the subordinate tranches of the securitization trusts (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018[1]
Statement of Operations				
Interest expense	$ (220)	$ —	$ (761)	$ —
Interest income on mortgage loans held in securitization trusts	22,586	39,261	99,718	104,622
Interest expense on mortgage obligations issued by securitization trusts	(20,299)	(36,294)	(91,690)	(97,031)
Net interest income	2,067	2,967	7,267	7,591
Administrative expense	(225)	(383)	(915)	(745)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	(1,976)	(939)	4,602	3,254
Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net	2,724	(549)	2,772	(2,752)
Net income attributable to Colony Credit Real Estate, Inc. common stockholders	$ 2,590	$ 1,096	$ 13,726	$ 7,348

[1] The net income attributable to the Company's stockholders for the nine months ended September 30, 2018, reflects only eight months of activity, as the Company's investments in the subordinate tranches of the securitization trusts were acquired from NorthStar I and NorthStar II in the Combination on February 1, 2018.

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, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Land and improvements	$ 207,896	$ 226,141
Buildings, building leaseholds, and improvements	891,178	1,010,339
Tenant improvements	23,682	24,060
Construction-in-progress	417	437
Subtotal	$ 1,123,173	$ 1,260,977
Less: Accumulated depreciation	(54,872)	(34,532)
Less: Impairment[1]	(23,911)	(7,094)
Net lease portfolio, net	$ 1,044,390	$ 1,219,351

[1] See Note 15, "Fair Value," for discussion of impairment of real estate.

The following table presents the Company's portfolio of other real estate, net, including foreclosed properties, as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Land and improvements	$ 118,762	$ 113,495
Buildings, building leaseholds, and improvements	627,364	627,612
Tenant improvements	39,566	24,001
Furniture, fixtures and equipment	7,369	17,910
Construction-in-progress	7,993	2,635
Subtotal	$ 801,054	$ 785,653
Less: Accumulated depreciation	(49,246)	(23,030)
Less: Impairment[1]	(227,516)	(22,284)
Other portfolio, net	$ 524,292	$ 740,339

[1] See Note 15, "Fair Value," for discussion of impairment of real estate.

For the nine months ended September 30, 2019, the Company had no single property with rental and other income equal to or greater than 10.0% of total revenue.

At September 30, 2019 and December 31, 2018, the Company held foreclosed properties which are included in real estate, net with a carrying value of $95.5 million and $128.8 million, respectively. At September 30, 2019, the Company held foreclosed properties in assets held for sale of $71.6 million.

Depreciation Expense

Depreciation expense on real estate was $18.1 million and $21.7 million for the three months ended September 30, 2019 and 2018, respectively. Depreciation expense on real estate was $58.7 million and $44.4 million for the nine months ended September 30, 2019 and 2018, respectively.

Property Operating Income

For the three months ended September 30, 2018, property operating income was composed of $47.3 million of total lease revenue and $4.3 million of hotel operating income, respectively. For the nine months ended September 30, 2018, property operating income was composed of $114.4 million of total lease revenue and $5.4 million of hotel operating income, respectively. For the three and nine months ended September 30, 2019, the components of property operating income were as follows (dollars in thousands):

	Three Months Ended September 30,	Nine Months Ended September 30,
	2019	2019
Lease revenues[1]		
Minimum lease revenue	$ 45,555	$ 135,198
Variable lease revenue	6,304	18,478
	$ 51,859	$ 153,676
Hotel operating income	10,802	35,324
	$ 62,661	$ 189,000

[1] Excludes net amortization income related to above and below-market leases of $0.8 million and $2.4 million for the three and nine months ended September 30, 2019, respectively.

For the three and nine months ended September 30, 2018, property operating income and property operating expense included $0.9 million and $2.6 million, respectively, of property taxes paid directly by lessees.

Minimum Future Rents

Minimum rental amounts due under leases are generally either subject to scheduled fixed increases or adjustments. The following table presents approximate future minimum rental income under noncancellable operating leases, excluding variable lease revenue of tenant reimbursements, to be received over the next five years and thereafter as of September 30, 2019 (dollars in thousands):

Remainder of 2019	$ 50,754
2020	121,331
2021	110,810
2022	100,087
2023	82,572
2024 and thereafter	512,371
Total[1]	$ 977,925

[1] Excludes minimum future rents for real estate that is classified as held for sale totaling $43.4 million through 2029, of which $3.2 million relates to the remainder of 2019.

The following table presents approximate future minimum rental income under noncancellable operating leases to be received over the next five years and thereafter as of December 31, 2018 (dollars in thousands):

2019	$ 113,525
2020	107,413
2021	98,343
2022	88,270
2023	73,257
2024 and thereafter	765,652
Total	$ 1,246,460

The rental properties owned at September 30, 2019 are leased under noncancellable operating leases with current expirations ranging from 2019 to 2046, with certain tenant renewal rights. For certain properties, the tenants pay the Company, in addition to the contractual base rent, their pro rata share of real estate taxes and operating expenses. Certain lease agreements provide for periodic rental increases and others provide for increases based on the consumer price index.

Commitments and Contractual Obligations

Ground Lease Obligation

In connection with real estate acquisitions, the Company assumed certain noncancellable operating ground leases as lessee or sublessee with expiration dates through 2050. Rents on certain ground leases are paid directly by the tenants. Ground rent expense for the three and nine months ended September 30, 2019 was approximately $0.8 million and $2.3 million respectively. Ground rent expense for the three and nine months ended September 30, 2018 was approximately $0.7 million and $2.1 million, respectively.

Refer to Note 17, "Commitments and Contingencies" for the details of future minimum rental payments on noncancellable ground lease on real estate as of September 30, 2019.

Real Estate Asset Acquisitions

The following table summarizes the Company's real estate asset acquisitions for the nine months ended September 30, 2019 and the year ended December 31, 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
Nine Months Ended September 30, 2019									
June	Retail - Massachusetts[3]	3	$ 21,919	$ 9,294	$ 6,598	$ —	$ 5,256	$ 1,538	$ (767)
January	Various - in U.S.[3]	28	105,437	38,145	66,413	—	879	3,223	(3,223)
			$ 127,356	$ 47,439	$ 73,011	$ —	$ 6,135	$ 4,761	$ (3,990)
Year Ended December 31, 2018									
July	Office - Norway[4]	26	$ 318,860	$ 60,510	$ 271,983	$ —	$ 25,287	$ —	$ (38,920)
August	Hotel - Dallas, TX[3]	1	75,663	8,216	61,580	3,947	465	2,023	(568)
August	Industrial - Various in U.S.[4]	2	292,000	66,844	189,105	—	36,051	—	—
September	Hotel - Pittsburgh, PA[3]	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 7 to 41 years for buildings, 1 to 15 years for site improvements, 15 to 20 years for tenant improvements, 2 to 3 years for furniture, fixtures and equipment, and 1 to 20 years for lease intangibles.
[3] Represents assets acquired by the Company through foreclosure.
[4] Represents net lease properties acquired by the Company.

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, 2019
Assets	
Real estate, net	$ 176,028
Deferred leasing costs and intangible assets, net	7,867
Total assets held for sale	$ 183,895
Liabilities	
Intangible liabilities, net	$ 5,487
Total liabilities related to assets held for sale	$ 5,487

During the three months ended September 30, 2019, the Company classified several properties in its net leased real estate and Legacy, Non-Strategic Portfolio segments as held for sale.

There were no assets held for sale that constituted discontinued operations as of September 30, 2019 and December 31, 2018.

8. Deferred Leasing Costs and Other Intangibles

The Company's deferred leasing costs, other intangible assets and intangible liabilities, excluding those related to assets held for sale, at September 30, 2019 and December 31, 2018 are as follows (dollars in thousands):

	September 30, 2019		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Deferred Leasing Costs and Intangible Assets			
In-place lease values	$ 119,069	$ (36,924)	$ 82,145
Deferred leasing costs	45,788	(13,255)	32,533
Above-market lease values	16,741	(6,760)	9,981
Other intangibles	905	(492)	413
	$ 182,503	$ (57,431)	$ 125,072
Intangible Liabilities			
Below-market lease values	$ 33,085	$ (9,169)	$ 23,916

	December 31, 2018		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Deferred Leasing Costs and Intangible Assets			
In-place lease values	$ 115,778	$ (27,120)	$ 88,658
Deferred leasing costs	39,130	(6,848)	32,282
Above-market lease values	16,203	(3,883)	12,320
Other intangibles	906	(134)	772
Below-market ground lease obligations[1]	52	(16)	36
	$ 172,069	$ (38,001)	$ 134,068
Intangible Liabilities			
Below-market lease values	$ 19,374	$ (4,278)	$ 15,096

[1] Upon adopting the standard of ASU No. 2016-02, *Leases* on January 1, 2019 the below-market ground lease obligations are included in right-of-use lease assets.

The following table summarizes the amortization of deferred leasing costs, intangible assets and intangible liabilities for the three and nine months ended September 30, 2019 and 2018 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Above-market lease values	$ (1,300)	$ (410)	$ (3,189)	$ (2,622)
Below-market lease values	2,130	1,116	5,612	3,102
Net increase (decrease) to property operating income	$ 830	$ 706	$ 2,423	$ 480
Below-market ground lease obligations[1]	$ —	$ 2	$ —	$ 6
Increase to property operating expense	$ —	$ 2	$ —	$ 6
In-place lease values	$ 5,468	$ 3,104	$ 16,922	$ 20,210
Deferred leasing costs	2,281	2,482	6,828	4,461
Other intangibles	120	15	359	15
Amortization expense	$ 7,869	$ 5,601	$ 24,109	$ 24,686

[1] Upon adopting the standard of ASU No. 2016-02, *Leases* on January 1, 2019 the below-market ground lease obligations are included in right-of-use lease assets.

The following table presents the amortization of deferred leasing costs, intangible assets and intangible liabilities, excluding those related to assets and liabilities held for sale, for each of the next five years and thereafter as of September 30, 2019 (dollars in thousands):

	Remainder of 2019	2020	2021	2022	2023	2024 and thereafter	Total
Above-market lease values	$ 1,859	$ 3,682	$ 2,014	$ 1,026	$ 607	$ 793	$ 9,981
Below-market lease values	(2,368)	(7,650)	(6,731)	(5,216)	(1,569)	(382)	(23,916)
Net increase (decrease) to property operating income	$ (509)	$ (3,968)	$ (4,717)	$ (4,190)	$ (962)	$ 411	$ (13,935)
In-place lease values	$ 4,827	$ 17,121	$ 12,287	$ 8,326	$ 5,106	$ 34,478	$ 82,145
Deferred leasing costs	3,121	7,215	5,977	4,534	3,078	8,608	32,533
Other intangibles	354	59	—	—	—	—	413
Amortization expense	$ 8,302	$ 24,395	$ 18,264	$ 12,860	$ 8,184	$ 43,086	$ 115,091

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

The following table presents a summary of restricted cash as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Restricted cash:		
Borrower escrow deposits	$ 87,349	$ 65,995
Margin pledged as collateral	22,303	7,567
Capital expenditure reserves	13,567	17,440
Real estate escrow reserves	11,011	7,304
Working capital and other reserves	4,424	2,905
Tenant lockboxes	895	5,642
Restricted cash of consolidated Securitization 2016-1	—	3,293
Total	$ 139,549	$ 110,146

The following table presents a summary of other assets as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Other assets:		
Right-of-use lease asset[1]	$ 25,263	$ —
Prepaid taxes and deferred tax assets	21,910	32,878
Derivative asset	10,237	14,139
Deferred financing costs, net - credit facilities	9,577	9,415
Prepaid expenses	6,583	5,574
Other assets	1,917	—
Investment deposits and pending deal costs	779	—
Total	$ 76,266	$ 62,006

[1] Upon adopting the standard of ASU No. 2016-02, *Leases* on January 1, 2019, the Company, as lessee of various ground leases, recognized right-of-use lease assets and corresponding liabilities for future obligations under lease arrangements on balance sheet.

The following table presents a summary of accrued and other liabilities as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Accrued and other liabilities:		
Current and deferred tax liability	$ 30,571	$ 36,730
Accounts payable, accrued expenses and other liabilities	26,966	29,151
Right-of-use lease liability[1]	25,251	—
Derivative liability	21,270	21,576
Prepaid rent and unearned revenue	16,431	6,042
Interest payable	14,570	10,481
Tenant security deposits	2,965	2,207
Total	$ 138,024	$ 106,187

[1] Upon adopting the standard of ASU No. 2016-02, *Leases* on January 1, 2019, the Company, as lessee of various ground leases, recognized right-of-use lease assets and corresponding liabilities for future obligations under lease arrangements on balance sheet.

10. Debt

The following table presents debt as of September 30, 2019 and December 31, 2018 (dollars in thousands):

					September 30, 2019		December 31, 2018	
	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	NA	NA	$ —	$ —	$ 25,549	$ 25,549
2014 FL2[3]		Non-recourse	NA	NA	—	—	18,320	18,320
Securitization 2016-1[3]		Non-recourse	NA	NA	—	—	37,503	37,503
Subtotal securitization bonds payable, net					—	—	81,372	81,372
Mortgage and other notes payable, net								
Net lease 6[4]		Non-recourse	Oct-27	4.45%	24,239	24,239	24,606	24,606
Net lease 5[5]		Non-recourse	Nov-26	4.45%	3,437	3,342	3,484	3,378
Net lease 4[5]		Non-recourse	Nov-26	4.45%	7,418	7,211	7,519	7,290
Net lease 3[5]		Non-recourse	Jun-21	4.00%	12,534	12,439	12,786	12,648
Net lease 6[5]		Non-recourse	Jul-23	LIBOR + 2.15%	1,765	1,720	2,078	2,024
Net lease 5[4]		Non-recourse	Aug-26	4.08%	31,960	31,667	32,378	32,054
Net lease 1[5][6]		Non-recourse	Nov-26	4.45%	18,663	18,143	18,917	18,342
Net lease 1[7]		Non-recourse	Mar-28	4.38%	12,275	11,799	12,434	11,920
Net lease 4[4]		Non-recourse	Apr-21[8]	LIBOR + 2.50%	74,916	74,792	73,702	73,696
Net lease 1[4]		Non-recourse	Jul-25	4.31%	250,000	246,874	250,000	246,522
Net lease 2[4][9]		Non-recourse	Jun-25	3.91%	176,096	178,593	184,320	186,934
Net lease 3[4]		Non-recourse	Sep-33	4.77%	200,000	198,501	200,000	198,449
Other real estate 4[5]		Non-recourse	Dec-23	4.84%	43,081	43,588	43,500	44,008
Other real estate 2[5]		Non-recourse	Dec-23	4.94%	42,594	43,027	43,000	43,501
Other real estate 8[5]		Non-recourse	Jan-24	5.15%	15,855	16,360	16,000	16,561
Other real estate 10[5][10]		Non-recourse	Dec-20	5.27%	11,804	11,999	11,964	12,228
Other real estate 9[5]		Non-recourse	Nov-26	3.98%	23,995	23,243	24,289	23,485
Other real estate 1[5]		Non-recourse	Oct-24	4.47%	108,850	109,653	108,850	109,779
Other real estate 3[5]		Non-recourse	Jan-25	4.30%	75,580	74,844	76,448	75,620
Other real estate 5[5]		Non-recourse	Apr-23	LIBOR + 4.00%	31,126	30,324	31,126	29,974
Other real estate 6[5][11]		Non-recourse	Apr-24	LIBOR + 2.95%	21,500	20,663	—	—
Loan 9[12]		Non-recourse	Jun-24	LIBOR + 3.00%	62,700	62,700	—	—
Subtotal mortgage and other notes payable, net					1,250,388	1,245,721	1,177,401	1,173,019
Bank credit facility								
Bank credit facility	$ 560,000	Recourse	Feb-23 [13]	LIBOR + 2.25%	158,500	158,500	295,000	295,000
Subtotal bank credit facility					158,500	158,500	295,000	295,000
Master repurchase facilities								
Bank 1 facility 3	$ 400,000	Limited Recourse[14]	Apr-23[15]	LIBOR + 1.88% [16]	231,550	231,550	143,400	143,400
Bank 2 facility 3	200,000	Limited Recourse[14]	Oct-22[17]	LIBOR + 2.50% [16]	22,750	22,750	22,750	22,750
Bank 3 facility 3	600,000	Limited Recourse[14]	Apr-21	LIBOR + 2.17% [16]	581,210	581,210	352,108	352,108
Bank 7 facility 1	500,000	Limited Recourse[14]	Apr-22[18]	LIBOR + 1.85% [16]	457,360	457,360	308,434	308,434
Bank 8 facility 1	250,000	Limited Recourse[14]	Jun-21[19]	LIBOR + 1.96% [16]	184,366	184,366	53,596	53,596

					September 30, 2019		December 31, 2018	
	Capacity ($)	Recourse vs. Non-Recourse[1]	Final Maturity	Contractual Interest Rate	Principal Amount[2]	Carrying Value[2]	Principal Amount[2]	Carrying Value[2]
Bank 9 facility 1	300,000	[20]	Nov-23[21]	LIBOR + 1.65% [16]	66,643	66,643	—	—
Subtotal master repurchase facilities	$ 2,250,000				1,543,879	1,543,879	880,288	880,288
CMBS credit facilities								
Bank 1 facility 1		Recourse	[22]	LIBOR + 1.16% [16]	20,394	20,394	18,542	18,542
Bank 1 facility 2		Recourse	[22]	LIBOR + 1.16% [16]	18,911	18,911	17,237	17,237
Bank 3 facility		Recourse	[22]	NA [23]	—	—	—	—
Bank 4 facility		Recourse	[22]	NA [23]	—	—	—	—
Bank 5 facility 1		Recourse	[22]	NA [23]	—	—	—	—
Bank 5 facility 2		Recourse	[22]	NA [23]	—	—	—	—
Bank 6 facility 1		Recourse	[22]	LIBOR + 1.27% [16]	82,967	82,967	80,838	80,838
Bank 6 facility 2		Recourse	[22]	LIBOR + 1.10% [16]	82,905	82,905	74,013	74,013
Subtotal CMBS credit facilities					205,177	205,177	190,630	190,630
Subtotal credit facilities					1,907,556	1,907,556	1,365,918	1,365,918
Total					$ 3,157,944	$ 3,153,277	$ 2,624,691	$ 2,620,309

[1] Subject to customary non-recourse carveouts.

[2] Difference between principal amount and carrying value of securitization bonds payable, net and mortgage and other notes payable, net is attributable to deferred financing costs, net and premium/discount on mortgage notes payable.

[3] The Company, through indirect Cayman subsidiaries, securitized commercial mortgage loans originated by the Company. Senior notes issued by the securitization trusts were generally sold to third parties and subordinated notes retained by the Company. These securitizations are accounted for as secured financing with the underlying mortgage loans pledged as collateral. Principal payments from underlying collateral loans must be applied to repay the notes until fully paid off, irrespective of the contractual maturities on the notes. Underlying collateral loans have initial terms of two to three years.

[4] Represents a mortgage note collateralized by an investment in the Company's Core Portfolio.

[5] Represents a mortgage note collateralized by an investment in the Company's Legacy, Non-Strategic Portfolio.

[6] Payment terms are periodic payment of principal and interest for debt on two properties and periodic payment of interest only with principal at maturity (except for principal repayments to release collateral properties disposed) for debt on one property.

[7] Represents a mortgage note collateralized by three properties in the Company's Legacy, Non-Strategic Portfolio.

[8] The current maturity of the mortgage payable is April 2020, with a one-year extension available at the Company's option, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.

[9] As of September 30, 2019, the outstanding principal of the mortgage payable was NOK 1.6 billion, which translated to $176.1 million.

[10] Represents two separate senior mortgage notes with a weighted average maturity of December 2020 and weighted average interest rate of 5.27%.

[11] The current maturity of the mortgage payable is April 2022, with two one-year extensions available at the Company's option, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.

[12] The current maturity of the note payable is June 2021, with three one-year extensions available at the Company's option, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents. The loan is included in the Company's Core Portfolio.

[13] The ability to borrow additional amounts terminates on February 1, 2022 at which time the Company may, at its election, extend the termination date for two additional six-month terms.

[14] Recourse solely with respect to 25.0% of the financed amount.

[15] 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.

[16] Represents the weighted average spread as of September 30, 2019. The contractual interest rate depends upon asset type and characteristics and ranges from one-month London Interbank Offered Rates ("LIBOR") plus 1.10% to 2.75%.

[17] The next maturity date is October 2019, with three one-year extension options available, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents. Subsequent to September 30, 2019, the maturity date was extended to October 2020.

[18] 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.

[19] 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.

[20] Recourse is either 25.0% or 50.0% depending on loan metrics.

[21] The next maturity date is November 2021, with two one-year extension options available, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.

[22] The maturity dates on the CMBS Credit Facilities are dependent upon asset type and will typically range from one to two months.

[23] CMBS Credit Facilities are undrawn and fully available.

Future Minimum Principal Payments

The following table summarizes future scheduled minimum principal payments at September 30, 2019 based on initial maturity dates or extended maturity dates to the extent criteria are met and the extension option is at the borrower's discretion (dollars in thousands):

	Total	Mortgage Notes Payable, Net[1]	Credit Facilities
Remainder of 2019	$ 205,821	$ 644	$ 205,177
2020	14,447	14,447	—
2021	855,011	89,435	765,576
2022	482,630	2,520	480,110
2023	575,913	119,220	456,693
2024 and thereafter	1,024,122	1,024,122	—
Total	$ 3,157,944	$ 1,250,388	$ 1,907,556

[1] Includes $51.7 million of future minimum principal payments related to assets held for sale.

Bank Credit Facility

On February 1, 2018, the Company, through subsidiaries, including the OP, entered into a credit agreement with several lenders to provide a revolving credit facility in the aggregate principal amount of up to $400.0 million (the "Bank Credit Facility"). On February 4, 2019, the aggregate amount of revolving commitments was increased to $560.0 million. The Bank Credit Facility will mature on February 1, 2022, unless the OP elects to extend the maturity date for up to two additional six-month terms.

The maximum amount available for borrowing at any time under the Bank Credit Facility is limited to a borrowing base valuation of certain investment assets, with the valuation of such investment assets generally determined according to a percentage of adjusted net book value. At September 30, 2019, the borrowing base valuation was sufficient to support the outstanding principal amount of $158.5 million.

Advances under the Bank Credit Facility accrue interest at a per annum rate equal to, at the applicable borrower's election, either a LIBOR rate plus a margin of 2.25%, or a base rate determined according to a prime rate or federal funds rate plus a margin of 1.25%. The Company pays a commitment fee of 0.25% or 0.35% per annum of the unused amount (0.35% at September 30, 2019), depending upon the amount of facility utilization.

Substantially all material wholly owned subsidiaries of the Company guarantee the obligations of the Company and any other borrowers under the Bank Credit Facility. As security for the advances under the Bank Credit Facility, the Company pledged substantially all equity interests it owns and granted a security interest in deposit accounts in which the proceeds of investment asset distributions are maintained.

The Bank Credit Facility contains various affirmative and negative covenants including financial covenants that require the Company to maintain minimum tangible net worth, liquidity levels and financial ratios, as specified in the Bank Credit Facility. At September 30, 2019, 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.

The Company had no securitization bonds payable, net outstanding as of September 30, 2019. In October 2019, the Company executed a securitization transaction, through wholly-owned subsidiaries, CLNC 2019-FL1, Ltd. and CLNC 2019-FL1, LLC (collectively, "CLNC 2019-FL1"), which resulted in the sale of $840 million of investment grade notes. The securitization reflects an advance rate of 83.5% at a weighted average cost of funds of LIBOR plus 1.59%, and is collateralized by a pool of 21 senior loans originated by the Company. See Note 20, "Subsequent Events", for further information.

Master Repurchase Facilities

As of September 30, 2019, the Company, through subsidiaries, had entered into repurchase agreements with multiple global financial institutions to provide an aggregate principal amount of up to $2.3 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, 2019, the Company was in compliance with all of its financial covenants under the Master Repurchase Facilities.

As of September 30, 2019, the Company had $2.1 billion carrying value of CRE debt investments financed with $1.5 billion under the master repurchase facilities.

CMBS Credit Facilities

As of September 30, 2019, the Company 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, 2019, the Company had $254.1 million carrying value of CRE securities financed with $182.1 million under its CMBS Credit Facilities. As of September 30, 2019, the Company had $41.7 million carrying value of underlying investments in the subordinate tranches of the securitization trusts financed with $23.1 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.

Subsequent to September 30, 2019, the Manager, the Company and the OP amended and restated the Management Agreement to modify the “Core Earnings” definition, providing that “unrealized provisions for loan losses and real estate impairments” shall only be applied as exclusions from the definition of Core Earnings if approved by a majority of the independent directors of the Company. Such change became effective during the fourth quarter 2019 and will result in a reduction to Core Earnings which thereby reduces the annual management fee and any incentive fee paid by the Company due to accumulated unrealized provisions for loan losses and real estate impairments to date.

Fees to Manager

Base Management Fee

The base management fee payable to the Manager is equal to 1.5% of the Company’s stockholders’ equity (as defined in the Management Agreement), per annum (0.375% per quarter), payable quarterly in arrears in cash. For purposes of calculating the base management fee, the Company’s stockholders’ equity means: (a) the sum of (1) the net proceeds received by the Company (or, without duplication, the Company’s direct subsidiaries, such as the OP) from all issuances of the Company’s or such subsidiaries’ common and preferred equity securities since inception (allocated on a pro rata basis for such issuances during the calendar quarter of any such issuance), plus (2) the Company’s cumulative Core Earnings (as defined in the Management Agreement) from and after the Closing Date to the end of the most recently completed calendar quarter, less (b)(1) any distributions to the Company’s common stockholders (or owners of common equity of the Company’s direct subsidiaries, such as the OP, other than the Company or any of such subsidiaries), (2) any amount that the Company or any of the Company’s direct subsidiaries, such as the OP, have paid to (x) repurchase for cash the Company’s common stock or common equity securities of such subsidiaries or (y) repurchase or redeem for cash the Company’s preferred equity securities or preferred equity securities of such subsidiaries, in each case since the Closing Date and (3) any incentive fee (as described below) paid to the Manager since the Closing Date.

For the three and nine months ended September 30, 2019, the total management fee expense incurred was $11.4 million and $34.1 million, respectively. For the three and nine months ended September 30, 2018, the total management fee expense incurred was $11.9 million and $31.7 million, respectively. As of September 30, 2019 and December 31, 2018, $11.4 million and $11.5 million, respectively, of unpaid management fee were included in due to related party in the Company’s consolidated balance sheets.

Incentive Fee

The incentive fee payable to the Manager is equal to the difference between (i) the product of (a) 20% and (b) the difference between (1) Core Earnings (as defined in the Management Agreement) for the most recent 12-month period (or the Closing Date if it has been less than 12 months since the Closing Date), including the current quarter, and (2) the product of (A) common equity (as defined in the Management Agreement) in the most recent 12-month period (or the Closing Date if it has been less than 12 months since the Closing Date), and (B) 7% per annum and (ii) the sum of any incentive fee paid to the Manager with respect to the first three calendar quarters of the most recent 12-month period (or the Closing Date if it has been less than 12 months since the Closing Date), provided, however, that no incentive fee is payable with respect to any calendar quarter unless Core Earnings (as defined in the Management Agreement) is greater than zero for the most recently completed 12 calendar quarters (or the Closing Date if it has been less than 12 calendar quarters since the Closing Date).

The Company did not incur any incentive fees during the three and nine months ended September 30, 2019 and 2018.

Reimbursements of Expenses

Reimbursement of expenses related to the Company incurred by the Manager, including legal, accounting, financial, due diligence and other services are paid on the Company’s behalf by the OP or its designee(s). The Company reimburses the Manager for the Company’s allocable share of the salaries and other compensation of the Company’s chief financial officer and certain of its affiliates’ non-investment personnel who spend all or a portion of their time managing the Company’s affairs, and the Company’s share of such costs are based upon the percentage of such time devoted by personnel of 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.

For the three and nine months ended September 30, 2019, the total reimbursements of expenses incurred by the Manager on behalf of the Company and reimbursable in accordance with the Management Agreement was $2.5 million and $8.1 million, respectively, and are included in administrative expense on the consolidated statements of operations. For the three and nine months ended September 30, 2018, the total reimbursements of expenses incurred by the Manager on behalf of the Company and reimbursable in accordance with the Management Agreement was $2.7 million and $6.9 million, respectively. As of September 30, 2019 and

December 31, 2018, there was $2.8 million and $3.5 million, respectively, of unpaid expenses included in due to related party in the Company's consolidated balance sheets.

Other Payables to Manager

Other payables to the Manager includes 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.

For the nine months ended September 30, 2019, there were no other payables to the Manager. For the nine months ended September 30, 2018, the other payables to Manager incurred was $2.9 million and the net liabilities assumed in the Combination was $6.4 million. Both of these were paid as of December 31, 2018.

Manager Equity Plan

In March 2019, the Company granted 800,000 shares to the Manager and/or employees thereof under the 2018 Equity Incentive Plan (the "2018 Plan"). In March 2018, the Company granted 978,946 shares to its non-independent directors, officers and the Manager and/or employees thereof under the 2018 Plan. 1,384,235 shares remain granted and unvested as of September 30, 2019. See Note 12, "Equity-Based Compensation" for further discussion on the 2018 Plan including shares issued to independent directors of the Company. In connection with these grants, the Company recognized share-based compensation expense of $2.8 million and $7.1 million to its Manager within administrative expense in the consolidated statement of operations for the three and nine months ended September 30, 2019, respectively. 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.

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. The Company's interest in both the underlying mezzanine loan and preferred equity investment is 31.8%, and the affiliate entities own the remaining 68.2%. Both the underlying mezzanine loan and preferred equity investment carry a fixed 12.9% interest rate. This investment is recorded in investments in unconsolidated ventures in the Company's consolidated balance sheets. In July 2019, the Company increased its commitment in the mezzanine loan from $101.8 million to $189.0 million. The Company's interest in the upsized mezzanine loan is 45.2% and it carries a fixed 12.9% interest rate. As of September 30, 2019, the Company had an unfunded commitment of $67.5 million remaining.

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.

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.

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.

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; (iii) restricted stock awards; (iv) stock units; (v) unrestricted stock awards; (vi) dividend equivalent rights; (vii) performance awards; (viii) annual cash incentive awards; (ix) long-term incentive units; and (x) other equity-based awards.

Shares subject to an award granted under the 2018 Plan will be counted against the maximum number of shares of Class A common stock available for issuance thereunder as one share of Class A common stock for every one share of Class A common stock subject to such an award. Shares subject to an award granted under the 2018 Plan will again become available for issuance under the 2018 Plan if the award terminates by expiration, forfeiture, cancellation, or otherwise without the issuance of such shares (except as set forth in the following sentence). The number of shares of Class A common stock available for issuance under the 2018 Plan will not be increased by (i) any shares tendered or withheld in connection with the purchase of shares upon exercise of a stock option, (ii) any shares deducted or delivered in connection with the Company's tax withholding obligations, or (iii) any shares purchased by the Company with proceeds from stock option exercises. The shares granted in May 2019 to the independent directors of the Company under the 2018 Plan vest in May 2020. Shares granted to non-independent directors, officers and the Manager under the 2018 Plan vest ratably in three annual installments.

The table below summarizes our awards granted, forfeited or vested under the 2018 Plan during the nine months ended September 30, 2019:

	Number of Shares		
	Restricted Stock	**Total**	**Weighted Average Grant Date Fair Value**
Unvested Shares at December 31, 2018	889,713	889,713	$ 19.39
Granted	831,910	831,910	15.53
Vested	(306,935)	(306,935)	19.39
Forfeited	(6,487)	(6,487)	19.39
Unvested shares at September 30, 2019	1,408,201	1,408,201	$ 17.11

Fair value of equity awards that vested during the nine months ended September 30, 2019, determined based on their respective fair values at vesting date, was $4.7 million. No equity awards vested during the nine months ended September 30, 2018. Fair value of granted awards is determined based on the closing price of the Class A common stock on the date of grant of the awards. Equity-based compensation is classified within administrative expense in the consolidated statement of operations. For awards granted during the nine months ended September 30, 2019 and 2018, the weighted average grant date fair value per share was $15.53 and $19.39, respectively.

At September 30, 2019, aggregate unrecognized compensation cost for all unvested equity awards was $18.9 million, which is expected to be recognized over a weighted-average period of 2.0 years.

13. Stockholders' Equity

Authorized Capital

As of September 30, 2019, the Company had the authority to issue up to 1.0 billion shares of stock, at $0.01 par value per share, consisting of 950.0 million shares of Class A common stock and 50.0 million shares of preferred stock. On February 1, 2019, the Class B-3 common stock automatically converted to Class A common stock and each unissued share of Class B-3 common stock was automatically reclassified as one share of Class A common stock.

The Company had no shares of preferred stock issued and outstanding as of September 30, 2019.

Dividends

During the nine months ended September 30, 2019, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Per Share
January 17, 2019	January 31, 2019	February 11, 2019	$0.145
February 15, 2019	February 28, 2019	March 11, 2019	$0.145
March 18, 2019	March 29, 2019	April 10, 2019	$0.145
April 15, 2019	April 30, 2019	May 10, 2019	$0.145
May 2, 2019	May 31, 2019	June 10, 2019	$0.145
June 17, 2019	June 30, 2019	July 10, 2019	$0.145
July 17, 2019	July 31, 2019	August 9, 2019	$0.145
August 1, 2019	August 31, 2019	September 10, 2019	$0.145
September 17, 2019	September 30, 2019	October 10, 2019	$0.145

Subsequent to September 30, 2019, the Company elected to modify its dividend policy. The Company will begin paying monthly cash dividends of $0.10 per share of Class A common stock beginning with the month ending November 30, 2019. See Note 20, "Subsequent Events", for further information.

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, 2020. Under the Stock Repurchase Program, the Company may repurchase shares in open market purchases, through tender offers or otherwise in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

As of September 30, 2019, the Company had not repurchased any shares under the Stock Repurchase Program.

Accumulated Other Comprehensive Income (Loss)

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

Changes in Components of AOCI - Stockholders

(in thousands)	Unrealized gain (loss) on real estate securities, available for sale	Unrealized gain on net investment hedges	Foreign currency translation gain (loss)	Total
AOCI at December 31, 2018	$ (1,295)	$ 11,037	$ (10,141)	$ (399)
Other comprehensive income (loss)	9,530	7,222	(3,233)	13,519
AOCI at March 31, 2019	8,235	18,259	(13,374)	13,120
Other comprehensive income	7,679	916	3,832	12,427
AOCI at June 30, 2019	15,914	19,175	(9,542)	25,547
Other comprehensive income (loss)	4,983	12,492	(14,107)	3,368
AOCI at September 30, 2019	$ 20,897	$ 31,667	$ (23,649)	$ 28,915

(in thousands)	Unrealized gain (loss) 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 loss	(1,848)	—	—	(1,848)
AOCI at March 31, 2018	(1,848)	—	—	(1,848)
Other comprehensive loss	(930)	—	—	(930)
AOCI at June 30, 2018	(2,778)	—	—	(2,778)
Other comprehensive income (loss)	6,046	(407)	(392)	5,247
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 (loss) on real estate securities, available for sale	Unrealized gain on net investment hedges	Foreign currency translation gain (loss)	Total
AOCI at December 31, 2018	$ (32)	$ 268	$ (246)	$ (10)
Other comprehensive income (loss)	228	173	(77)	324
AOCI at March 31, 2019	196	441	(323)	314
Other comprehensive income	184	22	91	297
AOCI at June 30, 2019	380	463	(232)	611
Other comprehensive income	119	299	(338)	80
AOCI at September 30, 2019	$ 499	$ 762	$ (570)	$ 691

(in thousands)	Unrealized gain (loss) 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	—	—	—	—
AOCI at March 31, 2018	—	—	—	—
Other comprehensive income (loss)	(67)	—	—	(67)
ACOI at June 30, 2018	(67)	—	—	(67)
Other comprehensive income	146	(9)	(10)	127
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 income (loss) attributable to the noncontrolling interests is based on the limited partners' ownership percentage of the OP. Net loss attributable to the noncontrolling interests of the OP was $8.5 million for the three months ended September 30, 2019 and $10.7 million for the nine months ended September 30, 2019. Net loss attributable to the noncontrolling interests of the OP 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, 2019 was $37.4 million and $38.6 million, respectively. 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, 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 either a valuation model using assumptions for the timing and amount of expected future cash flow for income and realization events for the underlying assets in the funds and discount rate, or pending sales prices, if applicable. This fair value measurement is generally based on unobservable inputs and, as such, is classified as Level 3 of the fair value hierarchy, unless the PE Investments are valued based on pending sales prices, which are classified as Level 2 of the fair value hierarchy. The Company considers cash flow and NAV information provided by general partners of the underlying funds ("GP NAV") and the implied yields of those funds in valuing its PE Investments. The Company also considers the values derived from the valuation model as a percentage of GP NAV, and compares the resulting percentage of GP NAV to precedent transactions, independent research, industry reports as well as pricing from executed purchase and sale agreements related to the disposition of its PE Investments. The Company may, as a result of that comparison, apply a mark-to-market adjustment. The Company has not elected the practical expedient to measure the fair value of its PE Investments using the NAV of the underlying funds.

Real Estate Securities

CRE securities are generally valued using a third-party pricing service or broker quotations. These quotations are not adjusted and are based on observable inputs that can be validated, and as such, are classified as Level 2 of the fair value hierarchy. Certain CRE securities may be valued based on a single broker quote 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.

Derivatives

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

Fair Value Hierarchy

Financial assets recorded at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table presents financial assets that were accounted for at fair value on a recurring basis as of September 30, 2019 and December 31, 2018 by level within the fair value hierarchy (dollars in thousands):

	September 30, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Investments in unconsolidated ventures - PE Investments	$ —	$ 2,593	$ 11,730	$ 14,323	$ —	$ —	$ 160,851	$ 160,851
Real estate securities, available for sale	—	255,937		255,937	—	228,185	—	228,185
Mortgage loans held in securitization trusts, at fair value	—	—	1,904,003	1,904,003	—	—	3,116,978	3,116,978
Other assets - derivative assets	—	10,237	—	10,237	—	14,139	—	14,139
Liabilities:								
Mortgage obligations issued by securitization trusts, at fair value	$ —	$ 1,793,435	$ —	$ 1,793,435	$ —	$ 2,973,936	$ —	$ 2,973,936
Other liabilities - derivative liabilities	—	21,270	—	21,270	—	6,042	—	6,042

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, 2019 and 2018 (dollars in thousands):

	Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018	
	Investments in unconsolidated ventures - PE Investments	Mortgage loans held in securitization trusts[1]	Investments in unconsolidated ventures - PE Investments	Mortgage loans held in securitization trusts[1]
Beginning balance	$ 160,851	$ 3,116,978	$ 24,417	$ —
Contributions[2]/purchases	151	—	247,668	3,327,199
Distributions/paydowns	(15,524)	(36,995)	(62,928)	(135,245)
Deconsolidation of securitization trust[3]	—	(1,239,627)		
Equity in earnings	—	—	21,709	—
Sale of investments	(48,930)	(39,848)	—	—
Transfers out of Level 3	(84,818)	—	—	—
Unrealized gain (loss) in earnings	—	100,723	(20,426)	(64,976)
Realized (loss) in earnings		2,772	—	(2,752)
Ending balance	$ 11,730	$ 1,904,003	$ 210,440	$ 3,124,226

[1] For the nine months ended September 30, 2019, unrealized gain of $100.7 million related to mortgage loans held in securitization trusts, at fair value was offset by unrealized loss of $96.1 million related to mortgage obligations issued by securitization trusts, at fair value.
[2] Includes initial investments, before distribution and contribution closing statement adjustments, and subsequent contributions, including deferred purchase price fundings.
[3] In July 2019, the Company sold its retained investments in the subordinate tranches of one securitization trust. As a result of the sale, the Company deconsolidated one of the securitization trusts. See Note 6, “Real Estate Securities, Available for Sale” for further information.

Transfers of assets into or out of Level 3 are presented at their fair values as measured at the end of the reporting period. Assets transferred out of Level 3 represent PE Investments that were valued based on their contracted sales price in March 2019.

As of September 30, 2019 and December 31, 2018, the Company utilized a discounted cash flow model, comparable precedent transactions and other market information to quantify Level 3 fair value measurements on a recurring basis. As of September 30, 2019 and December 31, 2018, the key unobservable inputs used in the analysis of PE Investments included discount rates with a range of 11.0% to 12.0% and 11.0% to 15.0%, respectively, and timing and amount of expected future cash flows. As of December 31, 2018, the Company applied additional mark-to-market adjustments based on a percentage of GP NAV with a weighted average of 11.2%. No additional mark-to-market adjustments were recorded as of September 30, 2019. As of September 30, 2019 and December 31, 2018, the key unobservable inputs used in the valuation of mortgage obligations issued by securitization trusts included yields ranging from 14.8% to 14.9% and 14.5% and 19.0%, respectively, and a weighted average life of 5.6 years and 5.4 years, respectively. Significant increases or decreases in any one of the inputs described above in isolation may result in significantly different fair value of the financial assets and liabilities using such Level 3 inputs.

For the nine months ended September 30, 2019, the Company recorded a realized loss associated with the sale of a portion of the Company’s PE Investments of $0.3 million. 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, 2019, the Company recorded a net unrealized loss of $2.0 million and a net unrealized gain of $4.6 million respectively, related to mortgage loans held in and mortgage obligations issued by securitization trusts, at fair value. 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 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, 2019, the Company recorded a $2.7 million and $2.8 million realized gain, respectively, on mortgage loans held in securitization trusts, at fair value, which represents the gain upon the sale of the Company’s retained interests in the subordinate tranches of one securitization trust. This amount is recorded as realized gain on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations.

Fair Value Option

The Company may elect to apply the fair value option of accounting for certain of its financial assets or liabilities due to the nature of the instrument at the time of the initial recognition of the investment. The Company elected the fair value option for PE Investments and eligible financial assets and liabilities of its consolidated Investing VIEs because management believes it is a more useful presentation for such investments. The Company determined recording the PE Investments based on the change in fair value of projected future cash flow from one period to another better represents the underlying economics of the respective investment. As of September 30, 2019 and December 31, 2018, 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, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019			December 31, 2018		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial assets:[1]						
Loans and preferred equity held for investment, net	$ 2,809,698 [2]	$ 2,516,197	$ 2,529,286	$ 2,129,857 [2]	$ 2,020,497	$ 2,025,216
Financial liabilities:[1]						
Securitization bonds payable, net	$ —	$ —	$ —	$ 81,372	$ 81,372	$ 81,372
Mortgage and other notes payable, net	1,250,388	1,245,721	1,250,647	1,177,401	1,173,019	1,177,669
Master repurchase facilities	1,907,556	1,907,556	1,907,556	1,365,918	1,365,918	1,365,918

[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 $251.5 million and $135.0 million as of September 30, 2019 and December 31, 2018, 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, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Real estate, net	$ —	$ —	$ 783,803	$ 783,803	$ —	$ —	$ 78,312	$ 78,312
Assets held for sale	—	—	69,419	69,419	—	—	—	—

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, 2019	Nine Months Ended September 30, 2019
Impairment of operating real estate	$ 272,722	$ 282,846

Real estate, net— Impaired real estate held for investment consisted of certain properties in the Company's net leased real estate segment in its Core Portfolio and Legacy, Non-Strategic Portfolio segments with substantially all of such impairment resulting from the reduction in the estimated holding period of the properties. Fair value of the impaired properties was 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, independent third party valuations and/or applying a terminal capitalization rate ranging from 3% to 14%. The Company recorded $23.9 million of impairment on its net leased real estate properties in its Core Portfolio during the three and nine months ended September 30, 2019, respectively. The Company recorded $224.0 million and $234.0 million of impairment on its Legacy, Non-Strategic Portfolio properties during the three and nine months ended September 30, 2019, respectively.

The Company previously recorded $7.1 million of impairment on a separate legacy, non-strategic property during the third quarter of 2018.

Real estate held for sale— Impaired real estate held for sale consisted of certain properties in the company's net leased real estate segment included in its Core Portfolio and Legacy, Non-Strategic Portfolio segments resulting from one or more changes including reduction in the estimated holding period of the properties, rent reductions and exposure to the retail market. Fair value of the impaired properties was 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/or applying a terminal capitalization rate ranging from 6% to 20%. The Company did not record impairment on its net leased real estate properties during the three and nine months ended September 30, 2019, respectively. The Company recorded $24.8 million and $25.0 million of impairment on its Legacy, Non-Strategic Portfolio properties during the three and nine months ended September 30, 2019, respectively.

See Note 7, "Real Estate, net and Real Estate Held for Sale" for further information.

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.

As of September 30, 2019 and December 31, 2018, fair value of derivative assets and derivative liabilities were as follows (dollars in thousands):

	September 30, 2019			December 31, 2018		
	Designated Hedges	Non-Designated Hedges	Total	Designated Hedges	Non-Designated Hedges	Total
Derivative Assets						
Foreign exchange contracts	$ 4,727	$ 5,508	$ 10,235	$ 11,312	$ 2,796	$ 14,108
Interest rate contracts	—	2	2	—	31	31
Included in other assets	$ 4,727	$ 5,510	$ 10,237	$ 11,312	$ 2,827	$ 14,139
Derivative Liabilities						
Foreign exchange contracts	$ —	$ (310)	$ (310)	$ (10)	$ —	$ (10)
Interest rate contracts	—	(20,960)	(20,960)	—	(6,032)	(6,032)
Included in accrued and other liabilities	$ —	$ (21,270)	$ (21,270)	$ (10)	$ (6,032)	$ (6,042)

As of September 30, 2019, counterparties held $22.1 million in cash collateral for the derivative contracts.

The following table summarizes the foreign exchange and interest rate contracts as of September 30, 2019:

		Notional Amount (in thousands)		
Type of Derivatives	Notional Currency	Designated	Non-Designated	Range of Maturity Dates
FX Forward	EUR	€ 165,330	€ —	December 2019 - June 2023
FX Forward	NOK	NOK 585,600	NOK 361,200	October 2019 - July 2023
Interest Rate Swap	USD	$ —	$ 403,945	April 2020 - 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, 2019 and 2018 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Other gain (loss), net				
Non-designated foreign exchange contracts	$ 2,016	$ 107	$ 2,394	$ 107
Non-designated interest rate contracts	(4,688)	(122)	(14,949)	(87)
	$ (2,672)	$ (15)	$ (12,555)	$ 20
Accumulated other comprehensive income (loss)				
Designated foreign exchange contracts	$ 12,791	$ (416)	$ 21,124	$ (416)
	12,791	(416)	21,124	(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, 2019 and 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.

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, 2019 and December 31, 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 Pledged	
September 30, 2019				
Derivative Assets				
Foreign exchange contracts	$ 10,235	$ (310)	$ —	$ 9,925
Interest rate contracts	2	(2)	—	—
	$ 10,237	$ (312)	$ —	$ 9,925
Derivative Liabilities				
Foreign exchange contracts	$ (310)	$ 310	$ —	$ —
Interest rate contracts	(20,960)	2	20,958	—
	$ (21,270)	$ 312	$ 20,958	$ —
December 31, 2018				
Derivative Assets				
Foreign exchange contracts	$ 14,108	$ (10)	$ —	$ 14,098
Interest rate contracts	31	—	—	31
	$ 14,139	$ (10)	$ —	$ 14,129
Derivative Liabilities				
Foreign exchange contracts	$ (10)	$ 10	$ —	$ —
Interest rate contracts	(6,032)	—	5,490	(542)
	$ (6,042)	$ 10	$ 5,490	$ (542)

17. Commitments and Contingencies

Lending Commitments

The Company has lending commitments to borrowers pursuant to certain loan agreements in which the borrower may submit a request for funding contingent on achieving certain criteria, which must be approved by the Company as lender, such as leasing, performance of capital expenditures and construction in progress with an approved budget. At September 30, 2019, assuming the terms to qualify for future fundings, if any, have been met, total unfunded lending commitments for loans and preferred equity held for investment was $200.6 million for senior loans, $2.5 million for corporate term loans and $48.4 million for mezzanine loans. Total unfunded commitments for equity method investments was $67.5 million.

Ground Lease Obligation

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

At September 30, 2019, the weighted average remaining lease terms were 15.6 years for ground leases.

For the three and nine months ended September 30, 2018, ground lease expense, including variable lease expense incurred, was $0.7 million and $2.1 million, respectively. The following table presents lease expense, included in property operating expense, for the three and nine months ended September 30, 2019 (dollars in thousands):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease expense:		
Minimum lease expense	$ 791	$ 2,335
Variable lease expense	—	—
	$ 791	$ 2,335

The operating lease liability was determined using a weighted average discount rate of 5.3%. The following table presents future minimum rental payments, excluding contingent rents, on noncancellable ground leases on real estate as of September 30, 2019 (dollars in thousands):

Remainder of 2019	$ 783
2020	3,132
2021	3,117
2022	3,144
2023	3,154
2024 and thereafter	25,088
Total lease payments	38,418
Less: Present value discount	13,167
Operating lease liability (Note 9)	$ 25,251

The following table presents future minimum rental payments, excluding contingent rents, on noncancellable ground leases on real estate as of December 31, 2018 (dollars in thousands):

2019	$ 2,821
2020	2,819
2021	2,804
2022	1,882
2023	1,388
2024 and thereafter	12,998
Total	$ 24,712

Litigation and Claims

The Company may be involved in the litigation and claims in the ordinary course of the business. As of September 30, 2019, the Company was not involved in any legal proceedings that are expected to have a material adverse effect on the Company's results of operations, financial position or liquidity.

18. Segment Reporting

Following the Combination, the Company conducted its business through the following five operating segments: the loan portfolio, CRE debt securities, net leased real estate, other, and corporate. The Company continually monitors and reviews its segment reporting structure in accordance with authoritative guidance to determine whether any changes have occurred that would impact our reportable segments.

During the third quarter of 2019, the Company realigned the business and reportable segment information to reflect how the Chief Operating Decision Makers ("CODM") regularly reviews and manages the business. As a result, effective for the quarter ended September 30, 2019, the Company presents its business segments as follows:

- Core Portfolio, which consists of the following four segments and remain unchanged from the prior segments:
    - Senior and Mezzanine Loans and Preferred Equity—CRE debt investments including senior mortgage loans, mezzanine loans, and preferred equity interests as well as participations in such loans. The segment also includes ADC loan arrangements accounted for as equity method investments.
    - CRE Debt Securities—investments in CMBS (including "B-pieces" of a CMBS securitization pool) or CRE CLOs (collateralized by pools of CRE debt investments).
    - Net Leased Real Estate—direct investments in commercial real estate with long-term leases to tenants on a net lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance, capital expenditures and real estate taxes.
    - Corporate—includes corporate-level asset management and other fees, related party and general and administrative expenses to the Core Portfolio only.
- Legacy, Non-Strategic Portfolio—segment consists of direct investments in operating real estate such as multi-tenant office and multifamily residential assets such as real estate acquired in settlement of loans ("REO") which the Company plans to exit. It also includes two portfolios of PE Investments and certain retail and other legacy loans originated prior to the Combination. This segment includes corporate-level asset management and other fees, related party and general and administrative expenses related to the Legacy, Non-Strategic Portfolio only.

There were no changes in the structure of the Company's internal organization that prompted the change in reportable segments. Prior period amounts have been revised to conform to the current year presentation shown below.

The Company primarily generates revenue from net interest income on the loan, preferred equity and securities portfolios, rental and other income from its net leased, hotel, multi-tenant office, and multifamily real estate assets, as well as equity in earnings of unconsolidated ventures, 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.

The following tables present segment reporting for the three months ended September 30, 2019 and 2018 (dollars in thousands):

	Core						
	Senior and MezzanineLoans and Preferred Equity	**CRE Debt Securities**	**Net Leased Real Estate**	**Corporate[1]**	**Total Core Portfolio**	**Legacy, Non-Strategic Portfolio**	**Total**
Three Months Ended September 30, 2019							
Net interest income (expense)	$ 21,295	$ 5,102	$ —	$ (2,363)	$ 24,034	$ 2,077	$ 26,111
Property and other income	209	200	28,316	369	29,094	35,218	64,312
Management fee expense	—	—	—	(9,084)	(9,084)	(2,271)	(11,355)
Property operating expense	—	—	(8,340)	—	(8,340)	(21,416)	(29,756)
Transaction, investment and servicing expense	(512)	(3)	(103)	(245)	(863)	(570)	(1,433)
Interest expense on real estate	—	—	(8,695)	—	(8,695)	(5,586)	(14,281)
Depreciation and amortization	—	—	(11,673)	—	(11,673)	(14,261)	(25,934)
Provision for loan losses	—	—	—	—	—	(110,314)	(110,314)
Impairment of operating real estate	—	—	(23,911)	—	(23,911)	(248,811)	(272,722)
Administrative expense	(312)	(244)	(78)	(3,537)	(4,171)	(3,561)	(7,732)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	215	—	(2,191)	(1,976)	—	(1,976)
Realized gain on mortgage loans and obligations held in securitization trusts, net	—	—	—	2,724	2,724	—	2,724
Other gain (loss), net	(15)	(4,683)	2,019	(3)	(2,682)	(6)	(2,688)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	20,665	587	(22,465)	(14,330)	(15,543)	(369,501)	(385,044)
Equity in earnings (loss) of unconsolidated ventures	2,736	—	—	—	2,736	(18,641)	(15,905)
Income tax expense	—	—	(201)	—	(201)	(845)	(1,046)
Net income (loss)	$ 23,401	$ 587	$ (22,666)	$ (14,330)	$ (13,008)	$ (388,987)	$ (401,995)
Three Months Ended September 30, 2018							
Net interest income (expense)	$ 13,089	$ 7,704	$ 2	$ (1,794)	$ 19,001	$ 10,957	$ 29,958
Property and other income	34	6	27,799	367	28,206	25,731	53,937
Management fee expense	—	—	—	(9,501)	(9,501)	(2,376)	(11,877)
Property operating expense	(2)	—	(8,261)	—	(8,263)	(12,954)	(21,217)
Transaction, investment and servicing expense	(412)	—	(40)	(1,283)	(1,735)	(1,896)	(3,631)
Interest expense on real estate	(9)	—	(8,066)	—	(8,075)	(5,266)	(13,341)
Depreciation and amortization	—	—	(19,774)	—	(19,774)	(10,764)	(30,538)
Provision for loan losses	—	—	—	—	—	(35,059)	(35,059)
Impairment of operating real estate	—	—	—	—	—	(29,378)	(29,378)
Administrative expense	(154)	(416)	(58)	(3,083)	(3,711)	(3,086)	(6,797)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	(1,834)	—	895	(939)	—	(939)
Realized loss on mortgage loans and obligations held in securitization trusts, net	—	(549)	—	—	(549)	—	(549)
Other gain (loss), net	—	(129)	108	—	(21)	6	(15)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	12,546	4,782	(8,290)	(14,399)	(5,361)	(64,085)	(69,446)
Equity in earnings (loss) of unconsolidated ventures	10,274	—	—	—	10,274	(1,950)	8,324
Income tax benefit (expense)	—	—	91	—	91	2,365	2,456
Net income (loss)	$ 22,820	$ 4,782	$ (8,199)	$ (14,399)	$ 5,004	$ (63,670)	$ (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, 2019 and September 30, 2018, $2.2 million and $0.9 million,

respectively, was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Corporate column.

The following tables present segment reporting for the nine months ended September 30, 2019 and 2018 (dollars in thousands):

	Core						
	Senior and MezzanineLoans and Preferred Equity	CRE Debt Securities	Net Leased Real Estate	Corporate[1]	Total Core Portfolio	Legacy, Non-Strategic Portfolio	Total
Nine Months Ended September 30, 2019							
Net interest income (expense)	$ 55,077	$ 15,856	$ 2	$ (7,674)	$ 63,261	$ 8,735	$ 71,996
Property and other income	450	341	88,067	371	89,229	103,595	192,824
Management fee expense	—	—	—	(27,256)	(27,256)	(6,814)	(34,070)
Property operating expense	—	—	(25,187)	—	(25,187)	(60,889)	(86,076)
Transaction, investment and servicing expense	(1,325)	(4)	(208)	301	(1,236)	(1,777)	(3,013)
Interest expense on real estate	—	—	(26,078)	—	(26,078)	(15,708)	(41,786)
Depreciation and amortization	—	—	(37,645)	—	(37,645)	(45,208)	(82,853)
Provision for loan losses	—	—	—	—	—	(220,572)	(220,572)
Impairment of operating real estate	—	—	(23,911)	—	(23,911)	(258,935)	(282,846)
Administrative expense	(614)	(979)	(178)	(10,206)	(11,977)	(10,418)	(22,395)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	6,035	—	(1,433)	4,602	—	4,602
Realized gain on mortgage loans and obligations held in securitization trusts, net	—	48	—	2,724	2,772	—	2,772
Other gain (loss), net	(15)	(14,909)	2,399	1	(12,524)	(1,305)	(13,829)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	53,573	6,388	(22,739)	(43,172)	(5,950)	(509,296)	(515,246)
Equity in earnings (loss) of unconsolidated ventures	39,020	—	—	—	39,020	(21,058)	17,962
Income tax benefit (expense)	(12)	—	1,822	(382)	1,428	(1,972)	(544)
Net income (loss)	$ 92,581	$ 6,388	$ (20,917)	$ (43,554)	$ 34,498	$ (532,326)	$ (497,828)
Nine Months Ended September 30, 2018							
Net interest income (expense)	$ 44,872	$ 18,406	$ 3	$ (3,897)	$ 59,384	$ 31,014	$ 90,398
Property and other income	182	19	56,675	903	57,779	65,079	122,858
Management fee expense	—	—	—	(25,334)	(25,334)	(6,334)	(31,668)
Property operating expense	10	—	(16,423)	—	(16,413)	(32,773)	(49,186)
Transaction, investment and servicing expense	(1,149)	—	(40)	(34,830)	(36,019)	(2,193)	(38,212)
Interest expense on real estate	(175)	—	(16,301)	—	(16,476)	(12,971)	(29,447)
Depreciation and amortization	—	—	(37,901)	—	(37,901)	(34,788)	(72,689)
Provision for loan loss	—	—	—	—	—	(34,542)	(34,542)
Impairment of operating real estate	—	—	—	—	—	(29,378)	(29,378)
Administrative expense	(413)	(817)	(62)	(7,774)	(9,066)	(7,843)	(16,909)
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	—	655	—	2,599	3,254	—	3,254
Realized loss on mortgage loans and obligations held in securitization trusts, net	—	(2,752)	—	—	(2,752)	—	(2,752)
Other gain (loss), net	—	(128)	108	—	(20)	480	460
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	43,327	15,383	(13,941)	(68,333)	(23,564)	(64,249)	(87,813)
Equity in earnings of unconsolidated ventures	25,749	—	—	—	25,749	14,024	39,773
Income tax benefit	—	—	91	—	91	2,756	2,847
Net income (loss)	$ 69,076	$ 15,383	$ (13,850)	$ (68,333)	$ 2,276	$ (47,469)	$ (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, 2019 and September 30, 2018, $1.4 million and $2.6 million,

respectively, was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Corporate column.

The following table presents total assets by segment as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	Core						
Total Assets	Senior and Mezzanine Loans and Preferred Equity[1]	CRE Debt Securities	Net Leased Real Estate	Corporate[2]	Total Core Portfolio	Legacy, Non-Strategic Portfolio[3]	Total
September 30, 2019	$ 2,894,232	$ 2,267,596	$ 1,254,172	$ (61,122)	$ 6,354,878	$ 1,088,979	$ 7,443,857
December 31, 2018	2,111,443	3,507,404	1,313,220	(70,600)	6,861,467	1,799,263	8,660,730

[1] Includes investments in unconsolidated ventures totaling $557.0 million and $742.2 million as of September 30, 2019 and December 31, 2018, respectively.
[2] Includes cash, unallocated receivables, deferred costs and other assets, net and the elimination of the subordinate tranches of the securitization trusts in consolidation.
[3] Includes PE Investments totaling $14.3 million and $160.9 million as of September 30, 2019 and December 31, 2018, respectively.

Geography

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total income by geography:				
United States	$ 105,826	$ 135,743	$ 400,864	$ 373,458
Europe	12,161	5,559	37,080	5,559
Other	(3)	359	32	1,309
Total[1]	$ 117,984	$ 141,661	$ 437,976	$ 380,326

	September 30, 2019	December 31, 2018
Long-lived assets by geography:		
United States	$ 1,386,138	$ 1,764,247
Europe	307,616	329,511
Total[2]	$ 1,693,754	$ 2,093,758

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

19. Earnings Per Share

The Company's net income (loss) and weighted average shares outstanding for the three and nine months ended September 30, 2019 and 2018 and consist of the following (dollars in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss)	$ (401,995)	$ (58,666)	$ (497,828)	$ (45,193)
Net (income) loss attributable to noncontrolling interests:				
Investment Entities	37,445	4,688	38,623	2,788
Operating Partnership	8,519	1,275	10,741	996
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	$ (356,031)	$ (52,703)	$ (448,464)	$ (41,409)
Numerator:				
Net income allocated to participating securities (nonvested shares)	$ (616)	$ (436)	$ (1,709)	$ (1,019)
Net income (loss) attributable to common stockholders	$ (356,647)	$ (53,139)	$ (450,173)	$ (42,428)
Denominator:				
Weighted average shares outstanding[1][2]	128,541	127,887	128,341	118,252
Net (loss) per common share - basic and diluted[2]	$ (2.77)	$ (0.42)	$ (3.51)	$ (0.36)

[1] For earnings per share, the Company assumes 44.4 million shares of Class B-3 common stock were outstanding prior to January 31, 2018 to reflect the standalone pre-merger financial information of the CLNY Investment Entities, the Company's predecessor for accounting purposes. On February 1, 2019, the Class B-3 common stock automatically converted to Class A common stock on a one-for-one basis.

[2] Excludes 3,075,623 CLNC OP Units, which are redeemable for cash, or at the Company's option, shares of Class A common stock on a one-for-one basis, and therefore would not be dilutive.

20. Subsequent Events

Dividends

On October 17, 2019, the Company's board of directors declared a monthly cash dividend of $0.145 per share of Class A common stock for the month ended October 31, 2019. The common stock dividend will be paid on November 12, 2019 to stockholders of record on October 31, 2019. These distributions represent an annualized dividend of $1.74 per share of Class A common stock.

Subsequent to September 30, 2019, the Company elected to modify its dividend policy in furtherance of its portfolio bifurcation plan, to issue a monthly dividend that is fully covered by and positioned for growth based on the Company's Core Earnings on its Core Portfolio. Therefore, the Company's board of directors declared a monthly cash dividend of $0.10 per share of Class A common stock for: (i) the month ending November 30, 2019, which will be paid on December 10, 2019 to stockholders of record on November 30, 2019 and (ii) the month ending December 31, 2019, which will be paid on January 10, 2020 to stockholders of record on December 31, 2019.

Investments

Subsequent to September 30, 2019, the Company originated one senior loan with a total commitment of $84.0 million and a spread of 3.4% plus LIBOR.

CLNC 2019-FL1 Securitization Transaction

Subsequent to September 30, 2019, the Company executed a securitization transaction through wholly-owned subsidiaries, CLNC 2019-FL1, Ltd. and CLNC 2019-FL1, LLC (collectively, "CLNC 2019-FL1"), which resulted in the sale of $840 million of investment grade notes. The securitization reflects an advance rate of 83.5% at a weighted average cost of funds of LIBOR plus 1.59%, and is collateralized by a pool of 21 senior loans originated by the Company. In connection with this transaction, the Company repaid $770 million of debt on its Master Repurchase Facilities.

Management Agreement

Subsequent to quarter end, the Manager, the Company and the OP amended and restated the Management Agreement to modify the “Core Earnings” definition, providing that “unrealized provisions for loan losses and real estate impairments” shall only be applied as exclusions from the definition of Core Earnings if approved by a majority of the independent directors of the Company. Such change became effective during the fourth quarter 2019 and will result in a reduction to Core Earnings which thereby reduces the annual management fee and any incentive fee paid by the Company due to accumulated unrealized provisions for loan losses and real estate impairments to date.

Colony Capital, Inc. Internalization Discussions with the Company

On November 6, 2019, Thomas J. Barrack, Jr., the Executive Chairman and Chief Executive Officer of Colony Capital delivered a non-binding letter to the independent directors of the Company seeking to explore with the Company the possible internalization of the management of the Company and a transfer of Colony Capital’s credit management business to the Company. The letter sets forth the main components of a possible internalization, which may include one or more of the following: (i) the internalization of Colony Capital’s credit management business, which may include key senior management, into the Company via cancellation of the Company’s management agreement and the possible contribution to the Company by Colony Capital of the management contracts of some or all of Colony Capital’s existing direct credit funds and the management of related investment and co-investment general partner vehicles, (ii) entering into a new management agreement pursuant to which the Company would manage certain existing credit investments that would continue to be held by Colony Capital, (iii) the continuation of the Company’s non-exclusive right to use the Colony Capital brand for credit investments for a period of time to be agreed upon by the parties, and/or (iv) certain changes in the Company’s board of directors and management. The letter provides that an internalization would be subject to, among other things, the negotiation of terms and definitive documentation and approval of the boards of directors of the Company and Colony Capital (or an authorized committee thereof in each case).

There can be no assurance that the Company and Colony Capital will reach an agreement with respect to an internalization or any of the other matters described in the letter, that the nature or terms of an internalization or any such other matters will not differ from the description in the letter, or that an internalization or any such other matters will be completed. The Company does not undertake any obligation to provide updates with respect to the letter or any such other matters or the status thereof.

On November 7, 2019, Colony Capital filed the letter with the U.S. Securities and Exchange Commission on Schedule 13D.

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, 2018, which is accessible on the SEC's website at www.sec.gov.

Introduction

We are a commercial real estate ("CRE") credit real estate investment trust ("REIT") focused on originating, acquiring, financing and managing a diversified portfolio consisting primarily of CRE debt investments, CRE 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 ("CLNY"), 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 us. We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, beginning with our taxable year ended December 31, 2018. We conduct all of our activities and hold substantially all of our assets and liabilities through our operating subsidiary, Credit RE Operating Company, LLC (the "OP"). At September 30, 2019, we owned 97.7% of the OP, as its sole managing member. The remaining 2.3% is owned primarily by our affiliate as noncontrolling interests.

We are externally managed by a subsidiary of Colony Capital, a NYSE-listed global real estate and investment management firm with over $22 billion of total consolidated assets and over $53 billion of assets under management. As of September 30, 2019, Colony Capital owned approximately 36.5% 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 CRE 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 Combination" to the Consolidated Financial Statements included in Item 1 of this Quarterly Report for further information related to the Combination.

Our Manager

We are externally managed by our manager, CLNC Manager, LLC (our "Manager"). Our Manager is a subsidiary of Colony Capital and benefits from the expertise and resources 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 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, although Colony Capital has not been immune to national and local economic trends that are unrelated to its management of assets. Colony Capital's successful history of external management includes its previous management of Colony Financial, Inc., an externally managed commercial mortgage REIT listed on the NYSE that focused on secondary loan acquisitions, high-yielding originations and real estate equity and its management of various non-traded REITs (previously including NorthStar I and NorthStar II) and registered investment companies.

Colony Capital is headquartered in Los Angeles, with key offices in Boca Raton, New York, Paris and London, and has over 450 employees across 21 locations in 13 countries. 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 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 26-year veteran of Colony Capital, serves as our Chief Executive Officer and President, and Neale W. Redington, a 11-year veteran of Colony Capital, serves as our Chief Financial Officer and Treasurer. In addition, supporting our business, David A. Palamé, a 12-year veteran of Colony Capital, serves as our General Counsel and Secretary, and Frank V. Saracino, a five-year veteran of Colony Capital, serves as our Chief Accounting Officer.

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 18, “Segment Reporting” in Item 1. “Financial Statements” 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.

Our Business Segments

Following the Combination, we conducted our business through the following five operating segments: the loan portfolio, CRE debt securities, net leased real estate, other, and corporate. We continually monitor and review our segment reporting structure in accordance with authoritative guidance to determine whether any changes have occurred that would impact our reportable segments.

During the third quarter of 2019, we realigned the business and reportable segment information to reflect how the Chief Operating Decision Makers ("CODM") regularly review and manage the business. As a result, effective for the quarter ended September 30, 2019, we present our business segments as follows:

- Core Portfolio, which consists of the following four segments and remain unchanged from the prior segments:
  - Senior and Mezzanine Loans and Preferred Equity—CRE debt investments including senior mortgage loans, mezzanine loans, and preferred equity interests as well as participations in such loans. The segment also includes acquisition, development and construction ("ADC") arrangements accounted for as equity method investments.
  - CRE Debt Securities—investments in CMBS (including "B-pieces" of a CMBS securitization pool) or CRE CLOs (collateralized by pools of CRE debt investments).
  - Net Leased Real Estate—direct investments in commercial real estate with long-term leases to tenants on a net lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance, capital expenditures and real estate taxes.
  - Corporate—includes corporate-level asset management and other fees including expenses related to our secured revolving credit facility, related party and general and administrative expenses to the Core Portfolio only.
- Legacy, Non-Strategic Portfolio—segment consists of direct investments in operating real estate such as multi-tenant office and multifamily residential assets such as real estate acquired in settlement of loans ("REO") which we plan to exit. It also includes two portfolios of PE Investments and certain retail and other legacy loans originated prior to the Combination. This segment also includes corporate-level asset management and other fees including expenses related to secured revolving credit facility, related party and general and administrative expenses related to the Legacy, Non-Strategic Portfolio only.

There were no changes in the structure of our internal organization that prompted the change in reportable segments. Prior year amounts have been revised to conform to the current year presentation.

Accordingly, we realigned the discussion and analysis of our portfolio and results of operations to reflect these reportable segments. Refer to Note 18, "Segment Reporting" in Item 1. "Financial Statements" for further discussion of our operating segments.

Significant Developments - Core Portfolio

During the three months ended September 30, 2019 and through November 7, 2019, significant developments affecting our business and results of operations of our Core Portfolio included the following:

- Generated GAAP net loss of $1.5 million, or a loss of $0.01 per share and Core Earnings of $44.7 million, or $0.34 per share;
- Originated six senior mortgage loans with a total commitment of $323.6 million; upsized our position in an existing senior mortgage loan by $15.0 million and a mezzanine loan by $87.2 million; and originated two mezzanine loans with a total commitment of $60.2 million;

- Recorded $23.9 million of impairment related to a portfolio of net lease real estate due to a reduction in the estimated holding period and $17.6 million related to our share of an equity participation in a joint venture;
- Sold a CMBS B-piece at a premium to March 31, 2019 fair market value, which resulted in approximately $33 million in net proceeds;
- Subsequent to September 30, 2019, executed a securitization transaction through wholly-owned subsidiaries, CLNC 2019-FL1 Ltd. and CLNC 2019-FL1, LLC (collectively, “CLNC 2019-FL1”), which resulted in the sale of $840 million of investment grade notes. The securitization reflects an advance rate of 83.5% at a weighted average cost of funds of LIBOR plus 1.59%, and is collateralized by a pool of 21 senior loans originated by us. In connection with this transaction, we repaid $770 million of debt on the Master Repurchase Facilities;
- Subsequent to September 30, 2019, executed a purchase and sale agreement for the sale of an owned hotel asset with a book value of approximately $72 million. Closing is expected during the fourth quarter of 2019 with capital to be recycled into target investments in the Core Portfolio.

Significant Developments - Legacy, Non-Strategic Portfolio

During the three months ended September 30, 2019 and through November 7, 2019, significant developments affecting our business and results of operations of our Legacy, Non-Strategic Portfolio included the following:

- Generated GAAP net loss of $354.5 million, or a loss of $2.76 per share and Legacy, Non-Strategic Earnings loss of $120.3 million, or a loss of $0.91 per share;
- Received $38.4 million in cash proceeds in connection with the sales of our PE Investments, which brings the total proceeds received to date to $139.8 million or 99% of the total to be received;
- Recorded $110.3 million of provision for loan losses on 11 loans to six separate borrowers, the majority of which are collateralized by retail properties;
- Recognized our proportionate share of an impairment loss on investments held in various joint ventures, including two senior loans and a mezzanine loan and an equity participation interest in a residential development project held in a joint venture totaling $22.0 million;
- Impairment of our operating real estate due to our plan to exit certain investments, resulting in a reduction in the estimated holding period of certain properties of $248.8 million;
- Classified various operating real estate properties totaling $105.1 million as held for sale;
- Subsequent to September 30, 2019, we completed the sale of one retail property classified as held for sale.

Results of Operations Summary

The following tables present our results of operations for the three and nine months ended September 30, 2019 and 2018 (dollars in thousands):

	Three Months Ended September 30,					
	2019			2018		
	Core Portfolio	Legacy, Non-Strategic Portfolio	Total	Core Portfolio	Legacy, Non-Strategic Portfolio	Total
Net interest income	$ 24,034	$ 2,077	$ 26,111	$ 19,001	$ 10,957	$ 29,958
Property and other income	29,094	35,218	64,312	28,206	25,731	53,937
Management fee expense	(9,084)	(2,271)	(11,355)	(9,501)	(2,376)	(11,877)
Property operating expense	(8,340)	(21,416)	(29,756)	(8,263)	(12,954)	(21,217)
Transaction, investment and servicing expense	(863)	(570)	(1,433)	(1,735)	(1,896)	(3,631)
Interest expense on real estate	(8,695)	(5,586)	(14,281)	(8,075)	(5,266)	(13,341)
Depreciation and amortization	(11,673)	(14,261)	(25,934)	(19,774)	(10,764)	(30,538)
Provision for loan losses	—	(110,314)	(110,314)	—	(35,059)	(35,059)
Impairment of operating real estate	(23,911)	(248,811)	(272,722)	—	(29,378)	(29,378)
Administrative expense	(4,171)	(3,561)	(7,732)	(3,711)	(3,086)	(6,797)
Unrealized loss on mortgage loans and obligations held in securitization trusts, net	(1,976)	—	(1,976)	(939)	—	(939)
Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net	2,724	—	2,724	(549)	—	(549)
Other gain (loss) on investments, net	(2,682)	(6)	(2,688)	(21)	6	(15)
Loss before equity in earnings of unconsolidated ventures and income taxes	(15,543)	(369,501)	(385,044)	(5,361)	(64,085)	(69,446)
Equity in earnings (loss) of unconsolidated ventures	2,736	(18,641)	(15,905)	10,274	(1,950)	8,324
Income tax benefit (expense)	(201)	(845)	(1,046)	91	2,365	2,456
Net income (loss)	$ (13,008)	$ (388,987)	$ (401,995)	$ 5,004	$ (63,670)	$ (58,666)

	Nine Months Ended September 30,					
	2019			2018		
	Core Portfolio	Legacy, Non-Strategic Portfolio	Total	Core Portfolio	Legacy, Non-Strategic Portfolio	Total
Net interest income	$ 63,261	$ 8,735	$ 71,996	$ 59,384	$ 31,014	$ 90,398
Property and other income	89,229	103,595	192,824	57,779	65,079	122,858
Management fee expense	(27,256)	(6,814)	(34,070)	(25,334)	(6,334)	(31,668)
Property operating expense	(25,187)	(60,889)	(86,076)	(16,413)	(32,773)	(49,186)
Transaction, investment and servicing expense	(1,236)	(1,777)	(3,013)	(36,019)	(2,193)	(38,212)
Interest expense on real estate	(26,078)	(15,708)	(41,786)	(16,476)	(12,971)	(29,447)
Depreciation and amortization	(37,645)	(45,208)	(82,853)	(37,901)	(34,788)	(72,689)
Provision for loan losses	—	(220,572)	(220,572)	—	(34,542)	(34,542)
Impairment of operating real estate	(23,911)	(258,935)	(282,846)	—	(29,378)	(29,378)
Administrative expense	(11,977)	(10,418)	(22,395)	(9,066)	(7,843)	(16,909)
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	4,602	—	4,602	3,254	—	3,254
Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net	2,772	—	2,772	(2,752)	—	(2,752)
Other gain (loss) on investments, net	(12,524)	(1,305)	(13,829)	(20)	480	460
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(5,950)	(509,296)	(515,246)	(23,564)	(64,249)	(87,813)
Equity in earnings (loss) of unconsolidated ventures	39,020	(21,058)	17,962	25,749	14,024	39,773
Income tax benefit (expense)	1,428	(1,972)	(544)	91	2,756	2,847
Net income (loss)	$ 34,498	$ (532,326)	$ (497,828)	$ 2,276	$ (47,469)	$ (45,193)

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

Our Core Portfolio

As of September 30, 2019, our Core Portfolio, including our senior and mezzanine loans and preferred equity, CRE debt securities, net leased real estate and corporate segments, consisted of 113 investments representing approximately $4.4 billion in book value (excluding cash, cash equivalents and certain other assets). Our senior and mezzanine loans and preferred equity consisted of 55 senior mortgage loans, mezzanine loans, preferred equity investments and other loans and had a weighted average cash coupon of 6.5% 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 net leased real estate consisted of approximately 13.1 million total square feet of space and the total third quarter net operating income (“NOI”) of that portfolio was approximately $18.4 million.

As of September 30, 2019, our Core Portfolio consisted of the following investments (dollars in thousands):

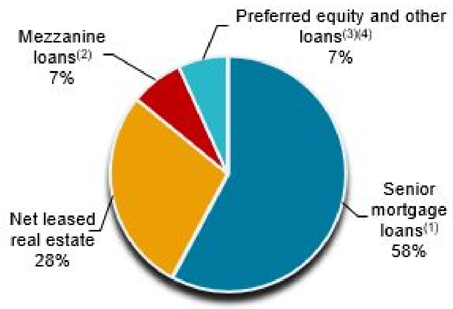
	Count[1]	Book value (Consolidated)	Book value (at CLNC share)[2]
Core Portfolio			
Senior mortgage loans[3]	37	$ 2,277,750	$ 2,277,750
Mezzanine loans[3]	9	268,089	268,089
Preferred equity and other loans[3][4]	9	286,704	286,704
CRE debt securities	51	366,505	366,505
Net leased real estate	6	1,116,519	1,102,299
Other[5]	1	71,871	71,871
Total/Weighted average Core Portfolio	113	$ 4,387,438	$ 4,373,218

[1] Count for net leased real estate represents number of investments.
[2] Book value at our share represents the proportionate book value based on ownership by asset as of September 30, 2019.
[3] Senior mortgage loans, mezzanine loans, and preferred equity include investments in joint ventures whose underlying interest is in a loan or preferred equity.
[4] Preferred equity balances include $27.9 million of book value at our share attributable to related equity participation interests.

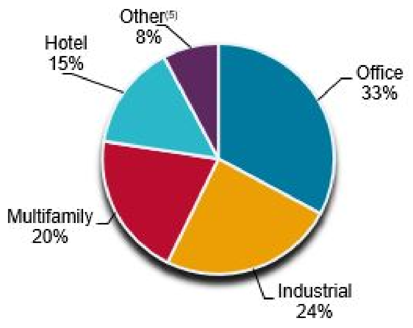
(5) Other includes one owned hotel asset, which is classified as held for sale as of September 30, 2019 and for which we entered into a purchase and sales agreement subsequent to September 30, 2019.

The following charts illustrate the diversification of our Core Portfolio (not including CMBS and Other) based on investment type, underlying property type, and geography, as of September 30, 2019 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

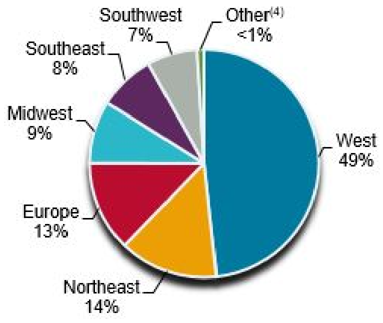
Investment Type



Property Type



Geography



[1] Senior mortgage loans include junior participations in our originated senior mortgage loans for which we have syndicated the senior participations to other investors and retained the junior participations for our portfolio and contiguous mezzanine loans where we own both the senior and junior loan positions. We believe these investments are more similar to the senior mortgage loans we originate than other loan types given their credit quality and risk profile.

[2] Mezzanine loans include other subordinated loans.

[3] Preferred equity balances include $27.9 million of book value at our share attributable to related equity participation interests.

[4] Other contains one corporate term loan secured by the borrower’s limited partnership interests in a fund.

[5] Other includes commercial and residential development and predevelopment assets, one corporate term loan secured by the borrower’s limited partnership interests in a fund, and a preferred equity investment in a loan origination platform.

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

Loan Risk Rankings

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

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

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

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

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

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

Senior and Mezzanine Loans and Preferred Equity

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

The following table provides a summary of our senior and mezzanine loans and preferred equity in our Core Portfolio based on our internal risk rankings as of September 30, 2019 (dollars in thousands):

Risk Ranking	Count[(1)]	Carrying Value (at CLNC share)[(1)]	% of Core Portfolio
1	—	$ —	—%
2	1	49,854	1.8%
3	47	2,393,105	84.5%
4	5	388,341	13.7%
5	—	—	—%
	53	$ 2,831,300	100.0%
Weighted average risk ranking			3.1

[(1)] Count excludes two equity participations held in joint ventures with a combined carrying value (at CLNC share) of $1.2 million which were not assigned risk rankings.

The following table provides asset level detail for senior and mezzanine loans and preferred equity included in our Core Portfolio as of September 30, 2019 (dollars in thousands):

	Collateral type	City, State	Carrying value[1]	Principal balance	Coupon type	Cash Coupon[2]	Unlevered all-in yield[3]	Extended maturity date	Loan-to-value[4]	Risk ranking[5]
Senior loans										
Loan 1	Hotel	San Jose, CA	$ 173,485	$ 173,485	Floating	4.3%	6.3%	1/9/2023	62%	3
Loan 2	Multifamily	Milpitas, CA	169,724	170,606	Floating	3.1%	5.5%	7/9/2024	72%	3
Loan 3[6]	Other	Dublin, Ireland	167,382	162,518	Fixed	8.0%	15.0%	12/31/2023	96%	3
Loan 4	Hotel	San Diego, CA	138,805	139,925	Floating	4.8%	7.1%	10/9/2024	71%	4
Loan 5	Hotel	Berkeley, CA	119,026	120,000	Floating	3.2%	5.4%	7/9/2025	66%	3
Loan 6	Industrial	New York, NY	114,859	116,000	Floating	3.1%	5.8%	9/19/2024	76%	3
Loan 7	Office	Carlsbad, CA	112,838	113,384	Floating	3.7%	6.1%	12/9/2023	73%	3
Loan 8	Multifamily	Various - U.S.	91,474	92,000	Floating	3.0%	5.9%	4/9/2024	65%	3
Loan 9[6]	Multifamily	Santa Clara, CA	89,424	90,349	Floating	4.4%	7.3%	6/18/2024	64%	3
Loan 10	Office	Stamford, CT	84,993	85,977	Floating	3.5%	5.8%	6/9/2025	71%	3
Loan 11	Hotel	Englewood, CO	72,934	72,986	Floating	3.5%	5.8%	7/9/2023	69%	3
Loan 12	Office	Burlingame, CA	69,567	69,799	Floating	2.8%	5.2%	7/9/2023	61%	3
Loan 13	Office	San Jose, CA	62,771	63,108	Floating	2.5%	5.0%	8/28/2025	66%	3
Loan 14	Office	LI City, NY	62,023	62,449	Floating	3.3%	5.8%	4/9/2024	58%	3
Loan 15	Office	LI City, NY	59,421	59,878	Floating	3.5%	6.0%	6/9/2024	59%	3
Loan 16	Office	Baltimore, MD	52,763	53,280	Floating	3.5%	6.2%	2/9/2024	74%	3
Loan 17	Office	Washington, D.C.	49,902	50,486	Floating	2.8%	5.7%	8/9/2024	68%	3
Loan 18	Multifamily	Knoxville, TN	49,854	49,189	Floating	4.0%	6.5%	12/9/2022	80%	2
Loan 19	Multifamily	Phoenix, AZ	42,549	42,856	Floating	2.7%	5.2%	7/9/2024	76%	3
Loan 20	Multifamily	Dupont, WA	40,292	40,500	Floating	3.3%	5.8%	11/9/2023	82%	3
Loan 21	Multifamily	Henderson, NV	37,573	37,700	Floating	3.3%	5.8%	6/9/2023	73%	3
Loan 22	Multifamily	Las Vegas, NV	37,279	37,582	Floating	3.2%	5.9%	2/9/2024	71%	3
Loan 23	Multifamily	Oxnard, CA	36,611	36,500	Floating	5.2%	8.0%	5/9/2021	71%	3
Loan 24	Office	Salt Lake City, UT	35,801	36,241	Floating	2.7%	5.0%	10/9/2024	72%	3
Loan 25	Hotel	Bloomington, MN	34,759	34,500	Floating	6.0%	8.0%	1/9/2020	59%	4
Loan 26	Multifamily	North Phoenix, AZ	33,772	33,984	Floating	3.4%	5.9%	5/9/2024	81%	3
Loan 27	Office	Miami, FL	33,354	33,014	Floating	4.9%	7.2%	7/9/2022	66%	3
Loan 28	Office	San Jose, CA	26,680	26,912	Floating	3.0%	5.9%	4/9/2024	64%	3
Loan 29	Multifamily	Tempe, AZ	25,751	25,866	Floating	2.9%	5.4%	2/9/2024	79%	3
Loan 30	Office	Santa Barbara, CA	24,565	24,754	Floating	3.2%	5.7%	2/9/2024	80%	3
Loan 31	Office	San Francisco, CA	22,585	22,841	Floating	3.4%	6.1%	10/9/2024	72%	3
Loan 32	Multifamily	Phoenix, AZ	21,062	21,145	Floating	2.9%	5.4%	1/9/2023	73%	3
Loan 33	Office	San Francisco, CA	19,769	19,985	Floating	2.8%	5.6%	9/9/2024	74%	3
Loan 34	Office	Charlotte, NC	18,330	18,549	Floating	3.4%	6.0%	3/9/2024	56%	3
Loan 35	Office	Los Angeles, CA	17,276	17,148	Floating	4.7%	6.9%	1/9/2023	76%	3
Loan 36	Multifamily	Tempe, AZ	15,849	15,880	Floating	3.0%	5.5%	9/9/2023	70%	3
Loan 37	Multifamily	Las Vegas, NV	12,648	12,757	Floating	3.2%	5.9%	2/9/2024	71%	3
Total/Weighted average senior loans			$ 2,277,750	$ 2,284,133			6.7%	2/16/2024	70%	3.1
Mezzanine loans										
Loan 38[6]	Other	Los Angeles, CA	$ 88,247	$ 88,247	Fixed	10.0%	13.0%	7/9/2022	55% - 81%	4
Loan 39[6]	Multifamily	Santa Clarita, CA	48,322	48,763	Fixed	7.0%	13.8%	12/26/2024	56% - 84%	3
Loan 40[6]	Office	Dublin, Ireland	32,054	32,054	Fixed	n/a	12.5%	12/20/2021	60% - 98%	3
Loan 41	Hotel	Berkeley, CA	28,290	28,290	Fixed	11.5%	11.5%	7/9/2025	66% - 81%	3
Loan 42	Multifamily	New York, NY	20,000	20,000	Floating	9.5%	11.0%	8/1/2022	63% - 84%	3

	Collateral type	City, State	Carrying value[1]	Principal balance	Coupon type	Cash Coupon[2]	Unlevered all-in yield[3]	Extended maturity date	Loan-to-value[4]	Risk ranking[5]
Loan 43	Other	San Rafael, CA	18,964	18,507	Fixed	10.0%	15.0%	12/31/2019	29% - 73%	3
Loan 44[6]	Multifamily	Placentia, CA	15,545	15,766	Fixed	8.0%	13.3%	7/11/2024	55% - 90%	3
Loan 45	Hotel	New York, NY	12,120	12,000	Floating	11.0%	13.3%	1/9/2022	60% - 72%	3
Loan 46	Multifamily	Various, TX	4,547	4,547	Fixed	9.5%	9.5%	8/11/2024	71% - 83%	3
Total/Weighted average mezzanine loans			$ 268,089	$ 268,174			12.9%	3/3/2023	58% - 83%	3.3
Preferred equity & other loans										
Loan 47	Industrial	Various - U.S.	$ 100,522	$ 98,387	Fixed	14.1%	14.2%	9/2/2027	n/a	3
Loan 48	Office	Various, N.Y.	96,307	96,307	Fixed	7.0%	12.0%	6/5/2027	n/a	4
Loan 49[6]	Other	Los Angeles, CA	30,223	30,223	Fixed	10.0%	13.0%	7/9/2022	n/a	4
Loan 50[6][7]	Industrial	Various - U.S.	24,300	—	n/a	n/a	n/a	9/2/2027	n/a	3
Loan 51	Office	Las Vegas, NV	19,569	19,666	Fixed	8.0%	15.5%	9/9/2023	n/a	3
Loan 52	Other	Various - U.S.	11,197	11,333	Fixed	15.0%	15.3%	5/28/2024	n/a	3
Loan 53[7]	Office	Dublin, Ireland	3,343	—	n/a	n/a	n/a	12/20/2021	n/a	3
Loan 54	Other	Various - U.S.	1,000	—	n/a	n/a	n/a	n/a	n/a	3
Loan 55[7]	Hotel	Austin, TX	243	—	Fixed	n/a	7.5%	n/a	n/a	3
Total/Weighted average preferred equity & other loans[8]			$ 286,704	$ 255,916			12.0%	1/9/2026	n/a	3.4
Total/Weighted average senior and mezzanine loans and preferred equity - Core Portfolio			$ 2,832,543	$ 2,808,223			7.8%	3/24/2024	n/a	3.1

(1) Represents carrying values at our share as of September 30, 2019.

(2) Represents the stated coupon rate for loans; for floating rate loans, assumes USD 1-month LIBOR Interbank Offered Rate ("LIBOR") which was 2.01% as of September 30, 2019.

(3) In addition to the stated cash coupon rate, unlevered all-in yield includes non-cash payment in-kind interest income and the accrual of origination, extension and exit fees. Unlevered all-in yield for the loan portfolio assumes the applicable floating benchmark rate as of September 30, 2019 for weighted average calculations.

(4) Except for construction loans, senior loans reflect the initial loan amount divided by the as-is value as of the date the loan was originated, or the principal amount divided by the appraised value as of the date of the most recent as-is appraisal. Mezzanine loans include attachment loan-to-value and detachment loan-to-value, respectively. Attachment loan-to-value reflects initial funding of loans senior to our position divided by the as-is value as of the date the loan was originated, or the principal amount divided by the appraised value as of the date of the most recent appraisal. Detachment loan-to-value reflects the cumulative initial funding of our loan and the loans senior to our position divided by the as-is value as of the date the loan was originated, or the cumulative principal amount divided by the appraised value as of the date of the most recent appraisal.

(5) On a quarterly basis, the Company's senior and mezzanine loans and preferred equity are rated "1" through "5", from less risk to greater risk.

(6) Construction senior loans' loan-to-value reflect the total commitment amount of the loan divided by the as completed appraised value, or the total commitment amount of the loan divided by the projected total cost basis. Construction mezzanine loans include attachment loan-to-value and detachment loan-to-value, respectively. Attachment loan-to-value reflects the total commitment amount of loans senior to our position divided by as-completed appraised value, or the total commitment amount of loans senior to our position divided by projected total cost basis. Detachment loan-to-value reflect the cumulative commitment amount of our loan and the loans senior to our position divided by as-completed appraised value, or the cumulative commitment amount of our loan and loans senior to our position divided by projected total cost basis.

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

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

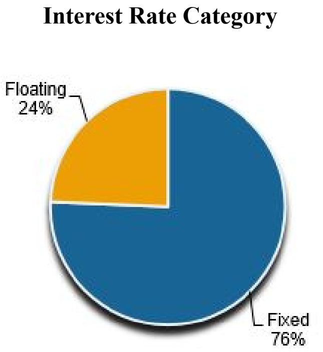
The following table details the types of properties securing our senior and mezzanine loans and preferred equity included in our Core Portfolio and geographic distribution as of September 30, 2019 (dollars in thousands):

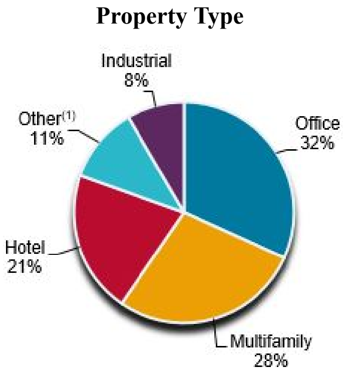
Collateral property type	Book value (at CLNC share)	% of total
Office	$ 903,911	31.8%
Multifamily	792,276	28.0%
Hotel	579,662	20.5%
Other[1]	317,013	11.2%
Industrial	239,681	8.5%
Total	$ 2,832,543	100.0%

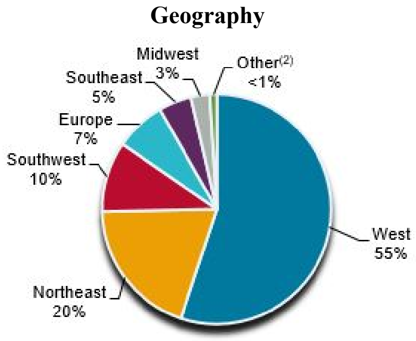
Region	Book value (at CLNC share)	% of total
West	$ 1,569,656	55.4%
Northeast	557,032	19.7%
Southwest	283,325	10.0%
Europe	202,780	7.2%
Southeast	132,613	4.7%
Midwest	74,940	2.6%
Other[2]	12,197	0.4%
Total	$ 2,832,543	100.0%

(1) Other includes manufactured housing communities and commercial and residential development and predevelopment assets.
(2) Other contains one corporate term loan secured by the borrower's limited partnership interests in a fund and a preferred equity investment in a loan origination platform.

The following charts illustrate the diversification of our senior and mezzanine loans and preferred equity included in our Core Portfolio based on interest rate category, property type, and geography as of September 30, 2019 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):







(1) Other includes commercial and residential development and predevelopment assets, one corporate term loan secured by the borrower's limited partnership interests in a fund, and a preferred equity investment in a loan origination platform.
(2) Other contains one corporate term loan secured by the borrower's limited partnership interests in a fund and a preferred equity investment in a loan origination platform.

During the three months ended September 30, 2019, we recorded our proportionate share of impairment loss totaling $17.6 million related to an equity participation interest in a joint venture. The impairment recorded is due to reflect the estimated fair value of the collateral.

CRE Debt Securities

The following table presents an overview of our CRE debt securities portfolio as of September 30, 2019 (dollars in thousands):

			Weighted Average[1]			
CRE Debt Securities by ratings category[2]	**Number of Securities**	**Book value**	**Cash coupon**	**Unlevered all-in yield**	**Remaining term**	**Ratings**
Investment grade rated	39	$ 228,189	3.2%	6.4%	6.9	BBB-
Non-investment grade rated	4	27,748	3.3%	11.9%	5.5	BB | B
"B-pieces" of CMBS securitization pools	8	110,568	4.6%	7.9%	5.6	—
Total/Weighted Average	51	$ 366,505	3.7%	7.3%	6.4	—

(1) Weighted average metrics weighted by book value, except for cash coupon which is weighted by principal balance.
(2) As of September 30, 2019, all CRE debt securities consisted of CMBS.

Net Leased Real Estate

Our net leased real estate investment strategy focuses on direct ownership in commercial real estate with an emphasis on properties with stable cash flow, which may be structurally senior to a third-party partner's equity. In addition, we may own net leased real estate investments through joint ventures with one or more partners. As part of our net leased real estate strategy, we explore a variety of real estate investments including multi-tenant office, multifamily, student housing and industrial. These properties are typically well-located with strong operating partners and we believe offer both attractive cash flow and returns.

As of September 30, 2019, $1.1 billion, or 25.2%, of our assets were invested in net leased real estate properties included in our Core Portfolio and these properties was 95.9% occupied. The following table presents our net leased real estate investments included in our Core Portfolio as of September 30, 2019 (dollars in thousands):

	Count	**Carrying Value[1]**	**Annualized Q3 NOI/EBITDA[2]**
Net leased real estate	6	1,102,299	73,600
Total/Weighted average net leased real estate - Core Portfolio	6	$ 1,102,299	$ 73,600

(1) Represents carrying values at our share as of September 30, 2019; includes deferred leasing costs and other intangible assets less intangible liabilities.
(2) Annualized NOI/EBITDA is calculated by annualizing reported NOI for the third quarter 2019 at CLNC share. Net operating income is defined as property operating income excluding above/below market lease amortization less property operating expense. EBITDA is defined as net property operating income excluding interest, tax expense, depreciation and amortization.

The following table provides asset-level detail of our net leased real estate included in our Core Portfolio as of September 30, 2019:

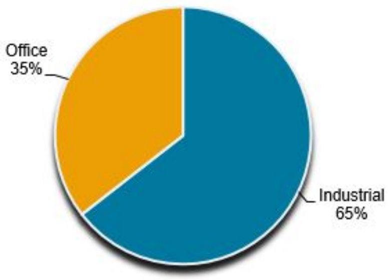
	Collateral type	**City, State**	**Number of Properties**	**Number of Buildings**	**Rentable square feet ("RSF") / units/keys**	**Weighted average % leased[1]**	**Weighted average lease term (yrs)[2]**
Net leased real estate							
Net lease 1	Industrial	Various - U.S.	22	22	6,697,304 RSF	93%	3.8
Net lease 2	Office	Stavenger, Norway	1	26	1,290,926 RSF	100%	10.7
Net lease 3	Industrial	Various - U.S.	2	2	2,787,343 RSF	100%	18.8
Net lease 4	Industrial	Various, OH	23	23	1,834,422 RSF	98%	3.7
Net lease 5	Office	Aurora, CO	1	1	183,529 RSF	100%	3.2
Net lease 6	Office	Indianapolis, IN	1	1	338,000 RSF	100%	6.3
Total/Weighted average net leased real estate			50	75		98%	9.6

(1) Represents the percent leased as of September 30, 2019. Weighted average calculation based on carrying value at our share as of September 30, 2019.

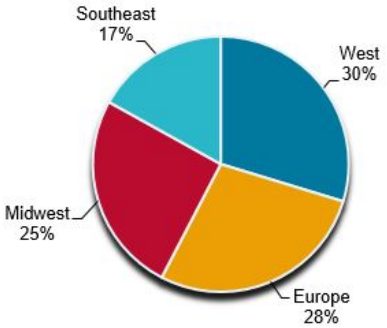
(2) Based on in-place leases (defined as occupied and paying leases) as of September 30, 2019 and assumes that no renewal options are exercised. Weighted average calculation based on carrying value at our share as of September 30, 2019.

The following charts illustrate the concentration of our net leased real estate portfolio included in Core Portfolio based on property type and geography as of September 30, 2019 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

Property Type



Geography



Results of Operations - Core Portfolio

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 do 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 Core Portfolio for Three Months Ended September 30, 2019 and 2018 (Dollars in Thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Net interest income				
Interest income	$ 43,071	$ 28,070	$ 15,001	53.4 %
Interest expense	(21,324)	(12,036)	(9,288)	(77.2)%
Interest income on mortgage loans held in securitization trusts	22,586	39,261	(16,675)	(42.5)%
Interest expense on mortgage obligations issued by securitization trusts	(20,299)	(36,294)	(15,995)	(44.1)%
Net interest income	24,034	19,001	5,033	26.5 %
Property and other income				
Property operating income	28,315	27,765	550	2.0 %
Other income	779	441	338	76.6 %
Total property and other income	29,094	28,206	888	3.1 %
Expenses				
Management fee expense	9,084	9,501	(417)	(4.4)%
Property operating expense	8,340	8,263	77	0.9 %
Transaction, investment and servicing expense	863	1,735	(872)	(50.3)%
Interest expense on real estate	8,695	8,075	620	7.7 %
Depreciation and amortization	11,673	19,774	(8,101)	(41.0)%
Impairment of operating real estate	23,911	—	23,911	100.0 %
Administrative expense	4,171	3,711	460	12.4 %
Total expenses	66,737	51,059	15,678	30.7 %
Other income (loss)				
Unrealized (loss) on mortgage loans and obligations held in securitization trusts, net	(1,976)	(939)	(1,037)	110.4 %
Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net	2,724	(549)	3,273	100.0 %
Other loss, net	(2,682)	(21)	(2,661)	12,671.4 %
Loss before equity in earnings of unconsolidated ventures and income taxes	(15,543)	(5,361)	(10,182)	189.9 %
Equity in earnings of unconsolidated ventures	2,736	10,274	(7,538)	(73.4)%
Income tax benefit (expense)	(201)	91	(292)	320.9 %
Net loss	$ (13,008)	$ 5,004	$ (18,012)	(360.0)%

Net Interest Income

Interest income

Interest income increased by $15.0 million to $43.1 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This increase was primarily due to a $23.1 million increase from originations, acquisitions and refinancings of loans and CMBS in 2018 and 2019. This was partially offset by a decrease of $7.1 million related to the repayment of loan investments and a decrease of $0.6 million related to the foreclosure of one loan investment.

Interest expense

Interest expense increased by $9.3 million to $21.3 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. The increase was primarily due to a $10.7 million increase related to borrowings on our master repurchase and CMBS credit facilities primarily associated with the originations and acquisitions of loans and CMBS in 2018 and 2019, a $0.9 million increase related to borrowings on the revolving credit facility and a $0.9 million increase related to deferred financing costs on our master repurchase facilities. This was offset by a decrease of $3.5 million related to paydowns of borrowings on our master repurchase facilities associated with the repayment and foreclosure of loan investments, as well as paydowns on our securitization bonds payable.

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

Interest income on mortgage loans and obligations held in securitization trusts, net decreased by $0.7 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018, primarily due to the sale and deconsolidation of a retained investment in the subordinate tranches of one securitization trust in the third quarter of 2019.

Property and other income

Property operating income

Property operating income increased by $0.6 million to $28.3 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. The increase was primarily due to a $3.0 million increase related to two net lease portfolios acquired in the third quarter of 2018 and a $2.3 million increase related to a hotel acquired through legal foreclosure processes in the third quarter of 2018. This was partially offset by a $4.3 million decrease related to the October 2018 sale of a multi-tenant office portfolio.

Expenses

Management fee expense

Management fee expense decreased by $0.4 million to $9.1 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. The decrease is due to the reduction in stockholders' equity (as defined in the Management Agreement) as of September 30, 2019 compared to September 30, 2018.

Property operating expense

Property operating expense increased by $0.1 million to $8.3 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. The increase was primarily due to a $1.5 million increase related to a hotel acquired through legal foreclosure processes in the third quarter of 2018. This was offset by a $1.4 million decrease related to the October 2018 sale of a multi-tenant office portfolio.

Transaction, investment and servicing expense

Transaction, investment and servicing expense decreased by $0.9 million to $0.9 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018, primarily as a result of lower transaction costs incurred associated with the Combination of $0.4 million and franchise tax refunds received of $0.4 million.

Interest expense on real estate

Interest expense on real estate increased by $0.6 million to $8.7 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. The increase was primarily due to $1.2 million resulting from the acquisition of two net lease portfolios acquired in 2018. This was partially offset by $0.6 million decrease associated with the October 2018 sale of the multi-tenant office portfolio.

Depreciation and amortization

Depreciation and amortization expense decreased by $8.1 million to $11.7 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This was primarily due to a $4.2 million decrease related to lower depreciation recorded on a net lease portfolio purchased in the third quarter of 2018, $2.9 million decrease related to the October 2018 sale of a multi-tenant office portfolio, and a $0.5 million decrease related to a property which became classified as a held for sale investment in the second quarter of 2019.

Impairment of operating real estate

Impairment of operating real estate of $23.9 million for the three months ended September 30, 2019 is attributable to an industrial real estate portfolio of properties, resulting from a reduction in the estimated holding period of the portfolio.

Administrative expense

Administrative expense increased by $0.5 million to $4.2 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This was primarily due to an increase in equity-based compensation expense due to awards granted in March 2019 under the 2018 Equity Incentive Plan (the “2018 Plan”).

Other income (loss)

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

During the three months ended September 30, 2019 and 2018, we recorded an unrealized loss of $2.0 million and $0.9 million, respectively, on mortgage loans and obligations held in securitization trusts, net which represents the change in fair value of the assets and liabilities of the securitization trusts consolidated as a result of our investment in the subordinate tranches of these securitization trusts acquired in the Combination.

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

During the three months ended September 30, 2019 and 2018, we recorded a realized gain of $2.7 million and realized loss of $0.5 million, respectively, on mortgage loans and obligations held in securitization trusts, net. The increase was primarily due to the realized gain upon sale of the retained interest of a securitization trust in the third quarter of 2019.

Other loss, net

Other loss, net increased by $2.7 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. The increase was primarily due to $4.6 million unrealized loss on non-designated interest rate swap contracts entered into in 2018. This was partially offset by $1.9 million unrealized gain on non-designated foreign exchange contracts entered into during 2018.

Equity in earnings of unconsolidated ventures

Equity in earnings of unconsolidated ventures decreased by $7.5 million to $2.7 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This was primarily due to an impairment of $17.6 million on an equity participation interest in a joint venture. This was partially offset by an increase of $6.3 million related to new investments in unconsolidated joint ventures entered into in 2018 and an increase of $2.9 million related to our increased commitment in June 2018 and July 2019 to one of our joint ventures which holds a mezzanine loan and a preferred equity investment.

Income tax benefit (expense)

Income tax benefit decreased by $0.3 million to an income tax expense of $0.2 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018, primarily due to income tax provisions on a property acquired through the legal foreclosure process in the third quarter of 2018.

Comparison of Core Portfolio for Nine Months Ended September 30, 2019 and 2018 (Dollars in Thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Net interest income				
Interest income	$ 113,246	$ 78,960	$ 34,286	43.4 %
Interest expense	(58,013)	(27,167)	(30,846)	(113.5)%
Interest income on mortgage loans held in securitization trusts	99,718	104,622	(4,904)	(4.7)%
Interest expense on mortgage obligations issued by securitization trusts	(91,690)	(97,031)	5,341	5.5 %
Net interest income	63,261	59,384	3,877	6.5 %
Property and other income				
Property operating income	87,882	56,646	31,236	55.1 %
Other income	1,347	1,133	214	18.9 %
Total property and other income	89,229	57,779	31,450	54.4 %
Expenses				
Management fee expense	27,256	25,334	1,922	7.6 %
Property operating expense	25,187	16,413	8,774	53.5 %
Transaction, investment and servicing expense	1,236	36,019	(34,783)	(96.6)%
Interest expense on real estate	26,078	16,476	9,602	58.3 %
Depreciation and amortization	37,645	37,901	(256)	(0.7)%
Impairment of operating real estate	23,911	—	23,911	100.0 %
Administrative expense	11,977	9,066	2,911	32.1 %
Total expenses	153,290	141,209	12,081	8.6 %
Other income (loss)				
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	4,602	3,254	1,348	41.4 %
Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net	2,772	(2,752)	5,524	200.7 %
Other loss, net	(12,524)	(20)	(12,504)	62,520.0 %
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(5,950)	(23,564)	17,614	74.7 %
Equity in earnings of unconsolidated ventures	39,020	25,749	13,271	51.5 %
Income tax benefit	1,428	91	1,337	1,469.2 %
Net income	$ 34,498	$ 2,276	$ 32,222	1,415.7 %

Net Interest Income

Interest income

Interest income increased by $34.3 million to $113.2 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. This increase was primarily due to a $65.3 million increase from originations, acquisitions and refinancings of loans and CMBS in 2018 and 2019 and a $2.4 million increase due to recognizing a full nine months of interest income in 2019 on loans, preferred equity and CMBS acquired in the Combination on February 1, 2018. This was partially offset by a decrease of $24.7 million related to the repayment of loan investments, a decrease of $6.6 million in the CLNY Investment Entities as a result of the deconsolidation of certain investments entities, and a decrease of $2.7 million related to a hotel acquired through legal foreclosure processes in the third quarter of 2018.

Interest expense

Interest expense increased by $30.8 million to $58.0 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. The increase was primarily due to a $28.6 million increase related to borrowings on our master repurchase and CMBS credit facilities primarily associated with the originations and acquisitions of loans and CMBS in 2018 and 2019, a $4.9 million increase related to borrowings on the revolving credit facility entered into on February 1, 2018, a $3.2 million increase due to recognizing a full nine months of interest expense in 2019 on loans and CMBS acquired in the Combination, and a $2.7 million increase related to deferred financing costs on our master repurchase facilities. This was partially offset by a decrease of $4.1 million related to paydowns of borrowings on our master repurchase facilities associated with the repayment and foreclosure of loan investments, as well as a decrease of $3.3 million related to the repayment of our securitization bonds payable.

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

Interest income on mortgage loans and obligations held in securitization trusts, net increased by $0.4 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018, primarily due to the sale of the retained interest of a securitization trust during the third quarter of 2019.

Property and other income

Property operating income

Property operating income increased by $31.2 million to $87.9 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. The increase was primarily due to a $22.7 million increase related to two net lease portfolios acquired in the third quarter of 2018, a $16.7 million increase related to a hotel acquired through legal foreclosure process in the third quarter of 2018, and a $4.0 million increase due to recognizing a full nine months of property operating income in 2019 on operating real estate properties acquired in the Combination. This was partially offset by a $11.4 million decrease related to the October 2018 sale of a multi-tenant office portfolio.

Expenses

Management fee expense

Management fee expense increased by $1.9 million to $27.3 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. The increase is due to the execution of the Management Agreement on January 31, 2018 and therefore no management fee expense was incurred prior to this date.

Property operating expense

Property operating expense increased by $8.8 million to $25.2 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. The increase was primarily due to a $11.5 million increase related to a hotel acquired through legal foreclosure process in the third quarter of 2018, a $1.0 million increase due to recognizing a full nine months of property operating expense in 2019 on operating real estate properties acquired as a result of the Combination, and a $0.9 million increase relating to a net lease portfolio acquired in the third quarter of 2018. This was partially offset by a $3.8 million decrease related to the October 2018 sale of a multi-tenant office portfolio.

Transaction, investment and servicing expense

Transaction, investment and servicing expense decreased by $34.8 million to $1.2 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018, primarily as a result of $32.9 million of transaction costs associated with the Combination incurred during the nine months ended September 30, 2019.

Interest expense on real estate

Interest expense on real estate increased by $9.6 million to $26.1 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. The increase was primarily due to $9.6 million for the acquisition of two net lease portfolios in the third quarter of 2018, $1.7 million for recognizing a full nine months of interest expense on real estate in 2019 on operating real estate properties acquired as a result of the Combination. This was partially offset by $1.5 million associated with the October 2018 sale of a multi-tenant office portfolio.

Depreciation and amortization

Depreciation and amortization expense decreased by $0.3 million to $37.6 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. This was primarily due to a $7.7 million decrease related to the October

2018 sale of a multi-tenant office portfolio. This was offset by a $5.2 million increase relating to a net lease portfolio acquired in the third quarter of 2018, a $1.3 million decrease related to a property which became classified as a held for sale investment in the second quarter of 2019, and a $0.8 million increase due to recognizing a full nine months of depreciation expense in 2019 on operating real estate properties acquired as a result of the Combination.

Impairment of operating real estate

Impairment of operating real estate of $23.9 million for the nine months ended September 30, 2019 is attributable to an industrial real estate portfolio of properties, resulting from a reduction in the estimated holding period of the portfolio.

Administrative expense

Administrative expense increased by $2.9 million to $12.0 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. This was primarily due to a $1.8 million increase in equity-based compensation expense as awards under the 2018 Plan were granted in March 2018 and March 2019 and $0.4 million related to reimbursable expenses allocated to us by our Manager.

Other income (loss)

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

During the nine months ended September 30, 2019 and 2018, we recorded an unrealized gain of $4.6 million and $3.3 million, respectively, on mortgage loans and obligations held in securitization trusts, net which represents the change in fair value of the assets and liabilities of the securitization trusts consolidated as a result of our investment in the subordinate tranches of these securitization trusts acquired in the Combination.

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

During the nine months ended September 30, 2019, we recorded a $2.8 million realized gain on mortgage loans and obligations held in securitization trusts, net, which was a result of the sale of the retained interest of a securitization trust in the third quarter of 2019.

During the nine months ended September 30, 2018, we recorded a $2.8 million realized loss on mortgage loans and obligations held in securitization trusts, net which represents a loss incurred from lower than expected future cash flows on a subordinate tranche of a securitization trust.

Other loss, net

Other loss, net increased by $12.5 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018, primarily due to $14.8 million in unrealized losses on non-designated interest rate swap contracts entered into in 2018. This was partially offset by a $2.3 million unrealized gain on non-designated foreign exchange swap contracts entered into during 2018.

Equity in earnings of unconsolidated ventures

Equity in earnings of unconsolidated ventures increased by $13.3 million to $39.0 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. This was primarily due to an increase of $18.5 million related to investments in unconsolidated joint ventures entered into in 2018, an increase of $5.9 million related to our increased commitment in June 2018 and July 2019 in one of our joint ventures which holds a mezzanine loan and a preferred equity investment, and an increase of $5.7 million on one of our equity method investments in which the underlying investment was not operational until March 2018. This was partially offset by an impairment of $17.6 million on an equity participation interest in a joint venture

Income tax benefit

Income tax benefit increased by $1.3 million to $1.4 million for the nine months ended September 30, 2019, primarily due to properties acquired during the third quarter of 2019.

Our Legacy, Non-Strategic Portfolio

As of September 30, 2019, our Legacy, Non-Strategic Portfolio consisted of 70 investments representing approximately $914.9 million in book value (excluding cash, cash equivalents and certain other assets). Our loan portfolio consisted of 17 senior mortgage loans, mezzanine loans, preferred equity investments and other loans and had a weighted average cash coupon of 3.6% and a weighted average all-in unlevered yield of 7.9%. Our owned real estate portfolio (including net leased and other real estate) consisted of approximately 6.0 million total square feet of space and the total annualized base rent of that portfolio was approximately $103.0 million (based on leases in place as of September 30, 2019).

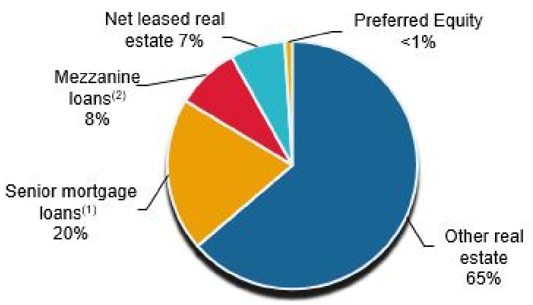
As of September 30, 2019, our Legacy, Non-Strategic Portfolio consisted of the following investments (dollars in thousands):

	Count[1]	Book value (Consolidated)	Book value (at CLNC share)[2]
Legacy, Non-Strategic Portfolio			
Senior mortgage loans[3]	10	$ 170,467	$ 169,938
Mezzanine loans[3]	6	70,208	70,153
Preferred equity[3]	1	22	22
Net leased real estate	6	60,214	60,214
Other real estate	41	599,643	532,435
Private equity interests	6	14,323	14,323
Total/Weighted average Legacy, Non-Strategic Portfolio	70	$ 914,877	$ 847,085

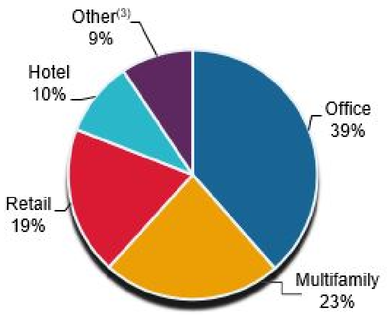
(1) Count for net leased and other real estate represents number of investments.
(2) Book value at our share represents the proportionate book value based on ownership by asset as of September 30, 2019.
(3) Senior mortgage loans, mezzanine loans, and preferred equity include investments in joint ventures whose underlying interest is in a loan or preferred equity.

The following charts illustrate the diversification of our Legacy, Non-Strategic Portfolio (not including private equity interests) based on investment type, underlying property type, and geography, as of September 30, 2019 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

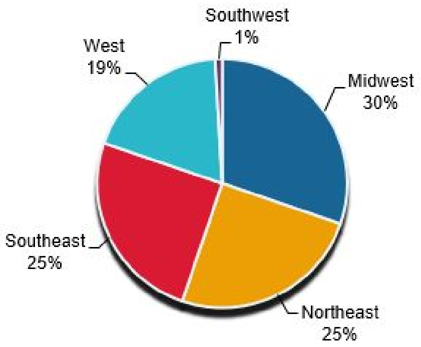
Investment Type



Property Type



Geography



(1) Senior mortgage loans include junior participations in our originated senior mortgage loans for which we have syndicated the senior participations to other investors and retained the junior participations for our portfolio and contiguous mezzanine loans where we own both the senior and junior loan positions. We believe these investments are more similar to the senior mortgage loans we originate than other loan types given their credit quality and risk profile.
(2) Mezzanine loans include other subordinated loans.
(3) Other includes commercial and residential development and predevelopment assets.

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

Our Legacy, Non-Strategic Portfolio includes senior mortgage loans, mezzanine loans, senior and mezzanine loans and preferred equity interests.

The following table provides a summary of senior and mezzanine loans and preferred equity included in our Legacy, Non-Strategic Portfolio as of September 30, 2019 (dollars in thousands):

				Weighted Average[1]			
	Count	Book value (at CLNC share)[2]	Principal balance [2]	Cash coupon[3]	Unlevered all-in yield[4]	Remaining Term[5]	Extended Remaining Term[6]
Senior loans	10	$ 169,938	$ 342,500	4.3%	5.3%	1.7	2.3
Mezzanine loans	6	70,153	138,311	1.9%	14.1%	1.0	1.9
Preferred equity	1	22	—	—	—	—	—
Total/Weighted average senior and mezzanine loans and preferred equity - Legacy, Non-Strategic Portfolio	17	$ 240,113	$ 480,811	3.6%	7.9%	1.5	2.2

[1] Weighted average metrics weighted by book value at our share, except for cash coupon which is weighted by principal balance at our share.
[2] Book value and principal balance at our share represents the proportionate value based on ownership by asset as of September 30, 2019.
[3] Represents the stated coupon rate for loans; for floating rate loans, assumes USD 1-month LIBOR Interbank Offered Rate ("LIBOR") which was 2.01% as of September 30, 2019.
[4] In addition to the stated cash coupon rate, unlevered all-in yield includes non-cash payment in-kind interest income and the accrual of origination, extension and exit fees. Unlevered all-in yield for the loan portfolio assumes the applicable floating benchmark rate as of September 30, 2019 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.

The following table details senior and mezzanine loans and preferred equity included in our Legacy, Non-Strategic Portfolio by fixed or floating rate as of September 30, 2019 (dollars in thousands):

				Weighted Average[1]			
	Number of loans	Book value	Principal balance	Spread to LIBOR	All-in unlevered yield[2]	Remaining term[3]	Extended remaining term[4]
Floating rate loans	9	$ 143,938	$ 302,529	4.0%	4.6%	1.8	2.6
Fixed rate loans[5]	8	96,175	178,281	—	12.8%	1.0	1.7
Total/ Weighted average	17	$ 240,113	$ 480,810	—	7.9%	1.5	2.2

[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. Book and principal balances at share exclude $0.6 million of NCI. See the table located above in "Our Portfolio" for further information.
[2] 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. For weighted average calculations, all-in yield for the loan portfolio assumes the USD 1-month LIBOR as of September 30, 2019, which was 2.01%.
[3] Represents the remaining term in years based on the original maturity date or current extension maturity date of loans.
[4] Represents the remaining term in years based on a maximum maturity date assuming all extension options on loans are exercised by the borrower.
[5] Includes one preferred equity investment.

The following table details the types of properties securing senior and mezzanine loans and preferred equity included in our Legacy, Non-Strategic Portfolio and geographic distribution as of September 30, 2019 (dollars in thousands):

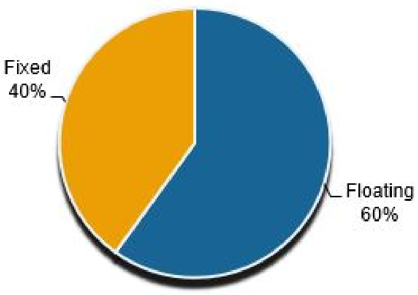
Collateral property type	Book value	% of total
Retail	$ 111,099	46.3%
Hotel	79,014	32.9%
Other[1]	50,000	20.8%
Total	$ 240,113	100.0%

Region	Book value	% of total
West	$ 135,333	56.5%
Northeast	62,027	25.8%
Southeast	34,900	14.5%
Southwest	7,255	3.0%
Midwest	598	0.2%
Total	$ 240,113	100.0%

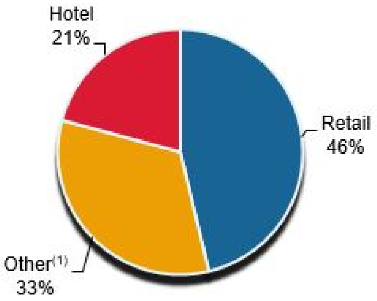
[1] Other includes commercial and residential development and predevelopment assets.

The following charts illustrate the diversification of senior and mezzanine loans and preferred equity included in our Legacy, Non-Strategic Portfolio based on interest rate category, property type, and geography as of September 30, 2019 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

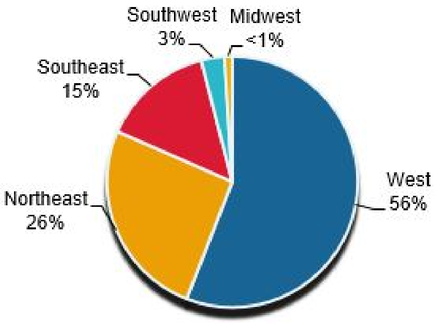
Interest Rate Category



Property Type



Geography



[1] Other includes commercial and residential development and predevelopment assets.

In March 2018, the borrower on our four NY hospitality loans in its Legacy, Non-Strategic Portfolio failed to make all required interest payments and the loans were placed on nonaccrual status. These four loans are secured by the same collateral. We believe ultimate sale of the underlying collateral and repayment of the loans from the sales proceeds is the most likely outcome. During 2018, we recorded $53.8 million of provision for loan losses to reflect the estimated value to be recovered from the borrower following a sale. During the three and nine months ended September 30, 2019, we recorded additional provision for loan loss of

$50.0 million and $154.3 million, respectively, based on significant deterioration in the NY hospitality market, feedback from the sales process and the estimated value to be recovered from the borrower following a potential sale.

Within our Legacy, Non-Strategic Portfolio, we hold seven loans to five separate borrowers, all secured by regional malls. While these loans are current on interest payments and not in default of loan covenants, given the ongoing challenges and deterioration of the retail market, we have been monitoring the estimated fair value of each loan's underlying collateral. As a result, we have recognized the loan loss provisions where it does not expect full principal payment upon maturity, as follows:

- During 2018, we recorded $23.8 million of provision for loan losses for two separate borrowers on three of our regional mall loans that are secured by two regional malls ("Northeast Regional Mall A" and "Northeast Regional Mall B") to reflect the estimated fair value of the collateral. In June 2019, we completed foreclosure proceedings on two loans secured by Northeast Regional Mall A with unpaid principal balances of $36.9 million.
- During the three and nine months ended September 30, 2019, we recognized provision for loan losses of $6.5 million and $10.5 million, respectively, on Northeast Regional Mall B. The additional provisions are based on current and prospective leasing activity to reflect the estimated fair value of the collateral. Interest payments are current and we have been and are continuing to sweep all cash.
- Also, during the three and nine months ended September 30, 2019, we separately recognized provisions for loan loss of $16.5 million and $18.5 million, respectively, on two loans secured by one regional mall ("West Regional Mall") to reflect the estimated fair value of the collateral. Interest payments are current and we have been and are continuing to sweep all cash.
- Furthermore, during the three months ended September 30, 2019, we recognized a $37.3 million provision for loan loss on four loans to three separate borrowers ("South Regional Mall A", "South Regional Mall B", and "Midwest Regional Mall") to reflect the estimated fair value of the collateral. Interest payments for South Regional Mall A, South Regional Mall B and Midwest Regional Mall are all current. The Company has been and is continuing to sweep all cash related to South Regional Mall A and South Regional Mall B.

Impairment of Loans and Preferred Equity Held in Joint Ventures

During the three and nine months ended September 30, 2019, we recognized its proportionate share of impairment loss totaling $5.9 million and $14.7 million, respectively on one senior loan secured by a regional mall ("Southeast Regional Mall") of which we own 50.0% of the joint venture. The impairments recorded are a result of the ongoing deterioration of the retail market and reflect the estimated fair value of the collateral.

During the three months ended September 30, 2019, we recorded our proportionate share of impairment loss totaling $16.1 million on two loans and an equity partnership interest secured by residential development projects. The impairment losses are as a result of revised property sales expectations.

Legacy, Non-Strategic Portfolio: Owned Real Estate

Our owned real estate includes direct ownership in commercial real estate with an emphasis on properties with stable cash flow, which may be structurally senior to a third-party partner's equity. In addition, we own operating real estate investments through joint ventures with one or more partners. These properties are typically well-located with strong operating partners.

As of September 30, 2019, $0.6 million, or 70.0%, of our Legacy, Non-Strategic Portfolio was invested in owned real estate and was 86.0% occupied. The following table provides a summary of net leased and other real estate included in our Legacy, Non-Strategic Portfolio as of September 30, 2019 (dollars in thousands):

	Count	Carrying Value[1]	Annualized Q3 NOI/EBITDA[2]
Net leased real estate	6	$ 60,214	$ 7,508
Other real estate	41	532,435	41,280
Total/Weighted average owned real estate - Legacy, Non-Strategic Portfolio	47	$ 592,649	$ 48,788

(1) Represents carrying values at our share as of September 30, 2019; includes deferred leasing costs and other intangible assets less intangible liabilities.

(2) Annualized NOI/EBITDA is calculated by annualizing reported NOI for the third quarter 2019 at CLNC share. Net operating income is defined as property operating income excluding above/below market lease amortization less property operating expense. EBITDA is defined as net property operating income excluding interest expense, tax expense, depreciation and amortization.

The following table provides asset-level detail of our net leased and other real estate included in our Legacy, Non-Strategic Portfolio as of September 30, 2019:

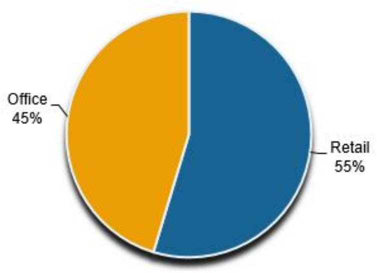
	Collateral type	City, State	Number of properties	Number of buildings	Rentable square feet (*RSF*) / units/keys	Weighted average % leased[1]	Weighted average lease term (yrs)[2]
Net leased real estate							
Net lease 1	Retail	Various - U.S.	7	7	319,600 RSF	100%	4.7
Net lease 2	Office	Columbus, OH	1	1	199,122 RSF	52%	7.3
Net lease 3	Office	Rockaway, NJ	1	1	121,038 RSF	100%	3.3
Net lease 4	Retail	Keene, NH	1	1	45,471 RSF	100%	9.3
Net lease 5	Retail	Fort Wayne, IN	1	1	50,000 RSF	100%	4.9
Net lease 6	Retail	South Portland, ME	1	1	52,900 RSF	100%	4.0
Total/Weighted average net leased real estate			12	12	788,131 RSF	87%	5.5
Other real estate							
Other real estate 1	Office	Creve Coeur, MO	7	7	847,604 RSF	94%	4.5
Other real estate 2	Multifamily	Farmington Hills, MI	1	65	784 units	94%	n/a
Other real estate 3	Office	Warrendale, PA	5	5	496,414 RSF	100%	4.8
Other real estate 4	Multifamily	New Orleans, LA	1	1	375 units	92%	n/a
Other real estate 5	Office	Vienna, VA	1	1	256,714 RSF	56%	1.0
Other real estate 6	Hotel	Coraopolis, PA	1	1	318 keys	n/a	n/a
Other real estate 7	Office	Vienna, VA	1	1	172,958 RSF	38%	1.4
Other real estate 8	Multifamily	Kalamazoo, MI	1	24	584 units	93%	n/a
Other real estate 9	Multifamily	Cayce, SC	1	1	466 units	99%	n/a
Other real estate 10	Multifamily	Central, SC	1	10	469 units	89%	n/a
Other real estate 11	Office	Omaha, NE	1	1	404,865 RSF	67%	1.3
Other real estate 12	Retail	Leominster, MA	1	3	308,318 RSF	97%	4.1
Other real estate 13	Multifamily	Gillette, WY	1	6	139 units	89%	n/a
Other real estate 14	Office	Greensboro, NC	1	1	129,717 RSF	89%	2.3
Other real estate 15	Multifamily	Anchorage, AK	1	5	319 units	92%	n/a
Other real estate 16	Office	Greensboro, NC	1	1	86,321 RSF	88%	1.7
Other real estate 17	Hotel	Minot, ND	1	1	125 keys	n/a	n/a
Other real estate 18	Office	Winston Salem, NC	1	1	140,132 RSF	43%	1.2
Other real estate 19	Office	Bath, ME	1	1	37,623 RSF	100%	1.1
Other real estate 20	Retail	Anchorage, AK	1	1	343,995 RSF	71%	1.2
Other real estate 21	Office	Topeka, KS	1	1	195,500 RSF	72%	3.1
Other real estate 22	Retail	Columbus, MS	1	1	307,381 RSF	57%	1.9
Other real estate 23	Office	Greensboro, NC	1	2	58,978 RSF	22%	0.5
Other real estate 24	Office	Greensboro, NC	1	1	48,042 RSF	31%	0.2
Other real estate 25	Retail	West Columbia, SC	1	1	52,375 RSF	58%	1.0
Other real estate 26	Office	Greensboro, NC	1	1	47,690 RSF	67%	0.7
Other real estate 27	Office	Greensboro, NC	1	1	47,211 RSF	36%	0.6
Other real estate 28	Office	Greensboro, NC	1	4	42,123 RSF	53%	0.5
Other real estate 29	Office	Anchorage, AK	1	5	11,475 RSF	100%	1.5
Other real estate 30	Office	Lincoln, NE	1	2	124,465 RSF	98%	4.8
Other real estate 31	Office	Greensboro, NC	1	1	34,060 RSF	40%	0.2
Other real estate 32	Office	Greensboro, NC	1	1	34,903 RSF	46%	0.5
Other real estate 33	Office	Greensboro, NC	1	1	26,563 RSF	58%	0.1
Other real estate 34	Multifamily	Evansville, WY	1	1	191 units	56%	n/a
Other real estate 35	Office	Greensboro, NC	1	1	32,905 units	100%	6.4
Other real estate 36	Office	Greensboro, NC	1	1	35,224 units	50%	0.2
Other real estate 37	Office	Greensboro, NC	1	1	23,145 RSF	66%	1.5
Other real estate 38	Retail	Dothan, AL	1	1	31,700 RSF	30%	1.2

	Collateral type	City, State	Number of properties	Number of buildings	Rentable square feet (*RSF*) / units/keys	Weighted average % leased[1]	Weighted average lease term (yrs)[2]
Other real estate 39	Retail	Havre, MT	1	1	196,249 RSF	53%	0.5
Other real estate 40	Office	Lincoln, NE	1	1	193,838 RSF	34%	1.0
Other real estate 41	Office	Topeka, KS	1	1	195,500 RSF	72%	3.1
Total/Weighted average other real estate			51	167	n/a	86%	3.4
Total/Weighted average owned real estate - Legacy, Non-Strategic Portfolio			63	179			

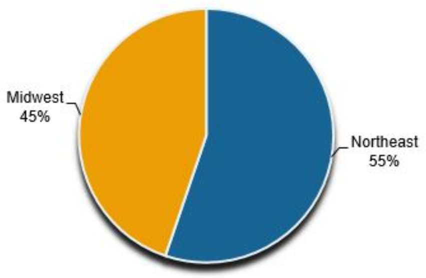
[1] Represents the percent leased as of September 30, 2019. Weighted average calculation based on carrying value at our share as of September 30, 2019.
[2] Based on in-place leases (defined as occupied and paying leases) as of September 30, 2019 and assumes that no renewal options are exercised. Weighted average calculation based on carrying value at our share as of September 30, 2019.

The following charts illustrate the concentration of our net leased real estate included in our Legacy, Non-Strategic Portfolio based on property type and geography as of September 30, 2019 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

Property Type

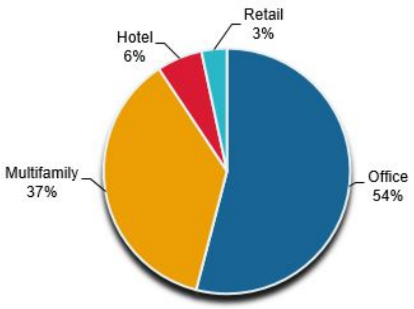


Geography

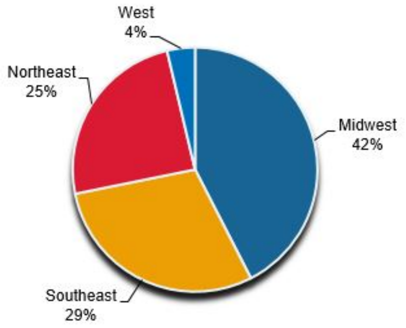


The following charts illustrate the diversification of our other real estate included in our Legacy, Non-Strategic Portfolio based on property type and geography as of September 30, 2019 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):

Property Type



Geography



Results of Operations - Legacy, Non-Strategic Portfolio

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 do 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 Legacy, Non-Strategic Portfolio for Three Months Ended September 30, 2019 and 2018 (Dollars in Thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Net interest income				
Interest income	$ 3,920	$ 12,069	$ (8,149)	(67.5)%
Interest expense	(1,843)	(1,112)	(731)	(65.7)%
Net interest income	2,077	10,957	(8,880)	(81.0)%
Property and other income				
Property operating income	35,177	23,919	11,258	47.1 %
Other income	41	1,812	(1,771)	(97.7)%
Total property and other income	35,218	25,731	9,487	36.9 %
Expenses				
Management fee expense	2,271	2,376	(105)	(4.4)%
Property operating expense	21,416	12,954	8,462	65.3 %
Transaction, investment and servicing expense	570	1,896	(1,326)	(69.9)%
Interest expense on real estate	5,586	5,266	320	6.1 %
Depreciation and amortization	14,261	10,764	3,497	32.5 %
Provision for loan losses	110,314	35,059	75,255	214.7 %
Impairment of operating real estate	248,811	29,378	219,433	100.0 %
Administrative expense	3,561	3,086	475	15.4 %
Total expenses	406,790	100,779	306,011	303.6 %
Other income (loss)				
Other gain (loss), net	(6)	6	(12)	(200.0)%
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(369,501)	(64,085)	(305,416)	476.6 %
Equity in earnings of unconsolidated ventures	(18,641)	(1,950)	(16,691)	855.9 %
Income tax benefit (expense)	(845)	2,365	(3,210)	135.7 %
Net income (loss)	$ (388,987)	$ (63,670)	$ (325,317)	510.9 %

Net Interest Income

Interest income

Interest income decreased by $8.1 million to $3.9 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This decrease was primarily due to $4.5 million related to the foreclosure of seven loan investments, $1.9 million related to the repayment of loan investments and $1.5 million due to placing the four NY hospitality loans on nonaccrual status.

Interest expense

Interest expense increased by $0.7 million to $1.8 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. The increase was primarily due to a $0.6 million increase related to borrowings on the revolving credit facility and a $0.6 million increase related to financing obtained from our master repurchase facilities on two loan investments, partially offset by a decrease of $0.7 million related to paydowns on our master repurchase facilities following the repayment of loan investments.

Property and other income

Property operating income

Property operating income increased by $11.3 million to $35.2 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. The increase was primarily due to a $12.4 million increase related to the 30 real estate properties acquired through foreclosure in 2018 and 2019 and a $0.6 million increase related to the lease-up of one of our net lease office properties in 2019, partially offset by a $1.4 million decrease related to new guidance adopted in 2019 regarding property operating expenses paid directly by lessees.

Expenses

Property operating expense

Property operating expense increased by $8.5 million to $21.4 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. The increase was primarily due to a $9.2 million increase related to the 30 real estate properties acquired through foreclosure in 2018 and 2019 and a $0.3 million increase related to the lease-up of one of our net lease office properties in 2019, partially offset by a $1.4 million decrease related to new guidance adopted in 2019 regarding property operating expenses paid directly by lessees.

Transaction, investment and servicing expense

Transaction, investment and servicing expense decreased by $1.3 million to $0.6 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018, primarily as a result of $1.7 million of transaction costs incurred during the third quarter of 2018 associated with the foreclosure of 28 properties in January 2019. This is partially offset by $0.2 million of expenses incurred related to the collapse of our 2014 FL1 securitization bonds payable in the third quarter of 2019.

Interest expense on real estate

Interest expense on real estate increased by $0.3 million to $5.6 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. The increase was primarily due to a $0.3 million increase related to the financing obtained in March 2019 for a hotel foreclosed on in 2018.

Depreciation and amortization

Depreciation and amortization expense increased by $3.5 million to $14.3 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This was primarily due to a $5.6 million increase related to 30 real estate properties acquired through foreclosure in the third quarter of 2018 and during 2019, partially offset by a $1.8 million decrease due to classifying real estate assets as held for sale in 2019.

Provision for loan losses

Provision for loan losses of $110.3 million was recorded for the three months ended September 30, 2019, which is attributable to $50.0 million on our four NY hospitality loans and $60.3 million on seven loans collateralized by retail properties. Provision for loan losses of $35.1 million recorded for the three months ended September 30, 2018 was attributable to our four NY hospitality loans.

Impairment of operating real estate

Impairment of operating real estate of $248.8 million for the three months ended September 30, 2019 is resulting from a reduction in the estimated holding period of certain properties. Impairment of operating real estate of $29.4 million for the three months ended September 30, 2018 is attributable to certain retail and student housing properties.

Administrative expense

Administrative expense increased by $0.5 million to $3.6 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This was primarily due to higher expenses related to equity-based compensation due to awards granted in March 2019 under the 2018 Plan and reimbursable expenses allocated to us by our Manager.

Equity in earnings of unconsolidated ventures

Equity in losses of unconsolidated ventures decreased by $16.7 million to $18.6 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018. This was primarily due to an impairment of $22.0 million on two senior loans, one mezzanine loan and one preferred equity classified as equity method investments and $6.8 million related to our PE Investments on which we recorded no equity in earnings during third quarter of 2019. This was partially offset by $13.7 million of unrealized loss related to our PE investments recorded in the third quarter of 2018.

Income tax benefit (expense)

Income tax benefit decreased by $3.2 million to an income tax expense of $0.8 million for the three months ended September 30, 2019, as compared to the three months ended September 30, 2018, primarily due to no income tax benefit recorded in the third quarter of 2019 associated with our PE Investments.

Comparison of Legacy, Non-Strategic Portfolio for Nine Months Ended September 30, 2019 and 2018 (Dollars in Thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Net interest income				
Interest income	$ 14,227	$ 34,113	$ (19,886)	(58.3)%
Interest expense	(5,492)	(3,099)	(2,393)	(77.2)%
Net interest income	8,735	31,014	(22,279)	(71.8)%
Property and other income				
Property operating income	103,511	63,060	40,451	64.1 %
Other income	84	2,019	(1,935)	(95.8)%
Total property and other income	103,595	65,079	38,516	59.2 %
Expenses				
Management fee expense	6,814	6,334	480	7.6 %
Property operating expense	60,889	32,773	28,116	85.8 %
Transaction, investment and servicing expense	1,777	2,193	(416)	(19.0)%
Interest expense on real estate	15,708	12,971	2,737	21.1 %
Depreciation and amortization	45,208	34,788	10,420	30.0 %
Provision for loan losses	220,572	34,542	186,030	538.6 %
Impairment of operating real estate	258,935	29,378	229,557	100.0 %
Administrative expense	10,418	7,843	2,575	32.8 %
Total expenses	620,321	160,822	459,499	285.7 %
Other income (loss)				
Other loss, net	(1,305)	480	(1,785)	100.0 %
Loss before equity in earnings of unconsolidated ventures and income taxes	(509,296)	(64,249)	(445,047)	(692.7)%
Equity in earnings (losses) of unconsolidated ventures	(21,058)	14,024	(35,082)	(250.2)%
Income tax benefit (expense)	(1,972)	2,756	(4,728)	(171.6)%
Net income (loss)	$ (532,326)	$ (47,469)	$ (484,857)	1,021.4 %

Net Interest Income

Interest income

Interest income decreased by $19.9 million to $14.2 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. This decrease was primarily due to $11.6 million related to the foreclosure of seven loan investments, $3.8 million related to the repayment of loan investments, and $3.6 million due to placing the four NY hospitality loans on nonaccrual status.

Interest expense

Interest expense increased by $2.4 million to $5.5 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. The increase was primarily due to $3.3 million increase related to borrowings on the revolving credit facility, which was partially offset by a decrease of $0.9 million paydowns on our master repurchase facilities following the repayment of loan investments.

Property and other income

Property operating income

Property operating income increased by $40.5 million to $103.5 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. The increase was primarily due to a $35.5 million increase related to the 30 real estate properties acquired through foreclosure in the third quarter of 2018 and during 2019, and a $5.4 million increase due to recognizing a full nine months of property operating income in 2019 on operating real estate properties acquired as in the Combination.

Expenses

Management fee expense

Property operating expense increased by $0.5 million to $6.8 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. The increase was primarily due to recognizing a full nine months of management fees in 2019. We entered into the Management Agreement on January 31, 2018 and therefore did not incur any management fee expenses prior to that date.

Property operating expense

Property operating expense increased by $28.1 million to $60.9 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. The increase was primarily due to $26.3 million related to the 30 real estate properties acquired through foreclosure in the third quarter of 2018 and during 2019 and a $1.9 million increase due to recognizing a full nine months of property operating expense in 2019 on operating real estate properties acquired as a result of the Combination.

Transaction, investment and servicing expense

Transaction, investment and servicing expense decreased by $0.4 million to $1.8 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018, primarily as a result of higher transaction costs associated with the foreclosure of 28 properties in January 2019.

Interest expense on real estate

Interest expense on real estate increased by $2.7 million to $15.7 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. The increase was primarily due to $1.0 million for the financing obtained in the second quarter of 2018, $0.9 million for recognizing a full nine months of interest expense on real estate in 2019 on operating real estate properties acquired as a result of the Combination, and $0.7 million related to 29 real estate properties acquired through foreclosure in the third quarter of 2018 and during 2019.

Depreciation and amortization

Depreciation and amortization expense increased by $10.4 million to $45.2 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. This was primarily due to a $16.1 million increase related to 30 real estate properties acquired through foreclosure in the third quarter of 2018 and during 2019 and $2.3 million due to recognizing a full nine months of depreciation expense in 2019 on operating real estate properties acquired as a result of the Combination. The increase was partially offset by a $7.9 million decrease in amortization expense primarily as a result of short-term in-place lease value intangible assets on our multifamily properties that were fully amortized in 2018.

Provision for loan losses

Provision for loan losses of $220.6 million was recorded for the nine months ended September 30, 2019, which is attributable to our four NY hospitality loans of $154.3 million, and seven loans collateralized by retail properties of $66.3 million.

Impairment of operating real estate

Impairment of operating real estate of $258.9 million for the nine months ended September 30, 2019 is resulting from a reduction in the estimated holding period of certain properties. Impairment of operating real estate of $29.4 million for the nine months ended September 30, 2018 is attributable to certain retail and student housing properties.

Administrative expense

Administrative expense increased by $2.6 million to $10.4 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. This was primarily due to a $1.7 million increase in equity-based compensation expense as awards under the 2018 Plan were granted in March 2018 and March 2019 and a $1.0 million increase related to the reimbursable expenses allocated to us by our Manager as a result of the Combination.

Other income (loss)

Other loss, net

Other loss, net increased by $1.8 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018, primarily as a result of a $1.3 million of professional fees associated with the sale of our PE Investments.

Equity in earnings (losses) of unconsolidated ventures

Equity in earnings (losses) of unconsolidated ventures decreased by $35.1 million to a loss of $21.1 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018. This was primarily due to an impairment of $30.8 million on six senior and mezzanine loans associated with the repayment of three of our equity method investments, $2.6 million related to our PE Investments in which we recorded no equity in earnings during the nine months ended September 30, 2019.

Income tax benefit (expense)

Income tax benefit (expense) increased by $4.7 million to an income tax expense of $2.0 million for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018, primarily due to our PE Investments.

Non-GAAP Supplemental Financial Measures

Core Earnings/Legacy, Non-Strategic Earnings

We present Core Earnings/Legacy, Non-Strategic Earnings, which is a non-GAAP supplemental financial measure of our performance. Our Core Earnings are generated by the Core Portfolio and Legacy, Non-Strategic Earnings are generated by the Legacy, Non-Strategic Portfolio. We believe that Core Earnings/Legacy, Non-Strategic Earnings provides meaningful information to consider in addition to our net income and cash flow from operating activities determined in accordance with accounting principles generally accepted in the United States ("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. 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/Legacy, Non-Strategic 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/Legacy, Non-Strategic Earnings is useful to our investors.

We define Core Earnings/Legacy, Non-Strategic 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) gains or losses from sales of real estate property and impairment write-downs of depreciable real estate, including unconsolidated joint ventures and preferred equity investments, (vi) depreciation and amortization, (vii) 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, (viii) one-time events pursuant to changes in U.S. GAAP and (ix) certain material non-cash income or expense items that in the judgment of management should not be included in Core Earnings/Legacy, Non-Strategic Earnings. For clauses (viii) and (ix), 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. U.S. GAAP net income (loss) attributable to our common stockholders and Core Earnings/Legacy, Non-Strategic Earnings include provision for loan losses.

Prior to the third quarter of 2019, Core Earnings reflected adjustments to U.S. GAAP net income to exclude impairment of real estate and provision for loan losses. We revised our definition of Core Earnings to include the provision for loan losses while excluding realized losses of sales of real estate property and impairment write-downs of preferred equity investments during the third quarter of 2019. This was approved by a majority of our independent directors and the change was made retrospectively. Core Earnings/Legacy, Non-Strategic Earnings for the nine months ended September 30, 2019 include revisions to the Core Earnings previously disclosed by us in prior periods.

Core Earnings/Legacy, Non-Strategic 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/Legacy, Non-Strategic 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 to Core Earnings/Legacy, Non-Strategic Earnings attributable to our common stockholders and noncontrolling interest of the Operating Partnership (dollars and share amounts in thousands, except per share data) for the three and nine months ended September 30, 2019:

	Three Months Ended September 30, 2019		
	Total	Legacy, Non-Strategic Portfolio	Core Portfolio
Reconciliation of GAAP Net Income to Core Earnings/Legacy, Non-Strategic Earnings			
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	$ (356,031)	$ (354,517)	$ (1,514)
Adjustments:			
Net income (loss) attributable to noncontrolling interest of the Operating Partnership	(8,519)	(8,483)	(36)
Non-cash equity compensation expense	2,908	1,454	1,454
Depreciation and amortization	26,232	13,800	12,432
Net unrealized loss (gain):			
Impairment of operating real estate and preferred equity[1]	294,677	253,166	41,511
Other unrealized loss	2,458	6	2,452
Adjustments related to noncontrolling interests in investment entities	(37,338)	(25,697)	(11,641)
Core Earnings (Loss) / Legacy, Non-Strategic Earnings (Loss) attributable to Colony Credit Real Estate, Inc. common stockholders and noncontrolling interest of the Operating Partnership	$ (75,613)	$ (120,271)	**$ 44,658**
Core Earnings (Loss) / Legacy, Non-Strategic Earnings (Loss) per share[2]	$ (0.57)	$ (0.91)	**$ 0.34**
Weighted average number of common shares and OP units[2]	131,616	131,616	131,616

[1] Includes our $22.0 million proportionate share of impairment losses recorded on equity participations held in joint ventures. This is recorded in equity in earnings of unconsolidated ventures on our consolidated statements of operations.
[2] We calculate Core Earnings (Loss) / Legacy, Non-Strategic Earnings (Loss) per share, a non-GAAP financial measure, based on a weighted-average number of common shares and OP units (held by members other than us or our subsidiaries). For the third quarter 2019, weighted average number of common shares includes 3.1 million OP units.

	Nine Months Ended September 30, 2019		
	Total	Legacy, Non-Strategic Portfolio	Core Portfolio
Reconciliation of GAAP Net Income to Core Earnings/Legacy, Non-Strategic Earnings			
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	$ (448,464)	$ (493,587)	$ 45,123
Adjustments:			
Net income (loss) attributable to noncontrolling interest of the Operating Partnership	(10,741)	(11,806)	1,065
Non-cash equity compensation expense	7,464	3,732	3,732
Transaction costs[1]	674	262	412
Depreciation and amortization	83,367	43,464	39,903
Net unrealized loss (gain):			
Impairment of operating real estate and preferred equity[2]	304,801	263,290	41,511
Other unrealized loss (gain)	6,521	52	6,469
Adjustments related to noncontrolling interests in investment entities	(40,114)	(27,911)	(12,203)
Core Earnings (Loss) / Legacy, Non-Strategic Earnings (Loss) attributable to Colony Credit Real Estate, Inc. common stockholders and noncontrolling interest of the Operating Partnership	$ (96,492)	$ (222,504)	**$ 126,012**
Core Earnings (Loss) / Legacy, Non-Strategic Earnings (Loss) per share[3]	$ (0.73)	$ (1.69)	**$ 0.96**
Weighted average number of common shares and OP units[3]	131,417	131,417	131,417

[1] Represents transaction costs incurred as a result of the Combination.
[2] Includes our $30.8 million proportionate share of impairment losses recorded on equity participations held in joint ventures. This is recorded in equity in earnings of unconsolidated ventures on our consolidated statements of operations.
[3] We calculate Core Earnings/legacy, non-strategic 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 the nine months ended September 30, 2019, weighted average number of common shares includes 3.1 million OP units.

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 $560 million secured revolving credit facility, up to approximately $2.3 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, 2019	December 31, 2018
Debt-to-equity ratio[1]	1.2x	0.9x

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

The following table presents our total sources of liquidity as of September 30, 2019 (dollars in thousands):

Total Sources of Corporate Liquidity		
Cash and cash equivalents	$	60,332
Bank credit facility availability		401,500
Total sources of corporate liquidity	$	461,832

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. On February 4, 2019, the aggregate amount of revolving commitments was increased to $560.0 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 support the outstanding borrowings. The Bank Credit Facility will mature on February 1, 2022, unless the OP elects to exercise the extension options for up to two additional terms of six months each, subject to the terms and conditions in the Bank Credit Facility, resulting in a latest maturity date of February 1, 2023.

The obligations of the Borrowers under the Bank Credit Facility are guaranteed by substantially all material wholly owned subsidiaries of the OP pursuant to a Guarantee and Collateral Agreement with the OP and certain subsidiaries of the OP in favor of JPMorgan Chase Bank, N.A., as administrative agent (the “Guarantee and Collateral Agreement”) and, subject to certain exceptions, secured by a pledge of substantially all equity interests owned by the Borrowers and the guarantors, as well as by a security interest in deposit accounts of the Borrowers and the Guarantors (as such terms are defined in the Guarantee and Collateral Agreement) in which the proceeds of investment asset distributions are maintained.

The Bank Credit Facility contains various affirmative and negative covenants, including, among other things, the obligation of the Company to maintain REIT status and be listed on the NYSE, and limitations on debt, liens and restricted payments. In addition, the Bank Credit Facility includes the following financial covenants applicable to the OP and its consolidated subsidiaries: (a) consolidated tangible net worth of the OP must be greater than or equal to the sum of (i) $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 plus lease expenses to fixed charges for any period of four (4) consecutive fiscal quarters must be not less than 1.50 to 1.00; (c) the OP’s interest coverage ratio must be not less than 3.00 to 1.00; and (d) the OP’s ratio of consolidated total debt to consolidated total assets must be not more than 0.70 to 1.00. The Bank Credit Facility also includes customary events of default, including, among other things, failure to make payments when due, breach of covenants or representations, cross default to material indebtedness or material judgment defaults, bankruptcy matters involving any Borrower or any Guarantor and certain change of control events. 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 and CMBS Credit Facilities

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

The following table presents a summary of our master repurchase facilities as of September 30, 2019 (dollars in thousands):

	Maximum Facility Size	Current Borrowings	Weighted Average Final Maturity (Years)	Weighted Average Interest Rate
Master Repurchase Facilities				
Bank 1	$ 400,000	$ 231,550	3.6	LIBOR + 1.88%
Bank 2	200,000	22,750	3.0	LIBOR + 2.50%
Bank 3	600,000	581,210	1.6	LIBOR + 2.17%
Bank 7	500,000	457,360	2.6	LIBOR + 1.85%
Bank 8	250,000	184,366	1.7	LIBOR + 1.96%
Bank 9	300,000	66,643	4.1	LIBOR + 1.65%
Total Master Repurchase Facilities	2,250,000	1,543,879		
CMBS Credit Facilities				
Bank 1	39,305	39,305	(1)	LIBOR + 1.16%
Bank 6	165,872	165,872	(1)	LIBOR + 1.19%
Bank 3(2)	—	—	—	—
Bank 4(2)	—	—	—	—
Bank 5(2)	—	—	—	—
Total CMBS Credit Facilities	205,177	205,177		
Bank Credit Facility	560,000	158,500	3.3	LIBOR + 2.25%
Total Facilities	$ 3,015,177	$ 1,907,556		

(1) The maturity dates on CMBS Credit Facilities are dependent upon asset type and will typically range from one to two months.
(2) Amounts can be drawn under the Bank 3, Bank 4, and Bank 5 CMBS Credit Facilities, but we have not yet utilized them.

Securitizations

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

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

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, 2019 and 2018 (dollars in thousands):

	Nine Months Ended September 30,		
Cash flow provided by (used in):	2019	2018	Change
Operating activities	$ 113,205	$ 64,394	$ 48,811
Investing activities	(459,239)	(279,122)	(180,117)
Financing activities	358,368	319,919	38,449

Operating Activities

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

Our operating activities generated net cash inflows of $113.2 million and $64.4 million for the nine months ended September 30, 2019 and 2018, respectively. Net cash provided by operating activities increased $48.8 million for the nine months ended September 30, 2019, primarily due to higher transaction fees paid associated with the Combination during the nine months ended September 30, 2018.

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

Investing Activities

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

Net cash flows used in investing activities of $459.2 million for the nine months ended September 30, 2019 was primarily driven by $1.3 billion of acquisition, origination and funding of loans and preferred equity held for investment partially offset by $426.4 million of loan and preferred equity repayments, $202.7 million of distributions in excess of cumulative earnings from unconsolidated ventures and $115.3 million of proceeds from sale of investments in unconsolidated ventures.

Net cash flows used in investing activities for the nine months ended September 30, 2018 of $279.1 million was the result of $524.2 million of loan and preferred equity acquisition, origination and funding activity and $408.5 million of acquisition of and additions to real estate, related intangibles and leasing commissions. This is partially offset by loan and preferred equity repayments of $414.1 million and $302.3 million in cash and restricted cash received in the Combination in 2018.

Financing Activities

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

Our financing activities provided net cash inflow of $358.4 million and $319.9 million for the nine months ended September 30, 2019 and 2018, respectively. Net cash provided by financing activities in 2019 resulted primarily from borrowings from credit facilities in the amount of $1.8 billion and borrowings from mortgage notes in the amount of $85.7 million, partially offset by repayment of credit facilities in the amount of $1.3 billion, distributions paid on common stock of $171.5 million and repayment of securitization bonds of $81.4 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]	$ 177,738	$ 8,157	$ 169,581	$ —	$ —
Secured debt[2]	3,460,107	1,265,605	883,323	277,329	1,033,850
Ground lease obligations[3]	38,418	3,133	6,254	5,658	23,373
	3,676,263	$ 1,276,895	$ 1,059,158	$ 282,987	$ 1,057,223
Lending commitments[4]	313,802				
Total	$ 3,990,065				

[1] Future interest payments were estimated based on the applicable index at September 30, 2019 and unused commitment fee of 0.35% per annum, assuming principal is repaid on the current maturity date of February 2022.

(2) Amounts include minimum principal and interest obligations through the initial maturity date of the collateral assets. Interest on floating rate debt was determined based on the applicable index at September 30, 2019.

(3) 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.

(4) 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, 2019, 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 Part I, Item 1. “Financial Statements” for a discussion of such unconsolidated ventures in our consolidated financial statements. In each case, our exposure to loss is limited to the carrying value of our investment.

Our Investment Strategy

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

- capitalizing on asset level underwriting experience and market analytics to identify investments with pricing dislocations and attractive risk-return profiles;
- originating and structuring CRE senior mortgage loans, mezzanine loans and preferred equity with attractive return profiles relative to the underlying value and financial operating performance of the real estate collateral, given the strength and quality of the sponsorship;
- identifying appropriate CRE debt securities investments based on the performance of the underlying real estate assets, the impact of such performance on the credit return profile of the investments and our expected return on the investments;
- identifying net leased real estate investments based on property location and purpose, tenant credit quality, market lease rates and potential appreciation of, and alternative uses for, the real estate;
- creating capital appreciation opportunities through active asset management and equity participation opportunities; and
- structuring transactions with a prudent amount of leverage, if any, given the risk of the underlying asset’s cash flows, attempting to match the structure and duration of the financing with the underlying asset’s cash flows, including through the use of hedges, as appropriate.

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

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

Underwriting, Asset and Risk Management

Our Manager closely monitors our portfolio and actively manages risks associated with, among other things, our assets and interest rates. Prior to investing in any particular asset, our Manager’s underwriting team, in conjunction with third party providers, undertakes a rigorous asset-level due diligence process, involving intensive data collection and analysis, to ensure that we understand fully the state of the market and the risk-reward profile of the asset. Prior to making a final investment decision, our Manager focuses on portfolio diversification to determine whether a target asset will cause our portfolio to be too heavily concentrated with, or cause too much risk exposure to, any one borrower, real estate sector, geographic region, source of cash flow for payment or other geopolitical issues. If our Manager determines that a proposed acquisition presents excessive concentration risk, it may determine not to acquire an otherwise attractive asset.

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

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

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

Inflation

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

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

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. There have been no material changes to our critical accounting policies since the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Recent Accounting Updates

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

Interest rate risk relates to the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations 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, 2019, a hypothetical 100 basis point increase in the applicable interest rate benchmark on our loan portfolio would increase interest income by $2.1 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 held for investment is subject to a high degree of credit risk through exposure to loss from loan defaults. Default rates are subject to a wide variety of factors, including, but not limited to, borrower financial condition, property performance, property management, supply/demand factors, construction trends, consumer behavior, regional economics, interest rates, the strength of the U.S. economy and other factors beyond our control. All 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, 2019, we had approximately NOK 874.2 million and €204.9 million or a total of $319.9 million, in net investments in our European subsidiaries. A 1.0% change in these foreign currency rates would result in a $3.2 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, 2019, including notional amount and key terms, is included in Note 16, “Derivatives,” to Part I, Item 1, “Financial Statements.” The maturity dates of these instruments approximate the projected dates of related cash flows for specific investments. Termination or maturity of currency hedging instruments may result in an obligation for payment to or from the counterparty to the hedging agreement. We are exposed to credit loss in the event of non-performance by counterparties for these contracts. To manage this risk, we select major international banks and financial institutions as counterparties and perform a quarterly review of the financial health and stability of our trading counterparties. Based on our review at September 30, 2019, we do not expect any counterparty to default on its obligations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2019, our disclosure controls and procedures were effective at providing reasonable assurance regarding the reliability of the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in Internal Control over Financial Reporting

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

PART II. Other Information

Item 1. Legal Proceedings

Neither the Company nor our Manager is currently subject to any material legal proceedings. We anticipate that we may from time to time be involved in legal actions arising in the ordinary course of business, the outcome of which we would not expect to have a material adverse effect on our financial position, results of operations or cash flow.

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 as filed with the SEC on February 28, 2019.

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

There were no sales of unregistered securities of our Company during the nine months ended September 30, 2019, other than those previously disclosed in filings with the SEC.

Purchases of Equity Securities by Issuer

The Company did not purchase any of our Class A common stock during the three months ended September 30, 2019.

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 through March 31, 2020. Under the Stock Repurchase Program, the Company may repurchase shares in open market purchases, through tender offers or otherwise in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. As of September 30, 2019, the Company had not repurchased any shares under the Stock Repurchase Program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On November 6, 2019, the Company, the Operating Partnership and CLNC Manager, LLC, the Company's manager and a subsidiary of Colony Capital, Inc., a significant stockholder of the Company, amended and restated the management agreement entered into on January 31, 2018 to modify the "Core Earnings" definition to provide that "unrealized provisions for loan losses and real estate impairments" shall only be applied as exclusions from the definition of Core Earnings if approved by a majority of the independent directors of the Company. This will result in a reduction to Core Earnings which thereby reduces the annual management fee and any incentive fee paid by the Company due to accumulated unrealized provisions for loan losses and real estate impairments.

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 NorthStar Credit Real Estate, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on August 09, 2018)
3.2	Second Amended and Restated Bylaws of Colony Credit Real Estate, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (No. 001-38377) filed on June 25, 2018)
10.1*	Amended and Restated Management Agreement, dated as of November 6, 2019, by and among Colony Credit Real Estate, Inc., Credit RE Operating Company, LLC and CLNC Manager, LLC
31.1*	Certification by the Chief Executive Officer pursuant to 17 CFR 240.13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by the Chief Financial Officer pursuant to 17 CFR 240.13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by the Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification by the Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

SIGNATURES

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

Dated: November 8, 2019

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 Number 10.1

AMENDED AND RESTATED
MANAGEMENT AGREEMENT

by and among

Colony Credit Real Estate, Inc.,

Credit RE Operating Company, LLC

and

CLNC Manager, LLC

This AMENDED AND RESTATED MANAGEMENT AGREEMENT, effective November 6, 2019, is made and entered into by and among Colony Credit Real Estate, Inc., a Maryland corporation (the "Company"), Credit RE Operating Company, LLC, a Delaware limited liability company ("Operating Company"), and CLNC Manager, LLC, a Delaware limited liability company (the "Manager").

WITNESSETH:

WHEREAS, the Company was formed as a corporation and intends to elect to be treated as a real estate investment trust ("REIT") for U.S. federal income tax purposes pursuant to Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code");

WHEREAS, Operating Company is a Subsidiary of the Company; and

WHEREAS, the Company, Operating Company and the Manager entered into that certain management agreement (the "Original Management Agreement"), effective January 31, 2018 (the "Effective Date"), pursuant to which the Manager provided certain management and advisory services as set forth therein;

WHEREAS, the Company, Operating Company and the Manager desire to amend and restate the Original Management Agreement, pursuant to which the Manager shall provide certain management and advisory services on the terms and conditions hereinafter set forth, and the Manager desires to continue to provide such services upon the terms and conditions hereof.

NOW, THEREFORE, for the mutual promises made herein, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Definitions.

(a) The following terms have the following meanings assigned to them:

"Affiliate" means, with respect to any Person, (i) any other Person directly or indirectly controlling, controlled by, or under common control with such other Person, (ii) any executive officer, general partner, managing member, control person or employee of such Person, (iii) any member of the board of directors or board of managers (or bodies performing similar functions) of such Person, and (iv) any legal entity for which such Person acts as an executive officer, general partner, managing member or control person.

"Agreement" means this Management Agreement, as amended, restated or supplemented from time to time.

"Bankruptcy" means, with respect to any Person, (i) the filing by such Person of a voluntary petition seeking liquidation, reorganization, arrangement or readjustment, in any form, of its debts under Title 11 of the United States Code or any other federal, state or foreign insolvency law, or such Person's filing an answer consenting to or acquiescing in any such petition, (ii) the making by such Person of any assignment for the benefit of its creditors, (iii) the expiration of ninety (90) days after the filing of an involuntary petition under Title 11 of the Unites States Code, an application for the appointment of a receiver for a material portion of the assets of such Person, or an involuntary petition seeking liquidation, reorganization, arrangement or readjustment of its debts under any other federal, state or foreign insolvency law; provided that the same shall not have been vacated, set aside or stayed within such ninety (90)-day period or (iv) the entry against it of a final and non-appealable order for relief under any bankruptcy, insolvency or similar law now or hereinafter in effect.

"Base Management Fee" means a fee equal to one and one-half percent (1.50%) of Stockholders' Equity per annum, calculated and payable quarterly in arrears in cash.

"Board of Directors" means the Board of Directors of the Company.

"Business Day" means any day except a Saturday, a Sunday or a day on which banking institutions in New York, New York are not required to be open.

"Business Opportunity" shall have the meaning set forth in Section 3(b) of this Agreement.

"Claim" shall have the meaning set forth in Section 13(d) of this Agreement.

"Code" shall have the meaning set forth in the recitals of this Agreement.

"Common Equity" means:

(i) the sum of:

(a) the net proceeds received by the Company (or, without duplication, the Company's direct Subsidiaries, such as Operating Company) from all issuances of Common Stock or such Subsidiaries' common equity securities since inception (allocated on a pro rata daily basis for such issuances during the calendar quarter of any such issuance); plus

(b) cumulative Core Earnings from and after the Effective Date to the end of the most recently completed calendar quarter,

(ii) less:

(a) any distributions to the Company's common stockholders (or owners of common equity of the Company's direct Subsidiaries, such as Operating Company) (other than the Company or any of such Subsidiaries);

(b) any amount that the Company or any of the Company's direct Subsidiaries (such as Operating Company) has paid to repurchase for cash the Common Stock or common equity securities of such Subsidiaries since the Effective Date; and

(c) any Incentive Fee paid to the Manager following the Effective Date.

With respect to that portion of the period from and after the Effective Date that is used in the calculation of the Incentive Fee, all items in the foregoing calculation (other than clause (i)(b)) shall be calculated on a daily weighted average basis. For the avoidance of doubt, Common Equity shall include any restricted shares of Common Stock or common equity of the Company's direct Subsidiaries (such as Operating Company) and any other shares of Common Stock or common equity of such Subsidiaries underlying awards granted under one or more of the Company's or such Subsidiaries' equity incentive plans. The amount of net proceeds received shall be subject to the determination of the Board of Directors to the extent such proceeds are other than cash.

"Common Stock" means the common stock, par value $0.01, of the Company.

"Company" shall have the meaning set forth in the preamble of this Agreement.

"Company Account" shall have the meaning set forth in Section 5 of this Agreement.

"Company Covered Person" shall have the meaning set forth in Section 13(c) of this Agreement.

"Company Parties" means the Company, Operating Company and any other Subsidiaries.

"Confidential Information" shall have the meaning set forth in Section 6(b) of this Agreement.

"Constellation" means Colony Capital, Inc., a Maryland corporation, or its successor(s).

"Core Earnings" means the net income (loss) attributable to the common stockholders of the Company or, without duplication, owners of common equity of the Company's direct Subsidiaries (such as Operating Company), computed in accordance with GAAP, and excluding (i) non-cash equity compensation expense, (ii) the expenses incurred in connection with the formation of the Company and the Initial Public Offering, if any, including the initial underwriting discounts and commissions, (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 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 (a) unrealized provisions for loan losses and real estate impairments and (b) clauses (vii) and (viii), such exclusions shall only be applied after (x) discussions between the Manager and the Independent Directors and (y) approval by a majority of the Independent Directors.

"Effective Date" shall have the meaning set forth in the recitals of this Agreement.

"Effective Termination Date" shall have the meaning set forth in Section 14(a) of this Agreement.

"Excess Funds" shall have the meaning set forth in Section 2(l) of this Agreement.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Expenses" shall have the meaning set forth in Section 11(a) of this Agreement.

"GAAP" means generally accepted accounting principles in effect in the United States on the date such principles are applied.

"Governing Instruments" means, with regard to any entity, the articles of incorporation or certificate of incorporation and bylaws in the case of a corporation, the certificate of limited partnership (if applicable) and the partnership agreement in the case of a general or limited partnership, the articles of formation or certificate of formation and the limited liability company agreement or operating agreement in the case of a limited liability company, the trust instrument in the case of a trust, or similar governing documents, in each case as amended from time to time.

"Incentive Fee" means the incentive management fee calculated and payable with respect to each calendar quarter (or part thereof) that this Agreement is in effect in arrears in an amount, not less than zero, equal to the difference between:

(i) the product of (a) twenty percent (20%) and (b) the difference between (1) Core Earnings for the most recent twelve (12)-month period (or if the Effective Date is less than twelve (12) months earlier, since the Effective Date), including the current quarter, and (2) the product of (A) the Common Equity in the most recent twelve (12)-month period (or if the Effective Date is less than twelve (12) months earlier, since the Effective Date), including the current quarter, and (B) seven percent (7%) per annum, and

(ii) the sum of any Incentive Fee paid to the Manager with respect to the first three (3) calendar quarters of the most recent twelve (12)-month period (or if the Effective Date is less than twelve (12) months earlier, since the Effective Date);

provided, however, that no Incentive Fee shall be payable with respect to any calendar quarter unless Core Earnings is greater than zero for the most recently completed twelve (12) calendar quarters (or if the Effective Date is less than twelve (12) calendar quarters earlier, since the Effective Date).

For purposes of calculating the Incentive Fee prior to the completion of a twelve (12)-month period during the term of this Agreement, Core Earnings shall be calculated on the basis of the number of days that this Agreement has been in effect on an annualized basis.

If the Effective Termination Date does not correspond to the end of a calendar quarter, the Manager’s Incentive Fee shall be calculated for the period beginning on the day after the end of the calendar quarter immediately preceding the Effective Termination Date and ending on the Effective Termination Date, which Incentive Fee shall be calculated using Core Earnings for the twelve (12)-month period ending on the Effective Termination Date.

“Indemnified Party” shall have the meaning set forth in Section 13(c) of this Agreement.

“Indemnifying Party” shall have the meaning set forth in Section 13(d) of this Agreement.

“Independent Directors” means the members of the Board of Directors who are not officers or employees of the Manager or any Person directly or indirectly controlling or controlled by the Manager, and who are otherwise “independent” in accordance with the Company’s Governing Instruments and the rules of the applicable National Securities Exchange on which the Common Stock is listed.

“Initial Public Offering” means the Company’s sale of Common Stock to the public through underwriters pursuant to the Company’s Registration Statement on Form S-11.

"Initial Term" shall have the meaning set forth in Section 14(a) of this Agreement.

"Investment Allocation Policy" means the investment allocation policy and procedures of Colony Capital Investment Advisors, LLC, a registered investment advisor and an Affiliate of the Manager, in effect from time to time, with respect to the allocation of investment opportunities among the Company and one or more of its clients (as the same may be amended, updated or revised from time to time).

"Investment Company Act" means the Investment Company Act of 1940, as amended.

"Investment Guidelines" shall have the meaning set forth in Section 2(b)(i) of this Agreement.

"Investments" means the investments of the Company and the Subsidiaries.

"Losses" shall have the meaning set forth in Section 13(b) of this Agreement.

"Majority-Owned Affiliate" means an Affiliate of a Person (i) that is directly or indirectly controlled by such Person and (ii) in which such Person directly or indirectly owns securities representing more than fifty percent (50%) of the outstanding securities of any class of voting securities of such Affiliate.

"Manager" shall have the meaning set forth in the preamble of this Agreement.

"Manager Covered Person" shall have the meaning set forth in Section 13(b) of this Agreement.

"Monitoring Services" shall have the meaning set forth in Section 2(b) of this Agreement.

"National Securities Exchange" means any national securities exchange or nationally recognized automated quotation system on which the shares of the Common Stock of the Company are listed, traded, exchanged or quoted.

"Notice of Proposal to Negotiate" shall have the meaning set forth in Section 14(a) of this Agreement.

"Operating Company" shall have the meaning set forth in the preamble of this Agreement.

"Original Management Agreement" shall have the meaning set forth in the recitals of this Agreement.

“Other Constellation Funds” means, collectively, any other investment funds, vehicles, accounts, products and/or other similar arrangements sponsored, branded, advised and/or managed by Constellation or any of its Affiliates, whether currently in existence or subsequently established, in each case, including any related successor funds, alternative vehicles, supplemental capital vehicles, co-investment vehicles and other entities formed in connection with Constellation’s side-by-side or additional general partner investments with respect thereto.

“Person” means any individual, corporation, partnership, joint venture, limited liability company, estate, trust, unincorporated association, any federal, state, county or municipal government or any bureau, department or agency thereof or any other legal entity and any fiduciary acting in such capacity on behalf of any of the foregoing.

“Portfolio Management Services” shall have the meaning set forth in Section 2(b) of this Agreement.

“Protected Opportunity” shall have the meaning set forth in Section 3(b)(ii) of this Agreement.

“REIT” shall have the meaning set forth in the recitals of this Agreement.

“Renewal Term” shall have the meaning set forth in Section 14(a) of this Agreement.

“SEC” means the U.S. Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended.

“Stockholders’ Equity” means:

(i) the sum of:

(a) the net proceeds received by the Company (or, without duplication, the Company’s direct Subsidiaries, such as Operating Company) from all issuances of the Company’s or such Subsidiaries’ common and preferred equity securities since inception (allocated on a pro rata daily basis for such issuances during the calendar quarter of any such issuance); plus

(b) cumulative Core Earnings from and after the Effective Date to the end of the most recently completed calendar quarter,

(ii) less:

(a) any distributions to the Company's common stockholders (or owners of common equity of the Company's direct Subsidiaries, such as Operating Company) (other than the Company or any of such Subsidiaries);

(b) any amount that the Company or any of the Company's direct Subsidiaries (such as Operating Company) has paid to (1) repurchase for cash the Common Stock or common equity securities of such Subsidiaries or (2) repurchase or redeem for cash preferred equity securities of the Company or such Subsidiaries, in each case since the Effective Date; and

(c) any Incentive Fee paid to the Manager following the Effective Date.

With respect to that portion of the period from and after the Effective Date that is used in the calculation of the Base Management Fee, all items in the foregoing calculation (other than clause (i)(b)) shall be calculated on a daily weighted average basis. For the avoidance of doubt, Stockholders' Equity shall include any restricted shares of Common Stock or common equity of the Company's direct Subsidiaries (such as Operating Company) and any other shares of Common Stock or common equity of such Subsidiaries underlying awards granted under one or more of the Company's or such Subsidiaries' equity incentive plans. The amount of net proceeds received shall be subject to the determination of the Board of Directors to the extent such proceeds are other than cash.

"Subsidiary" means a corporation, limited liability company, partnership, joint venture or other entity or organization of which: (i) the Company or any other subsidiary of the Company is a general partner or managing member; or (ii) voting power to elect a majority of the board of directors, trustees or others performing similar functions with respect to such entity or organization is held by the Company or by any one or more of the Company's subsidiaries.

"Termination Fee" shall have the meaning set forth in Section 14(b) of this Agreement.

"Termination Notice" shall have the meaning set forth in Section 14(a) of this Agreement.

"Treasury Regulations" means the regulations promulgated under the Code, as amended from time to time.

(b) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section references are to this Agreement unless otherwise specified.

(c) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms. The words include, includes and including shall be deemed to be followed by the phrase “without limitation”, unless such phrase otherwise appears.

Section 2. Appointment and Duties of the Manager.

(a) The Company, Operating Company and each of the other Subsidiaries hereby appoint the Manager to manage the assets and the day-to-day operations of the Company, Operating Company and the other Subsidiaries subject to the terms and conditions set forth in this Agreement, and the Manager hereby agrees to use its commercially reasonable efforts to perform each of the duties set forth herein, except where a higher standard of care is specified in this Agreement, in which case such higher standard of care shall apply.

The appointment of the Manager shall be exclusive to the Manager except to the extent that the Manager otherwise agrees, in its sole and absolute discretion, and except to the extent that the Manager elects, in accordance with the terms of this Agreement, to cause the duties of the Manager hereunder to be provided by third parties.

(b) The Manager, in its capacity as manager of the assets and the day-to-day operations of the Company and the Subsidiaries, at all times will be subject to the supervision and direction of the Board of Directors, and the Manager will have only such functions and authority as the Company may delegate to it, including the functions and authority identified herein and delegated to the Manager hereby. Without limiting the power and authority granted to the Manager pursuant to Section 2(c), the Manager will be responsible for the day-to-day operations of the Company and the Subsidiaries and will perform (or cause to be performed) such services and activities relating to the assets and operations of the Company and the Subsidiaries as may be appropriate, including:

(i) serving as the Company’s and the Subsidiaries’ consultant with respect to the periodic review of the investment guidelines and other parameters for the Investments, financing activities and operations, which review shall occur no less often than annually, any modification to which shall be approved by a majority of the Independent Directors (such guidelines as initially approved and attached hereto as Exhibit A, as the same may be modified, supplemented or waived with such approval, the “Investment Guidelines”);

(ii) identifying, investigating, analyzing and selecting possible investment opportunities and acquiring, negotiating, monitoring, financing, retaining, selling, restructuring or disposing of Investments consistent in all material respects with the Investment Guidelines;

(iii) with respect to prospective purchases, sales or exchanges of Investments, conducting negotiations on behalf of the Company and the Subsidiaries with sellers, purchasers, trustees, primary dealers, custodians and brokers and, if applicable, their respective agents and representatives;

(iv) negotiating and entering into, on behalf of the Company and the Subsidiaries, bank credit facilities, repurchase agreements, interest rate swap agreements, agreements relating to borrowings under programs established by the U.S. Government and/or any agencies thereunder and other agreements and instruments required for the Company and the Subsidiaries to conduct their business;

(v) engaging and supervising, on behalf of the Company and the Subsidiaries and at the expense of Operating Company or its designee(s), independent contractors that provide investment banking, securities brokerage, mortgage brokerage, other financial services, due diligence services, underwriting review services, legal and accounting services, and all other services (including transfer agent and registrar services) as may be required relating to the Company's and the Subsidiaries' operations or Investments (or potential investments);

(vi) advising on, preparing, negotiating and entering into, on behalf of the Company and the Subsidiaries, applications and agreements relating to programs established by the U.S. Government and/or any agencies thereunder;

(vii) coordinating and managing operations of any joint venture or co-investment interests held by the Company and the Subsidiaries and conducting all matters with the joint venture or co-investment partners;

(viii) providing executive and administrative personnel, office space and office services required in rendering services to the Company and the Subsidiaries, including office space for any persons who are employed directly by the Company or its Subsidiaries and who are not simultaneously employed by the Manager or any of its Affiliates;

(ix) administering the day-to-day operations and performing and supervising the performance of such other administrative functions necessary to the management of the Company and the Subsidiaries as may be agreed upon by the Manager and the Board of Directors, including the services in respect of any equity incentive plans, the collection of revenues and the payment of the debts and obligations of the Company and the Subsidiaries and maintenance of appropriate computer services to perform such administrative functions;

(x) communicating on behalf of the Company and the Subsidiaries with the holders of any of their equity or debt securities as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders, including website maintenance, logo design, analyst presentations, investor conferences and annual meeting arrangements;

(xi) counseling the Company in connection with policy decisions to be made by the Board of Directors;

(xii) evaluating and recommending to the Board of Directors hedging strategies and engaging in hedging activities on behalf of the Company and the Subsidiaries, consistent with such strategies as modified from time to time, while maintaining the Company's qualification as a REIT and within the Investment Guidelines;

(xiii) counseling the Company regarding the maintenance of its qualification as a REIT and monitoring compliance with the various REIT qualification tests and other rules set forth in the Code and Treasury Regulations thereunder and using commercially reasonable efforts to cause the Company to qualify as a REIT for tax purposes;

(xiv) counseling the Company and the Subsidiaries regarding the maintenance of their exemptions from the status of an investment company required to register under the Investment Company Act, monitoring compliance with the requirements for maintaining such exemptions and using commercially reasonable efforts to cause them to maintain such exemptions from such status;

(xv) furnishing reports and statistical and economic research to the Company and the Subsidiaries regarding their activities and services performed for the Company and the Subsidiaries by the Manager and its Affiliates;

(xvi) monitoring the operating performance of Investments and providing periodic reports with respect thereto to the Board of Directors, including comparative information with respect to such operating performance and budgeted or projected operating results;

(xvii) investing and reinvesting on behalf of the Company and the Subsidiaries any money and securities of the Company and the Subsidiaries (including investing in short-term Investments pending investment in other Investments, payment of fees, costs and expenses and payment of dividends or other distributions to stockholders, members and partners of the Company and the Subsidiaries) and advising the Company and the Subsidiaries as to their capital structure and capital raising;

(xviii) causing the Company and the Subsidiaries to retain qualified accountants, tax professionals and legal counsel, as applicable, to assist in developing appropriate accounting procedures and systems, internal controls and other compliance procedures and testing systems with respect to financial reporting obligations and compliance with the provisions of the Code applicable to REITs and, if applicable, domestic taxable REIT subsidiaries, and to conduct quarterly compliance reviews with respect thereto;

(xix) assisting the Company and the Subsidiaries in qualifying to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses;

(xx) assisting the Company and the Subsidiaries in complying with all regulatory requirements applicable to them with respect to their business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents, if any, required under the Exchange Act, the Securities Act, or by the applicable National Securities Exchange on which the Common Stock is listed;

(xxi) assisting the Company and the Subsidiaries in taking all necessary actions to enable them to make required tax filings and reports, including soliciting stockholders for all information required by the provisions of the Code and Treasury Regulations applicable to REITs;

(xxii) placing, or arranging for the placement of, all orders pursuant to the Manager's investment determinations on behalf of the Company and the Subsidiaries, either directly with the issuer or with a broker or dealer (including any affiliated broker or dealer);

(xxiii) handling and resolving on behalf of the Company and the Subsidiaries all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which the Company and/or the Subsidiaries may be involved or to which they may be subject arising out of their day-to-day operations (other than with the Manager or its Affiliates), subject to such reasonable limitations or parameters as may be imposed from time to time by the Board of Directors;

(xxiv) using commercially reasonable efforts to cause expenses incurred by the Company and the Subsidiaries or on their behalf to be commercially reasonable or commercially customary and within any budgeted parameters or expense guidelines set by the Board of Directors from time to time;

(xxv) advising the Company and the Subsidiaries with respect to and structuring (1) long-term financing vehicles for their portfolio of assets and (2) the offering and selling of securities publicly or privately in connection with any such structured financing;

(xxvi) serving as the Company's and the Subsidiaries' consultant with respect to decisions regarding any financings, hedging activities or borrowings undertaken by the Company and/or the Subsidiaries, including (1) assisting the Company and/or the Subsidiaries in developing criteria for debt and equity financing that are specifically tailored to the Company's and the Subsidiaries' investment objectives, and (2) advising the Company and the Subsidiaries with respect to obtaining appropriate financing for the Investments;

(xxvii) arranging marketing materials, advertising, industry group activities (such as conference participations and industry organization memberships) and other promotional efforts designed to promote the Company's and the Subsidiaries' business; and

(xxviii) performing such other services as may be required from time to time for the management of, and other activities relating to, the assets, business and operations of the Company and the Subsidiaries as the Board of Directors shall reasonably request or as the Manager shall deem appropriate under the particular circumstances.

Without limiting the foregoing, the Manager will perform portfolio management services (the "Portfolio Management Services") on behalf of the Company and the Subsidiaries with respect to the Investments. Such services will include, but not be limited to, consulting with the Company and the Subsidiaries on the purchase and sale of, and other investment opportunities in connection with, assets; the collection of information and the submission of reports pertaining to the Company's assets, interest rates and general economic conditions; periodic review and evaluation of the performance of the Company's and the Subsidiaries' portfolio of assets; acting as a liaison between the Company and the Subsidiaries and banking, mortgage banking, investment banking and other parties with respect to the purchase, financing and disposition of assets; and other customary functions related to portfolio management. Additionally, the Manager will perform monitoring services (the "Monitoring Services") on behalf of the Company and the Subsidiaries with respect to any activities provided by third parties. Such Monitoring Services will include, but not be limited to, negotiating servicing agreements; acting as a liaison between servicer providers of the assets and the Company and the Subsidiaries; reviewing servicers' delinquency, foreclosure and other reports on assets; supervising claims filed under any insurance policies; and enforcing the obligation of any servicer to repurchase assets.

(c) For the period and on the terms and conditions set forth in this Agreement, the Company, Operating Company and each of the other Subsidiaries hereby constitutes, appoints and authorizes the Manager, and any officer of the Manager acting on its behalf from time to time, as its true and lawful agent and attorney-in-fact, in its name, place and stead, to negotiate, execute, deliver and enter into such finance agreements and arrangements and securities repurchase and reverse repurchase agreements and arrangements, brokerage agreements, interest rate swap agreements, "to be announced" forward contracts, agreements relating to borrowings under programs established by the U.S. Government and/or any agencies thereunder and such other certificates, agreements, instruments and authorizations on their behalf, on such terms and conditions as the Manager, acting in its sole and absolute discretion, deems necessary or appropriate. This power of attorney is deemed to be coupled with an interest. In performing such services, as an agent of the Company, Operating Company and each of the other Subsidiaries, the Manager shall have the right to exercise all powers and authority that are reasonably necessary and customary to perform its obligations under this Agreement, including the following powers, subject in each case to the terms and conditions of this Agreement, including the Investment Guidelines:

(i) to purchase, exchange or otherwise acquire and to sell, exchange or otherwise dispose of, any Investment at public or private sale;

(ii) to borrow and, for the purpose of securing the repayment thereof, to pledge, mortgage or otherwise encumber investments and enter into agreements in connection therewith, including repurchase agreements, master repurchase agreements, International Swap Dealer Association swap, caps and other agreements and annexes thereto and other futures and forward agreements;

(iii) to purchase, take and hold Investments subject to mortgages or other liens;

(iv) to extend the time of payment of any liens or encumbrances that may at any time be encumbrances upon any Investment, irrespective of by whom the same were made;

(v) to foreclose, to reduce the rate of interest on, and to consent to the modification and extension of the maturity or other terms of any Investments, or to accept a deed in lieu of foreclosure;

(vi) to join in a voluntary partition of any investment;

(vii) to cause to be demolished any structures on any real estate Investment;

(viii) to cause renovations and capital improvements to be made to any real estate Investment;

(ix) to abandon any real estate Investment deemed to be worthless;

(x) to enter into joint ventures or otherwise participate in investment vehicles investing in Investments;

(xi) to cause any real estate Investment to be leased, operated, developed, constructed or exploited;

(xii) to obtain and maintain insurance in such amounts and against such risks as are prudent in accordance with customary and sound business practices in the appropriate geographic area;

(xiii) to cause any property to be maintained in good state of repair and upkeep; and to pay the taxes, upkeep, repairs, carrying charges, maintenance and premiums for insurance;

(xiv) to use the personnel and resources of its Affiliates in performing the services specified in this Agreement; and

(xv) to take any and all other actions as are necessary or appropriate in connection with the Investments.

The Manager shall be authorized to represent to third parties that it has the power to perform the actions that it is authorized to perform under this Agreement.

(d) The Manager may enter into agreements with other parties, including its Affiliates (in accordance with Section 11(a)), for the purpose of engaging one or more parties for and on behalf of the Company and the Subsidiaries, and, except as otherwise agreed, at the sole cost and expense of Operating Company or its designee(s), to provide credit analysis, risk management services, asset management and/or other services to the Company and the Subsidiaries (including Portfolio Management Services and Monitoring Services) pursuant to agreement(s) with terms that are then customary for agreements regarding the provision of services to companies that have assets similar in type, quality and value to the assets of the Company and the Subsidiaries;

provided that, with respect to Portfolio Management Services, the Manager shall remain liable for the performance of such Portfolio Management Services.

(e) To the extent that the Manager deems necessary or advisable, the Manager may, from time to time, and at the sole cost and expense of the Manager, propose to retain one or more additional entities for the provision of sub-advisory services to the Manager, in order to enable the Manager to provide the services to the Company and the Subsidiaries specified by this Agreement; provided that any agreements relating to such sub-advisory services shall (i) be on terms and conditions substantially identical to the terms and conditions of this Agreement or otherwise not adverse to the Company and the Subsidiaries and (ii) not result in an increased Base Management Fee or additional expenses payable hereunder.

(f) The Manager may designate, engage and retain, for and on behalf of the Company and the Subsidiaries and, at the sole cost and expense of Operating Company or its designee(s), such services of accountants, legal counsel, appraisers, insurers, brokers, transfer agents, registrars, investment banks, financial advisors, tax advisors, due diligence firms, engineers, banks and other lenders and other professionals, consultants and service providers as the Manager deems necessary or advisable in connection with the management and operations of the Company and the Subsidiaries, which may include Affiliates of the Manager (in accordance with Section 11(a)).

(g) As frequently as the Manager may deem necessary or advisable, or at the direction of the Board of Directors, the Manager shall, at the sole cost and expense of Operating Company or its designee(s), prepare, or cause to be prepared, with respect to any Investment, reports regarding the operating and asset performance and other information reasonably requested by the Company.

(h) The Manager shall prepare, or cause to be prepared, at the sole cost and expense of Operating Company or its designee(s), all reports, financial or otherwise, with respect to the Company and the Subsidiaries reasonably required by the Board of Directors in order for the Company and the Subsidiaries to comply with their Governing Instruments or any other materials required to be filed with any governmental body or agency, including the SEC, and shall prepare, or cause to be prepared, at the sole cost and expense of Operating Company or its designee(s), all materials and data necessary to complete such reports and other materials, including an annual audit of the Company's and the Subsidiaries' books of account by a nationally recognized registered independent public accounting firm.

(i) The Manager shall prepare, or cause to be prepared, at the sole cost and expense of Operating Company or its designee(s), regular reports for the Board of Directors to enable the Board of Directors to review the Company's and the Subsidiaries' acquisitions, portfolio composition and characteristics, credit quality, performance and compliance with the Investment Guidelines and other policies approved by the Board of Directors.

(j) If requested by the Company, the Manager shall provide, or cause to be provided, at the sole cost and expense of Operating Company or its designee(s), such internal audit, compliance and control services as may be required for the Company and the Subsidiaries to comply with applicable law (including the Securities Act and the Exchange Act), regulation (including SEC regulations) and the rules and requirements of the applicable National Securities Exchange on which the Common Stock is listed and as otherwise reasonably requested by the Company or the Board of Directors from time to time.

(k) Each year, the Manager shall prepare, or cause to be prepared, at the sole cost and expense of the Operating Company or its designee(s), an annual operating budget of the Company, which shall be subject to the approval of the Board of Directors. In addition, any material changes to such annual operating budget shall be subject to the approval of the Board of Directors.

(l) Notwithstanding anything contained in this Agreement to the contrary, except to the extent that the payment of additional money is proven by the Company to have been required as a direct result of the Manager's acts or omissions that result in the right of the Company and the Subsidiaries to terminate this Agreement pursuant to Section 15 of this Agreement, the Manager shall not be required to expend money ("Excess Funds") in connection with any expenses that are required to be paid for or reimbursed by Operating Company or its designee(s) pursuant to Section 11 in excess of that contained in any applicable Company Account or otherwise made available by Operating Company or its designee(s) to be expended by the Manager hereunder. Failure of the Manager to expend Excess Funds out-of-pocket shall not give rise or be a contributing factor to the right of the Company and the Subsidiaries under Section 14(a) of this Agreement to terminate this Agreement due to the Manager's unsatisfactory performance.

(m) In performing its duties under this Section 2, the Manager shall be entitled to rely reasonably on qualified experts and professionals (including accountants, legal counsel and other service providers) hired by the Manager at Operating Company's or Operating Company's designee(s)'s sole cost and expense.

Section 3. Devotion of Time; Additional Activities of the Manager; Allocation of Investment Opportunities; Non-Solicitation; Restrictions.

(a) The Manager and its Affiliates will provide the Company and the Subsidiaries with a management team, including a chief executive officer, president and chief financial officer (provided that each such executive officer shall be satisfactory to and approved by the Board of Directors), along with appropriate support personnel, to provide the management services to be provided by the Manager to the Company and the Subsidiaries hereunder, the members of which team shall devote such portion of their time to the management of the Company and the Subsidiaries as is necessary and appropriate to enable the Company to operate its business, commensurate with the Company's level of activity. None of the officers or employees of the Manager will be dedicated exclusively to the Company and the Subsidiaries. The Manager and Constellation shall provide reasonable access to their respective investment professionals in order to support the day-to-day operations of the Company.

(b) Subject to the terms of the Investment Allocation Policy, none of Constellation or any of its Affiliates, including the Manager, or any of its or their officers, directors, employees or personnel, shall have any duty to refrain from directly or indirectly:

(i) engaging in any business opportunity, including business opportunities in the same or similar business activities or lines of business in which the Company or any of its Affiliates may, from time to time, be engaged or propose to engage (a "Business Opportunity"), including (x) investing in, or rendering advisory services to others investing in, any type of business (including investments that meet the principal investment objectives of the Company), whether or not the investment objectives or policies of any such other Person are similar to those of the Company, including the sponsoring, branding, advising and/or managing of any Other Constellation Funds that employ investment objectives or strategies that overlap, in whole or in part, with the Investment Guidelines of the Company, (y) buying, selling or trading any securities or investments for their own accounts or for the account of others for whom Constellation or any of its Affiliates, including the Manager, or any of its or their officers, directors, employees or personnel may be acting, and (z) receiving fees or other compensation or profits from such activities described in this Section 3(b)(i), which shall be for Constellation's (and/or its Affiliates') sole benefit; or

(ii) competing with the Company, and none of Constellation or any of its Affiliates, including the Manager, shall be liable to the Company for breach of any duty (statutory, contractual or otherwise (other than for breach by Constellation or any of its Affiliates, including the Manager, of any express restrictions on competition contained in any written contract between Constellation or any of its Affiliates, including the Manager, on the one hand, and the Company, on the other hand)) by reason of the fact Constellation or any of its Affiliates, including the Manager, engages in any such activities, and the doctrine of corporate opportunity or any similar doctrine applicable to the Company shall not apply to Constellation or any of its Affiliates, including the Manager. The Company hereby renounces any interest or expectancy in, or in being offered an opportunity to participate in, any Business Opportunity presented to Constellation or any of its Affiliates, including the Manager, unless such Business Opportunity is offered to an Affiliate of Constellation who is a director or officer of the Company and such Business Opportunity is expressly offered to such director or officer in his or her capacity as a director or officer of the Company (a "Protected Opportunity"). Except for a Protected Opportunity, in the event that Constellation or any of its Affiliates, including the Manager, acquires knowledge of a Business Opportunity, Constellation or its applicable Affiliate, as the case may be, shall have no duty to communicate or offer such Business Opportunity to the Company or any of its Affiliates and shall not be liable to the Company by reason of the fact that Constellation or any of its Affiliates, including the Manager, pursues or acquires such Business Opportunity for itself, directs such Business Opportunity to another Person, or does not present such opportunity to the Company or its subsidiaries.

(c) While information and recommendations supplied to the Company and the Subsidiaries shall, in the Manager's reasonable and good faith judgment, be appropriate under the circumstances and in light of the investment objectives and policies of the Company, such information and recommendations may be different in certain material respects from the information and recommendations supplied by the Manager or any Affiliate of the Manager to others (including, for greater certainty, the Other Constellation Funds and their investors, including Other Constellation Funds in which the Manager or its Affiliates may have a beneficial interest, as described more fully in Section 3(d)). The Manager and the Company acknowledge and agree that, notwithstanding anything to the contrary contained herein, (i) Affiliates of the Manager sponsor, brand, advise and/or manage one or more Other Constellation Funds and may in the future sponsor, brand, advise and/or manage additional Other Constellation Funds, (ii) the Manager will allocate investment opportunities that overlap with the Investment Guidelines of the Company and such Other Constellation Funds in accordance with the Investment Allocation Policy, to the extent applicable, and (iii) nothing in this Agreement shall prevent the Company and the Subsidiaries from entering into transactions that constitute co-investments with Other Constellation Funds; provided that any such transaction described in this clause (iii) is (1) permitted pursuant to the Investment Guidelines or (2) receives or has received the prior approval of the Board of Directors (including a majority of the Independent Directors). The Investment Allocation Policy may not be materially amended in any manner that is reasonably likely to be adverse to the Company, unless such amendment has been approved by a majority of the Independent Directors.

(d) In connection with the services of the Manager hereunder, the Company acknowledges and/or agrees that (i) as part of Constellation's regular businesses, personnel of the Manager and its Affiliates may from time-to-time work on other projects and matters (including with respect to one or more Other Constellation Funds), and that conflicts may arise with respect to the allocation of personnel between the Company and the Subsidiaries and one or more Other Constellation Funds and/or the Manager and such other Affiliates, (ii) there may be circumstances where investments that are consistent with the Company's Investment Guidelines may be shared with or allocated to one or more Other Constellation Funds (in lieu of the Company and the Subsidiaries) in accordance with the Investment Allocation Policy, to the extent applicable, (iii) the Manager and its Affiliates may from time-to-time receive fees from portfolio entities or other issuers for the arranging, underwriting, syndication or refinancing of investments or other additional fees, including acquisition fees, loan servicing fees, special servicing fees and administrative fees and fees or advisory or asset management fees, including with respect to Other Constellation Funds and related portfolio entities, and while such fees may give rise to conflicts of interest, the Company and the Subsidiaries will not receive the benefit of any such fees, and (iv) the terms and conditions of the Governing Instruments of such Other Constellation Funds (including with respect to the economic, reporting and other rights afforded to investors in such Other Constellation Funds) are materially different from the terms and conditions applicable to the Company and the Subsidiaries and their respective equityholders, and none of the Company, the Subsidiaries or any such equityholders (in such capacity) shall have the right to receive the benefit of any such different terms applicable to investors in such Other Constellation Funds as a result of an investment in the Company or the Subsidiaries or otherwise.

(e) Where investments that are consistent with the Company's Investment Guidelines are shared with one or more Other Constellation Funds, the Manager may, but is not obligated to, aggregate sales and purchase orders of securities and other investments of the Company and the Subsidiaries with similar orders being made simultaneously for such Other Constellation Funds, if in the Manager's judgment, such aggregation is likely to result generally in an overall economic benefit to the Company and the Subsidiaries. The determination of such economic benefit to the Company and the Subsidiaries by the Manager is subjective and represents the Manager's evaluation that the Company and the Subsidiaries are benefited by relatively better purchase or sales prices, lower commission expenses, increased access to investment opportunities, beneficial timing of transactions or a combination of these and other factors.

(f) Managers, partners, officers, employees, personnel and agents of the Manager or Affiliates of the Manager may serve as directors, officers, employees, partners, personnel, agents, nominees or signatories for the Company and/or any Subsidiary, to the extent permitted by their Governing Instruments or by any resolutions duly adopted by the Board of Directors pursuant to the Company's Governing Instruments. When executing documents or otherwise acting in such capacities for the Company or the Subsidiaries, such persons shall use their respective titles in the Company or the Subsidiaries.

(g) Subject to Section 2(d), the Manager is authorized, for and on behalf of the Company, and at the sole cost and expense of Operating Company or its designee(s), to employ securities dealers for the purchase and sale of Investments as the Manager deems necessary or appropriate, in its sole discretion.

(h) The Company agrees to take, or cause to be taken, all actions reasonably required to permit and enable the Manager to carry out its duties and obligations under this Agreement, including all steps reasonably necessary to allow the Manager to make any filing or application, or provide any notice, required to be made or provided under the Securities Act, Exchange Act, Code, or other applicable law, rule or regulation, including the rules and regulations of the applicable National Securities Exchange on which the Common Stock is listed, on behalf of the Company in a timely manner. The Company further agrees to use commercially reasonable efforts to make available to the Manager all resources, information and materials reasonably requested by the Manager to enable the Manager to satisfy its obligations hereunder, including its obligations to deliver financial statements and any other information or reports with respect to the Company or any Subsidiary.

(i) In the event of a termination of this Agreement by the Company pursuant to Section 14(a), for two (2) years after such termination of this Agreement, the Company and the Subsidiaries shall not, and shall cause any successor to the Manager not to, without the consent of the Manager, employ or otherwise retain any employee of the Manager or any of its Affiliates or any person who has been employed by the Manager or any of its Affiliates at any time within the two (2)-year period immediately preceding the date on which such person commences employment with or is otherwise retained by the Company, a Subsidiary or any successor to the Manager. The Company acknowledges and agrees that, in addition to any damages, the Manager may be entitled to equitable relief for any violation of this Section 3(i) by the Company, the Subsidiaries or any successor to the Manager, including injunctive relief.

Section 4. Agency. The Manager shall act as agent of the Company and the Subsidiaries in making, acquiring, financing and disposing of Investments, disbursing and collecting the funds of the Company and the Subsidiaries, paying the debts and fulfilling the obligations of the Company and the Subsidiaries, supervising the performance of professionals engaged by or on behalf of the Company and the Subsidiaries and handling, prosecuting and settling any claims of or against the Company and the Subsidiaries, the Board of Directors, holders of the Company's securities or representatives or assets of the Company and the Subsidiaries.

Section 5. Bank Accounts. At the direction of the Board of Directors, the Manager may establish and maintain as an agent on behalf of the Company, one or more bank accounts in the name of the Company or any Subsidiary (any such account, a "Company Account"), and may collect and deposit funds into any such Company Account or Company Accounts, and disburse funds from any such Company Account or Company Accounts, under such terms and conditions as the Board of Directors may approve; and the Manager from time to time render appropriate accountings of such collections and payments to the Board of Directors and, upon request, to the auditors of the Company or any Subsidiary.

Section 6. Records; Confidentiality.

(a) The Manager shall maintain appropriate books of accounts and records relating to services performed under this Agreement, and such books of account and records shall be accessible for inspection by representatives of the Company or any Subsidiary at any time during normal business hours.

(b) The Manager shall keep confidential any and all confidential, proprietary or non-public information of or concerning the performance, terms, business, operations, activities, personnel, training, finances, actual or potential investments, plans, compensation, clients or investors of the Company or the Subsidiaries, written or oral, obtained by the Manager in connection with the services rendered under this Agreement ("Confidential Information") and shall not disclose any such Confidential Information (or use the same except in furtherance of its duties under this Agreement) to unaffiliated third parties, except: (i) to officers, directors, employees, agents, representatives or advisors of the Manager or its Affiliates who need to know such Confidential Information for the purpose of rendering services hereunder or in furtherance of Constellation's asset management or capital markets businesses; (ii) with the prior written consent of the Board of Directors; (iii) to legal counsel, accountants and other professional advisors; (iv) to appraisers, lenders or other potential financing sources, co-originators, custodians, administrators, brokers, commercial counterparties or any similar entity and others in the ordinary course of the Company's and the Subsidiaries' business; (v) to governmental agencies or officials having jurisdiction over the Company or any Subsidiary; (vi) in connection with (1) any governmental or regulatory filings of the Company or any Subsidiary (including any filings made by Constellation) or (2) subject to an undertaking of confidentiality, non-disclosure and non-use, disclosure or presentations to investors of the Company or Constellation; (vii) to existing or prospective investors in Other Constellation Funds and their advisors to the extent such persons reasonably request such information, subject to an undertaking of confidentiality, non-disclosure and non-use; (viii) otherwise with the consent of the Company, including pursuant to a separate agreement entered into between the Manager and/or any Other Constellation Fund and the Company; (ix) as required by law or legal process to which the Manager or any person to whom disclosure is permitted hereunder is a party; or (x) to the extent reasonably required in connection with the exercise of any remedy hereunder; provided, however, that with respect to clause (ix), it is agreed that, to the extent practicable and so long as not legally prohibited, the Manager will (w) provide the Company with written notice within a reasonable period of time of the existence, terms and circumstances surrounding the law or legal process requiring disclosure of such Confidential Information, (x) consult with the Company on the advisability of taking steps to resist or narrow such disclosure obligation, (y) if disclosure of such Confidential Information is required, furnish only such portion of the Confidential Information as the Manager is advised by counsel is legally required to be disclosed, and (z) cooperate, at the Company's expense, with any action reasonably requested by the Company in its efforts to obtain an order or other reliable assurance that confidential treatment will be accorded to such portion of the Confidential Information that is required to be disclosed. Notwithstanding the foregoing, Confidential Information shall not include information that (A) is in the public domain at the time it is received by the Manager, (B) becomes public other than by reason of a disclosure by the Manager in breach of this Agreement, (C) was already in the possession of the Manager prior to the time it was received by the Manager from the Company or its Affiliates, (D) was obtained by the Manager from a third party and, to the Manager's knowledge, was not disclosed in breach of an obligation of such third party not to disclose such information, or (E) was developed independently by the Manager without using or referring to any of the Confidential Information. The provisions of this Section 6(b) shall survive the expiration or earlier termination of this Agreement for a period of one (1) year.

Section 7. Obligations of Manager; Restrictions.

(a) The Manager shall require each seller or transferor of Investments to the Company and the Subsidiaries to make such representations and warranties regarding such assets as may, in the judgment of the Manager, be necessary and appropriate. In addition, the Manager shall take such other action as it deems necessary or appropriate with regard to the protection of the Investments.

(b) The Manager shall refrain from any action that, in its sole judgment made in good faith:

(i) is not in compliance with the Investment Guidelines;

(ii) would adversely and materially affect the qualification of the Company as a REIT under the Code;

(iii) would adversely and materially affect the Company's or any Subsidiary's status as an entity intended to be exempted or excluded from registration under the Investment Company Act; or

(iv) would violate any law, rule or regulation of any governmental body or agency having jurisdiction over the Company or any Subsidiary or that would otherwise not be permitted by the Company's Governing Instruments, code of conduct or other compliance or governance policies and procedures or those of the applicable National Securities Exchange on which the Common Stock is listed.

If the Manager is ordered to take any such action by the Board of Directors, the Manager shall promptly notify the Board of Directors if it is the Manager's judgment that such action would adversely and materially affect the qualification of the Company as a REIT, the Company's or any Subsidiary's status as an entity intended to be exempted or excluded from registration under the Investment Company Act, or violate any such law, rule or regulation or the Governing Instruments. Notwithstanding the foregoing, the Manager and its officers, directors, members, managers and employees shall not be liable to the Company or any Subsidiary or to any director or stockholder of the Company or any Subsidiary for acts or omissions performed in accordance with and pursuant to this Agreement, except as provided in Section 13 of this Agreement.

(c) The Board of Directors may periodically review the Investment Guidelines and the Company's and the Subsidiaries' portfolio of Investments, but is not required to review each proposed investment; provided that the Manager shall not consummate on behalf of the Company or any Subsidiary any transaction (other than a transaction that constitutes a co-investment, which is addressed in Section 3(c)(iii) above) that involves (i) the sale of any investment to, (ii) the acquisition of any investment from, (iii) investing in, (iv) merging with, (v) arranging financing from, or (vi) providing financing to, Constellation, any Other Constellation Fund or any of their Affiliates, unless such transaction (A) is on terms no more favorable to Constellation, any Other Constellation Fund or any of their Affiliates than would be obtained from a third party on an arm's length basis and (B) has been approved by a majority of the Independent Directors. In connection with the foregoing, it is understood and/or agreed for greater certainty that, while conflicts of interests may arise from time-to-time in connection with the investment activities of the Company, Constellation and the Other Constellation Funds (including as more fully described in Sections 3(c) and 3(d) above) and the Manager will seek to resolve any such conflicts of interest in a fair and equitable manner in accordance with the Investment Allocation Policy, to the extent applicable, and its prevailing policies and procedures with respect to conflicts resolution among Other Constellation Funds generally, there can be no assurance that any such conflicts will be resolved in favor of the Company and the Subsidiaries and only those transactions set forth above shall be required to be presented for approval by the Independent Directors; provided that the foregoing shall not limit the ability of the Manager, in its discretion, to present additional matters involving the Company and/or the Subsidiaries to the Independent Directors from time-to-time for review, advice and/or approval to the extent the Manager reasonably determines that doing so is appropriate under the circumstances (including as a result of a determination that such matters give rise to material conflicts of interest that are appropriate to be reviewed and/or approved by the Independent Directors); provided further that if (x) the majority of the Independent Directors approve any matter or transaction presented for their approval despite a conflict of interest after the Manager has disclosed all material facts relating to such conflict of interest or (y) the Manager acts in a manner, or pursuant to standards or procedures, approved by a majority of the Independent Directors with respect to such conflicts of interest that arise or may arise from time to time, then the Manager shall not have any liability to the Company, the Subsidiaries or any of their respective equityholders by reason of such conflict of interest for actions in respect of such matter taken in good faith by any of them, including actions in the pursuit of their own interests. If a majority of the Independent Directors determine in their periodic review of transactions that a particular transaction does not comply with the Investment Guidelines, then a majority of the Independent Directors will consider what corrective action, if any, can be taken. The Manager shall be permitted to rely upon the direction of the Secretary of the Company to evidence the approval of the Board of Directors or the Independent Directors with respect to a proposed investment.

(d) The Manager shall not consummate on behalf of the Company or any Subsidiary any offering or repurchase of the Company's common or preferred equity securities or debt obligations unless such offering or repurchase has been authorized and/or approved by the Board of Directors or a duly constituted committee of the Board of Directors.

(e) The Manager agrees to be bound by all policies and procedures, including the Company's code of conduct and other compliance and governance policies and procedures, applicable to the Manager and its officers, directors, members, managers and employees that are adopted by the Board of Directors from time to time, including those required under the Exchange Act, the Securities Act, or by the applicable National Securities Exchange on which the Common Stock is listed, and to take, or cause to be taken, all actions reasonably required to cause its officers, directors, members, managers and employees, and any principals, officers or employees of its Affiliates (including Constellation) who are involved in the business and affairs of the Company, to be bound by such policies and procedures to the extent applicable to such Persons.

(f) The Manager shall at all times during the term of this Agreement maintain "errors and omissions" insurance coverage and other insurance coverage that is customarily carried by asset and investment managers performing functions similar to those of the Manager under this Agreement with respect to assets similar to the assets of the Company and the Subsidiaries, in an amount which is comparable to that customarily maintained by other managers or servicers of similar assets.

Section 8. Base Management Fee.

(a) During the Initial Term and any Renewal Term, Operating Company or its designee(s) shall pay the Manager the Base Management Fee quarterly in arrears, commencing with the quarter in which the Effective Date occurs (with such initial and final payments pro-rated based on the number of days during such initial and final quarter, respectively, that this Agreement was in effect). The Base Management Fee is payable independent of the performance of the Company, any of the Subsidiaries or the Investments.

(b) The Manager shall compute each installment of the Base Management Fee within thirty (30) days after the end of the calendar quarter with respect to which such installment is payable. A copy of the computations made by the Manager to calculate such installment of the Base Management Fee shall thereafter promptly be delivered to the Board of Directors and, upon such delivery, payment of such installment of the Base Management Fee shown therein shall, subject in any event to Section 14(a) of this Agreement, be due and payable in cash no later than the date that is five (5) Business Days after the date of delivery to the Board of Directors of such computations.

(c) The Base Management Fee is subject to adjustment pursuant to and in accordance with the provisions of Section 14(a) of this Agreement.

Section 9. Incentive Fee.

(a) The Incentive Fee shall be payable in arrears in cash, in quarterly installments commencing with the quarter in which the Effective Date occurs. The Manager shall compute each quarterly installment of the Incentive Fee within forty-five (45) days after the end of the calendar quarter with respect to which such installment is payable. A copy of the computations made by the Manager to calculate such installment shall thereafter promptly be delivered to the Board of Directors and, upon such delivery, payment of such installment of the Incentive Fee shown therein shall be due and payable no later than the date which is five (5) Business Days after the date of delivery to the Board of Directors of such computations.

Section 10. Other Compensation Matters. As a component of the Manager's compensation, the Company or any Subsidiary may issue to the Manager or personnel of the Manager stock-based or other equity-based compensation under the Company's or any such Subsidiary's equity incentive plan.

Section 11. Expenses of the Company.

(a) Operating Company or its designee(s) shall pay all of the expenses of the Company Parties and shall reimburse the Manager for documented expenses of the Manager incurred on behalf of the Company Parties (collectively, the "Expenses") excepting only those expenses that are specifically the responsibility of the Manager pursuant to Section 2 of this Agreement. Notwithstanding anything contained herein to the contrary, the Manager shall have the right to cause any services contemplated by this Agreement (including pursuant to Sections 2(d) and 2(f)) to be rendered by the Manager's personnel or Affiliates (and Operating Company or its designee(s) shall pay or reimburse the Manager or its applicable Affiliate performing such services for the documented cost thereof); provided that such services may be provided by personnel or Affiliates of the Manager only to the extent that such costs and reimbursements are no greater than those that would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's length basis. Without limiting the generality of the foregoing, it is specifically agreed that the following costs and expenses of the Company Parties shall be paid by Operating Company or its designee(s) and shall not be paid by the Manager or Affiliates of the Manager:

(i) fees, costs and expenses in connection with the Initial Public Offering, if any;

(ii) fees, costs and expenses in connection with the issuance and transaction costs incident to the Company's and the Subsidiaries' unconsummated investments and the acquisition, negotiation, structuring, trading, settling disposition and financing of the Company's and the Subsidiaries' consummated Investments, including brokerage commissions, hedging costs, prime brokerage fees, custodial expenses, clearing and settlement charges, forfeited deposits, and other investment costs, fees and expenses actually incurred in connection with the pursuit, making, holding, settling, monitoring or disposing of actual or potential investments;

(iii) the cost of legal, tax, accounting, consulting, auditing, finance, administrative, investment banking, capital markets and other similar services rendered for the Company and the Subsidiaries by providers retained by the Manager, which may include personnel or Affiliates of the Manager;

(iv) the compensation and expenses of the Company's directors (excluding those directors who are officers of the Manager) and the cost of "errors and omissions" liability insurance to indemnify the Company's directors and officers;

(v) interest, fees and expenses arising out of borrowings made by the Company or any Subsidiary, including costs associated with the establishment and maintenance of any of the Company's or any Subsidiary's credit facilities, other financing arrangements, or other indebtedness of the Company or any Subsidiary (including commitment fees, accounting fees, legal fees, closing and other similar costs) or any of the Company's or any Subsidiary's securities offerings;

(vi) expenses connected with communications to holders of the Company's or any Subsidiary's securities and other bookkeeping and clerical work necessary in maintaining relations with holders of such securities and in complying with the continuous reporting and other requirements of governmental bodies or agencies, including all costs of preparing and filing required reports with the SEC, the costs payable by the Company to any transfer agent and registrar in connection with the listing and/or trading of the Company's stock on any National Securities Exchange, the fees payable by the Company to any such National Securities Exchange in connection with its listing, costs of preparing, printing and mailing the Company's annual report to its stockholders and proxy materials with respect to any meeting of the Company's stockholders;

(vii) technology-related expenses, including costs associated with any computer software or hardware, electronic equipment or purchased information technology services from third party vendors, in each case that is used by the Company and/or the Subsidiaries;

(viii) expenses incurred by managers, officers, personnel and agents of the Manager for travel solely on the Company’s behalf and other out-of-pocket expenses incurred by managers, officers, personnel and agents of the Manager in connection with the purchase, financing, refinancing, sale or other disposition of an Investment or the establishment and maintenance of any of the Company’s or any Subsidiary’s securitizations or any of their securities offerings;

(ix) costs and expenses incurred with respect to market information systems and publications, research publications and materials, and settlement, clearing and custodial fees and expenses applicable solely to the Company or any Subsidiary;

(x) the Company’s and the Subsidiaries’ allocable share of the compensation, including annual base salary, bonus, any related withholding taxes and employee benefits, paid to (1) the Manager’s personnel serving as the Company’s chief financial officer, based on the percentage of his or her time spent managing the Company’s and the Subsidiaries’ affairs, and (2) other corporate finance, tax, accounting, internal audit, legal risk management, operations, compliance and other non-investment personnel of the Manager or its Affiliates who spend all or a portion of their time managing the Company’s and the Subsidiaries’ affairs (and the Company’s and the Subsidiaries’ share of such costs shall be based upon the percentage of time devoted by such personnel of the Manager or its Affiliates to the Company’s and the Subsidiaries’ affairs);

(xi) compensation and expenses of the Company’s custodian, transfer agent and trustee, if any;

(xii) the cost of maintaining compliance with all U.S. federal, state and local rules and regulations or with any other regulatory agency;

(xiii) the costs and expenses relating to ongoing regulatory compliance matters and regulatory reporting obligations relating to the Company's and the Subsidiaries' activities;

(xiv) all taxes and license fees;

(xv) all insurance costs incurred in connection with the operation of the Company's and the Subsidiaries' business, except for the costs attributable to the insurance that the Manager elects to carry for itself and its personnel;

(xvi) costs and expenses incurred in contracting with third parties for the servicing of the assets of the Company and the Subsidiaries;

(xvii) all other costs and expenses relating to the Company's and the Subsidiaries' business and investment operations, including the costs and expenses of acquiring, owning, protecting, maintaining, developing and disposing of Investments, including appraisal, reporting, audit and legal fees;

(xviii) expenses relating to any office(s) or office facilities, including disaster backup recovery sites and facilities, maintained for the Company and the Subsidiaries or Investments separate from the office or offices of the Manager;

(xix) expenses connected with the payments of interest, dividends or distributions in cash or any other form authorized or caused to be made by the Board of Directors to or on account of holders of the Company's or any Subsidiary's securities, including in connection with any dividend reinvestment plan;

(xx) the costs of any litigation or other pending or threatened proceedings (whether civil, criminal or otherwise) involving the Company or any Subsidiary or their respective assets and the amount of any judgment or settlement against the Company or any Subsidiary, or against any trustee, director, partner, member or officer of the Company or of any Subsidiary in his, her or its capacity as such for which the Company or any Subsidiary is required to indemnify such Person by any court or governmental agency; and

(xxi) all other expenses actually incurred by the Manager (except as described below) that are reasonably necessary for the performance by the Manager of its duties and functions under this Agreement;

provided, however, that with respect to expenses incurred by the Manager in connection with assets acquired by or services rendered to the Company together with any Other Constellation Funds, Operating Company or its designee(s) shall only be responsible for the Company Parties' pro rata share of such expenses, based on the ratio of the amount of capital contributed by the Company Parties for any investment in such assets compared to the total capital invested in such assets.

(b) Operating Company or its designee(s) will be required to pay the Company's and the Subsidiaries' 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 operations of the Company and the Subsidiaries. These expenses will be allocated between the Manager, on the one hand, and the Company and the Subsidiaries, on the other hand, based on the ratio of the Company's and the Subsidiaries' proportion of gross assets compared to all remaining gross assets managed or held by Constellation and its Affiliates, including the Manager, as calculated at each quarter end. The Manager and the Company will modify this allocation methodology, subject to the Independent Directors' approval, if the allocation becomes inequitable (*i.e.*, if the Company and the Subsidiaries become highly leveraged compared to Constellation or the Other Constellation Funds). Operating Company or its designee(s) will also be required to pay the rent for office space and other office, internal and overhead expenses incurred by persons who are employed directly by the Company or the Subsidiaries and who are not simultaneously employed by the Manager or any of its Affiliates.

(c) The Manager may, at its option, elect not to seek reimbursement for certain expenses during a given quarterly period, which determination shall not be deemed to constitute a waiver of reimbursement for similar expenses in future periods.

(d) The provisions of this Section 11 shall survive the expiration or earlier termination of this Agreement to the extent such expenses have previously been incurred or are incurred in connection with such expiration or termination.

Section 12. Calculations of Expenses. The Manager shall prepare a written statement documenting in reasonable detail the Expenses during each calendar quarter, and shall use commercially reasonable efforts to deliver such statement to the Company within thirty (30) days after the end of each calendar quarter (subject to reasonable delays resulting from delays in the receipt of information). Expenses shall be reimbursed by Operating Company or its designee(s) to the Manager no later than the fifteenth (15th) Business Day immediately following the date of delivery of such statement; provided, however, that such reimbursements may be offset by the Manager against amounts due to the Company and the Subsidiaries from the Manager. The provisions of this Section 12 shall survive the expiration or earlier termination of this Agreement.

Section 13. Limits of the Manager's Responsibility; Indemnification.

(a) The Manager assumes no responsibility under this Agreement other than to render the services called for under this Agreement in good faith and shall not be responsible for any action of the Board of Directors in following or declining to follow any advice or recommendations of the Manager, including as set forth in Section 7(b) of this Agreement. To the fullest extent permitted by law, the Manager and its Affiliates, including their respective directors, members, officers, managers, employees, trustees, control persons, partners, stockholders and equityholders, will not be liable to the Company, any Subsidiary, the Board of Directors, the Company's stockholders or any Subsidiary's stockholders, members or partners for any acts or omissions by any such Person (including trade errors that may result from ordinary negligence, including errors in the investment decision making process or in the trade process), performed in accordance with and pursuant to this Agreement, whether by or through attempted piercing of the corporate veil, principles of fiduciary duty and agency, by or through a claim, by the enforcement of any judgment or assessment or by any legal or equitable proceeding, or by virtue of any statute, regulation or other applicable law, or otherwise, except by reason of acts or omission constituting gross negligence, fraud, willful misconduct, bad faith or reckless disregard of the Manager's duties under this Agreement.

(b) The Company, to the fullest extent permitted by law, shall indemnify and hold harmless the Manager, its Affiliates and the Manager's and its Affiliates' respective officers, directors, members, managers, employees, stockholders, partners, trustees, control persons and equityholders (each a "Manager Covered Person") from and against any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever, including reasonable legal fees and other expenses reasonably incurred (collectively, "Losses"), in respect of, arising out of or in connection with the business and operations of the Company or any Subsidiary or any action taken or omitted by any such Manager Covered Person in good faith by or on behalf of the Company or any Subsidiary pursuant to authority granted by this Agreement, except where found by a court of competent jurisdiction to be attributable to the gross negligence, fraud, willful misconduct or bad faith of any such Manager Covered Person or the reckless disregard by such Manager Covered Person of their duties under this Agreement. In the event that any Manager Covered Person becomes involved in any capacity in any suit, action, proceeding or investigation in connection with any matter arising out of or in connection with the Manager's duties hereunder, the Company will periodically reimburse such Manager Covered Person for its reasonable legal and other expenses (including the cost of any investigation and preparation) incurred in connection therewith; provided, however, that prior to any such advancement of expenses (i) such Manager Covered Person shall provide the Company with an undertaking to promptly repay to the Company the amount of any such expenses paid to it if it shall ultimately be determined that such Manager Covered Person is not entitled to be indemnified by the Company as herein provided in connection with such suit, action, proceeding or investigation, and (ii) such Manager Covered Person shall provide the Company with a written affirmation that such Manager Covered Person in good faith believes that it has met the standard of conduct necessary for indemnification hereunder; provided, further, however, that the failure for any reason of the Company to advance funds to any Manager Covered Person shall in no way affect such Manager Covered Person's right to reimbursement of such costs if it is ultimately determined that such Manager Covered Person was entitled to indemnification pursuant to the terms hereof.

(c) The Manager, to the fullest extent permitted by law, shall indemnify and hold harmless the Company, Operating Company and any other Subsidiary, including their respective officers, directors, members, managers, employees, stockholders, partners, trustees, control persons and equityholders (each, a "Company Covered Person"; a Manager Covered Person and a Company Covered Person are each sometimes hereinafter referred to as an "Indemnified Party") of and from any and all Losses in respect of, arising out of or in connection with (i) any action taken or omitted by the Manager that is found by a court of competent jurisdiction to constitute gross negligence, fraud, willful misconduct, bad faith or reckless disregard of the Manager's duties under this Agreement or (ii) any claims by the Manager's employees relating to the terms and conditions of their employment by the Manager.

(d) An Indemnified Party will promptly notify the party from whom indemnification is sought pursuant to Section 13(b) or 13(c), as applicable (the "Indemnifying Party"), of the occurrence of any action, claim, suit, proceeding or investigation (a "Claim") likely to result in an indemnification request pursuant hereto and shall describe the nature of the Claim; provided, however, that any failure by such Indemnified Party to notify the Indemnifying Party will not relieve the Indemnifying Party from its obligations hereunder, except to the extent that such failure shall have actually prejudiced the Indemnifying Party's ability to eliminate or reduce any liability or the defense of such action. Each Indemnified Party hereby undertakes, and the Indemnifying Party hereby accepts each Indemnified Party's undertaking, to repay any and all such amounts so advanced if it shall ultimately be determined that such Indemnified Party is not entitled to be indemnified therefor. The Indemnifying Party will be entitled to take control, at its own cost, in the defense of said Claim, including the selection of counsel, in the Indemnifying Party's sole discretion. In such a case, the Indemnified Party shall provide the Indemnifying Party with all necessary information and shall consult with the Indemnified Party on the conduct of its defense. Such cooperation shall include the retention and (upon the Indemnifying Party's request) the provision to the Indemnifying Party of records and information that are reasonably relevant to such third-party claim, and the use of reasonable efforts to make employees available to provide additional information and explanation of any material provided hereunder. Should the Indemnifying Party so elect to assume the defense of a third-party claim, the Indemnifying Party will not be liable to any Indemnified Party for legal expenses subsequently incurred by such Indemnified Party in connection with the defense thereof, unless the third-party claim involves potential conflicts of interest between the Indemnified Party and the Indemnifying Party. If the Indemnifying Party assumes such defense, the Indemnified Party shall have the right to participate in the defense thereof and to employ counsel, at its own expense (except as provided in the immediately preceding sentence), separate from the counsel employed by the Indemnifying Party, it being understood that the Indemnifying Party shall control such defense. No Indemnified Party shall settle, compromise or consent to the entry of a judgment with respect to any pending or threatened Claim in respect of which indemnification can be sought under this Agreement without the Indemnifying Party's prior written consent, in its sole discretion. The Indemnifying Party shall accept no liability or settlement in the context of Claims the consequences of which would be likely to give rise to indemnification pursuant hereto, without the prior written consent of the applicable Indemnified Party, unless such settlement agreement includes a full and unreserved clause of exclusion of liability of any Indemnified Party in the context of such dispute.

(e) Notwithstanding any provision of this Section 13 to the contrary, to the fullest extent permitted by law, (i) each Indemnified Party must use commercially reasonable efforts to pursue all other sources of indemnification, advancement, insurance and contribution it has against third parties, including portfolio companies (or any legal entity in which the Indemnifying Party holds an investment), with respect to the amounts to which it is entitled under this Section 13, (ii) any such third party, including any portfolio company (or any other legal entity in which the Indemnifying Party holds an investment), shall be the indemnitor of first resort and any obligation of the Indemnifying Party to provide payments under this Section 13 for amounts to which an Indemnified Party is entitled are secondary, (iii) if the Indemnifying Party pays or causes to be paid any amounts under this Section 13 that should have been paid by a third party, including any portfolio company (or any legal entity in which the Indemnifying Party holds an investment), then (A) the Indemnifying Party shall be fully subrogated to the rights of such Indemnified Party with respect to such payment, (B) such Indemnified Party shall assign to the Indemnifying Party all of such Indemnified Party's rights to advancement, indemnification and contribution from or with respect to such third party, including any portfolio company (or any legal entity in which the Indemnifying Party holds an investment), and (C) such Indemnified Party shall cooperate with the Indemnifying Party (at the expense of the Indemnifying Party) in its efforts to recover such payments through indemnification or otherwise, including filing a claim against such third party in the name of the Indemnified Party, (iv) the Indemnified Party will not agree to subordinate or otherwise compromise or release indemnity from a third party, including any portfolio company (or any legal entity in which the Indemnifying Party holds an investment) and (v) in the event the Indemnifying Party has previously provided separate indemnification or advancement in connection therewith, the Indemnified Party shall reimburse the Indemnifying Party with any subsequent proceeds it receives from such third parties, including portfolio companies (or other legal entities in which the Indemnifying Party holds an investment). The intent of this Section 13(e) is to set forth the relative responsibilities of the Indemnifying Party and other third parties, including portfolio companies (or other legal entities in which the Indemnifying Party holds an investment), who have overlapping indemnity, advancement or contribution obligations to an Indemnified Party. Nothing in this Section 13(e) is intended to diminish the indemnification and advancement rights given by the Indemnifying Party to an Indemnified Party, including the right to receive prompt payment of valid indemnification and advancement claims if any third party is unwilling or unable to do so promptly.

(f) The provisions of this Section 13 shall survive the expiration or earlier termination of this Agreement.

Section 14. Term; Termination.

(a) Until this Agreement is terminated in accordance with its terms, this Agreement shall continue in operation until the third (3rd) anniversary of the Effective Date (the "Initial Term") and shall be automatically renewed for a one (1)-year term on each anniversary date thereafter (a "Renewal Term") unless the Company or the Manager elects not to renew this Agreement in accordance with this Section 14(a) or Section 14(c), respectively. The Company may elect not to renew this Agreement upon the expiration of the Initial Term or any Renewal Term by providing at least one hundred eighty (180) days' prior written notice to the Manager (the "Termination Notice") only if there has been an affirmative vote of at least two-thirds of the Independent Directors that (i) there has been unsatisfactory performance by the Manager that is materially detrimental to the Company and the Subsidiaries or (ii) the compensation payable to the Manager, in the form of Base Management Fees and Incentive Fees, or the amount thereof, is unfair to any of the Company Parties. If the Company issues the Termination Notice, the Company shall be obligated to (x) specify the reason for nonrenewal in the Termination Notice (pursuant to either clause (i) or (ii) of the immediately preceding sentence of this paragraph) and (y) pay the Manager the Termination Fee on or before the last day of the Initial Term or Renewal Term (the "Effective Termination Date"). Notwithstanding the foregoing provisions of this Section 14(a), in the event that such Termination Notice is given in connection with a determination that the compensation payable to the Manager is unfair, the Manager shall have the right to renegotiate such compensation by delivering to the Company, no fewer than one hundred and twenty (120) days prior to the prospective Effective Termination Date, written notice (any such notice, a "Notice of Proposal to Negotiate") of its intention to renegotiate its compensation under this Agreement. Upon receipt by the Company of a Notice of Proposal to Negotiate, the Company (represented by the Independent Directors) and the Manager shall endeavor to negotiate in good faith the revised compensation payable to the Manager under this Agreement. If the Manager and at least two-thirds of the Independent Directors agree to the terms of the revised compensation to be payable to the Manager within one hundred and twenty (120) days following the Company's receipt of the Notice of Proposal to Negotiate, the Termination Notice from the Company shall be deemed of no force and effect, and this Agreement shall continue in full force and effect on the terms stated in this Agreement, except that the compensation payable to the Manager shall be the revised compensation then agreed upon by the Company and the Manager. The Company, Operating Company and the Manager agree to execute and deliver an amendment to this Agreement setting forth such revised compensation promptly upon reaching an agreement regarding the same. In the event that the Company and the Manager are unable to agree to the terms of the revised compensation to be payable to the Manager during such one hundred and twenty (120)-day period, this Agreement shall terminate, such termination to be effective on the date that is the later of (A) ten (10) days following the end of such one hundred and twenty (120)-day period and (B) the Effective Termination Date originally set forth in the Termination Notice, and Operating Company shall be obligated to pay the Manager the Termination Fee upon the effective date of termination as provided in Section 14(b) below. Nothing in this Section 14(a) shall prohibit the Company from discussing or negotiating with any Person the terms of a replacement manager and management agreement during such one hundred and twenty (120)-day period.

(b) In recognition of the upfront effort required by the Manager to structure and acquire the assets of the Company and the Subsidiaries and the commitment of resources by the Manager, in the event that this Agreement is terminated in accordance with the provisions of Section 14(a) or Section 15(b) of this Agreement, the Company shall pay to the Manager, on the date on which such termination is effective, a termination fee (the "Termination Fee") equal to three (3) times the sum of (i) the average annual Base Management Fee and (ii) the average annual Incentive Fee, in each case earned by the Manager during the twenty-four (24)-month period immediately preceding the most recently completed calendar quarter prior to the date of termination. The obligation of the Company to pay the Termination Fee shall survive the termination of this Agreement.

(c) No later than one hundred eighty (180) days prior to the expiration of the Initial Term or Renewal Term, the Manager may deliver written notice to the Company informing it of the Manager's intention to decline to renew this Agreement, whereupon this Agreement shall not be renewed and extended and this Agreement shall terminate effective upon the expiration of the Initial Term or the applicable Renewal Term following the delivery of such notice. The Company shall not be required to pay the Termination Fee to the Manager if the Manager terminates this Agreement pursuant to this Section 14(c).

(d) In the event of a termination or non-renewal of this Agreement, the Manager shall reasonably cooperate, at the Company's expense, with the Company in executing an orderly transition of the management of the Company's consolidated assets to a new manager.

Section 15. Termination for Cause.

(a) The Company may terminate this Agreement at any time, including during the Initial Term, upon at least thirty (30) days' prior written notice of termination from the Board of Directors to the Manager, without payment of any Termination Fee, if:

(i) the Manager engages in any act or omission that constitutes gross negligence, bad faith, fraud or willful misconduct; provided, however, that if any of the actions or omissions described in this Section 15(a)(i) are caused by an employee and/or officer of the Manager or one of its Affiliates and the Manager takes all necessary action against such person and cures the damage caused by such actions or omissions within thirty (30) days after the Manager's receipt of written notice thereof from the Company, then the Company may not terminate this Agreement pursuant to this Section 15(a)(i);

(ii) the Manager, its agents or its assignees breaches any material provision of this Agreement and such breach shall continue for a period of thirty (30) days after written notice thereof specifying such breach and requesting that the same be remedied in such thirty (30) day period (or forty-five (45) days after written notice of such breach if the Manager takes steps to cure such breach within thirty (30) days of the written notice);

(iii) there is a commencement of any proceeding relating to the Bankruptcy or insolvency of the Manager or Constellation, including an order for relief in an involuntary Bankruptcy case or the authorization or filing by the Manager or Constellation of a voluntary Bankruptcy petition;

(iv) the Manager is convicted (including a plea of nolo contendere) of a felony that has a material adverse effect on the business of the Company or the ability of the Manager to perform its duties under the terms of this Agreement; or

(v) there is a dissolution of the Manager.

(b) The Manager may terminate this Agreement effective upon sixty (60) days' prior written notice of termination to the Company in the event that the Company shall breach this Agreement in any material respect or otherwise be unable to perform its obligations hereunder and such breach shall continue for a period of thirty (30) days after written notice thereof from the Manager to the Company specifying such breach and requesting that the same be remedied in such thirty (30)-day period. The Company shall be required to pay the Termination Fee to the Manager if this Agreement is terminated pursuant to this Section 15(b).

(c) The Manager may terminate this Agreement in the event the Company becomes regulated or required to register as an "investment company" under the Investment Company Act, with such termination deemed to have occurred immediately prior to such event. If the Manager terminates this Agreement pursuant to this Section 15(c), the Company shall not be required to pay the Termination Fee.

Section 16. Survival; Action Upon Termination. From and after the effective date of termination or non-renewal of this Agreement, pursuant to Sections 14, 15 or 17 of this Agreement, the Manager shall not be entitled to compensation for further services under this Agreement, but shall be paid all compensation accruing to the date of termination and, if terminated or not renewed pursuant to Section 14(a) or 15(b), the applicable Termination Fee. Upon such termination, the Manager shall forthwith:

(i) after deducting any accrued compensation and reimbursement for Expenses to which it is then entitled, pay over to the Company or a Subsidiary all money collected and held for the account of the Company or a Subsidiary pursuant to this Agreement;

(ii) deliver to the Board of Directors a full accounting, including a statement showing all payments collected by it and a statement of all money held by it, covering the period following the date of the last accounting furnished to the Board of Directors with respect to the Company or a Subsidiary;

(iii) deliver to the Board of Directors all property and documents of the Company or any Subsidiary then in the custody of the Manager; provided that the Manager shall be permitted to retain copies of such documents for its records, and if so retained, the Manager shall continue to be bound by the confidentiality obligations and other obligations set forth in Section 6 of this Agreement with respect to the retained documents; and

(iv) Sections 3(i), 6, 11, 12, 13, 14, 15, 16 and 25 shall survive the termination or non-renewal of this Agreement.

Section 17. Assignment.

(a) This Agreement shall terminate automatically, without payment of the Termination Fee, in the event of its assignment, in whole or in part, by the Manager, unless such assignment is consented to in writing by the Company after the approval of a majority of the Independent Directors; provided, however, that the Manager may, at any time, (i) assign this Agreement without the consent of the Company or the approval of the Independent Directors to any Majority-Owned Affiliate of Constellation and/or (ii) delegate to one or more if its Affiliates, including sub-advisors where applicable, the performance of any of its responsibilities hereunder without the consent of the Company or the approval of the Independent Directors, so long as the Manager remains liable for any such Affiliate's performance, in each case so long as such assignment or delegation does not require the Company's consent under the Investment Advisers Act of 1940, as amended (but if any such consent is required, the Company shall not unreasonably withhold, condition or delay its consent). Any such permitted assignment shall bind the assignee under this Agreement in the same manner as the Manager is bound, and the Manager shall be liable to the Company for all errors or omissions of the assignee under any such assignment. In addition, the assignee shall execute and deliver to the Company a counterpart of this Agreement naming such assignee as Manager.

(b) This Agreement shall not be assigned by the Company without the prior written consent of the Manager, except in the case of assignment by the Company to another REIT or other organization that is a successor (by merger, consolidation, purchase of assets, or other transaction) to the Company, in which case such successor organization shall be bound under this Agreement and by the terms of such assignment in the same manner as the Company is bound under this Agreement.

Section 18. Release of Money or Other Property Upon Written Request. The Manager agrees that any money or other property of the Company or any Subsidiary held by the Manager under this Agreement shall be held by the Manager as custodian for the Company or Subsidiary, and the Manager's records shall be appropriately marked clearly to reflect the ownership of such money or other property by the Company or such Subsidiary. Upon the receipt by the Manager of a written request signed by a duly authorized officer of the Company requesting the Manager to release to the Company or any Subsidiary any money or other property then held by the Manager for the account of the Company or any Subsidiary under this Agreement, the Manager shall release such money or other property to the Company or any Subsidiary within a reasonable period of time, but in no event later than thirty (30) days following such request. The Manager shall not be liable to the Company, any Subsidiary, the Board of Directors, or the Company's or a Subsidiary's stockholders, members or partners for any acts performed or omissions to act by the Company or any Subsidiary in connection with the money or other property released to the Company or any Subsidiary in accordance with the second sentence of this Section 18. The Company shall indemnify the Manager and its officers, directors, personnel, managers, employees, stockholders, partners and agents from and against any and all Losses that arise out of or in connection with the Manager's release of such money or other property to the Company or any Subsidiary in accordance with the terms of this Section 18. Indemnification pursuant to this provision shall be in addition to any right of the Manager to indemnification under Section 13 of this Agreement.

Section 19. Representations and Warranties.

(a) The Company and Operating Company hereby make the following representations and warranties to the Manager, all of which shall survive the execution and delivery of this Agreement:

(i) Each of the Company and Operating Company is a corporation or limited liability company duly organized, validly existing and in good standing under the laws of the State of Maryland or the State of Delaware, as applicable, and each is, or shall be prior to the commencement of services hereunder, qualified to do business and in good standing in Maryland or Delaware, as applicable. Each of the Company and Operating Company has all power and authority required to execute and deliver this Agreement and to perform all its duties and obligations hereunder.

(ii) The execution, delivery and performance of this Agreement by each of the Company and Operating Company has been duly authorized by all necessary action on the part of the Company and Operating Company, respectively.

(iii) This Agreement constitutes a legal, valid, and binding agreement of each of the Company and Operating Company, enforceable against each of the Company and Operating Company in accordance with its terms, except as limited by Bankruptcy, insolvency, receivership and similar laws from time to time in effect and general principles of equity, including those relating to the availability of specific performance.

(b) The Manager hereby makes the following representations and warranties to the Company, all of which shall survive the execution and delivery of this Agreement:

(i) The Manager is a limited liability company duly formed, validly existing, and in good standing under the laws of the State of Delaware and is, or shall be prior to the commencement of services hereunder, qualified to do business and in good standing in Delaware. The Manager has all power and authority required to execute and deliver this Agreement and to perform all its duties and obligations hereunder, subject only to its qualifying to do business and obtaining all requisite permits and licenses required as a result of or relating to the nature or location of any of the assets or properties of the Company and the Subsidiaries (which it shall do promptly after being required to do so).

(ii) The execution, delivery and performance of this Agreement by the Manager has been duly authorized by all necessary action on the part of the Manager.

(iii) This Agreement constitutes a legal, valid, and binding agreement of the Manager, enforceable against the Manager in accordance with its terms, except as limited by Bankruptcy, insolvency, receivership and similar laws from time to time in effect and general principles of equity, including those relating to the availability of specific performance.

Section 20. Notice. All notices, requests and other communications given or made under this Agreement must be in writing and will be deemed given if personally delivered, electronic transmission or mailed by registered or certified mail (return receipt requested) to the persons and addresses set forth below or such other place as such party may specify by like notice (provided that notices of a change of address will be effective only upon receipt thereof).

The Company or Operating Company:

Colony Credit Real Estate, Inc.
515 South Flower Street
44th Floor
Los Angeles, CA 90071
Attention: Director, Legal Department

Email: clny-legal@clny.com

The Manager:

CLNC Manager, LLC
515 South Flower Street
44th Floor
Los Angeles, CA 90071
Attention: Director, Legal Department

Email: clny-legal@clny.com

Notices will be deemed to have been received (a) on the date of receipt if (i) personally delivered or (ii) upon receipt of an appropriate electronic answerback or confirmation when so delivered by electronic submission (to such email address specified above or another email address as such person may subsequently designate by notice given hereunder) only if followed by overnight or hand delivery or (b) on the date that is five (5) business days after dispatch by registered or certified mail.

Section 21. Binding Nature of Agreement; Successors and Assigns; No Third Party Beneficiaries. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns as provided in this Agreement. Except for Section 3 and Section 13, none of the provisions of this Agreement are intended to be, nor shall they be construed to be, for the benefit of any third party.

Section 22. Entire Agreement. This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter of this Agreement, and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter of this Agreement. The express terms of this Agreement control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms of this Agreement.

Section 23. Amendments. This Agreement may be amended or modified only by an agreement in writing signed by all parties hereto.

Section 24. No Implied Waivers; Remedies. No failure or delay on the part of any party in exercising any right, privilege, power or remedy under this Agreement, and no course of dealing, shall operate as a waiver of any such right, privilege, power or remedy; nor shall any single or partial exercise of any right, privilege, power or remedy under this Agreement preclude any other or further exercise of any such right, privilege, power or remedy or the exercise of any other right, privilege, power or remedy. No waiver shall be asserted against any party unless signed in writing by such party. The rights, privileges, powers and remedies available to the parties are cumulative and not exclusive of any other rights, privileges, powers or remedies provided by statute, at law, in equity or otherwise. Except as provided in this Agreement, no notice to or demand on any party in any case shall entitle such party to any other or further notice or demand in any similar or other circumstances or constitute a waiver of the right of the party giving such notice or making such demand to take any other or further action in any circumstances without notice or demand.

Section 25. Governing Law. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF DELAWARE. EACH OF THE PARTIES HEREBY IRREVOCABLY AGREES THAT THE COURTS OF THE STATE OF DELAWARE SHALL HAVE EXCLUSIVE JURISDICTION IN CONNECTION WITH ANY ACTIONS OR PROCEEDINGS ARISING BETWEEN THE PARTIES UNDER THIS AGREEMENT. EACH OF THE PARTIES HEREBY IRREVOCABLY CONSENTS AND SUBMITS TO THE JURISDICTION OF SAID COURTS FOR ANY SUCH ACTION OR PROCEEDING. EACH OF THE PARTIES HEREBY WAIVES THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF ANY SUCH ACTION OR PROCEEDING IN SAID COURTS.

Section 26. Waiver of Jury Trial. EACH PARTY HERETO ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND, THEREFORE, EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY ACTION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.

Section 27. Headings. The headings contained in this Agreement are for convenience only and shall not affect the construction or interpretation of any provisions of this Agreement.

Section 28. Severability. If any provision of the Agreement shall be held to be invalid, the remainder of the Agreement shall not be affected thereby.

Section 29. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts of this Agreement, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their representatives on the date first written above.

Colony Credit Real Estate, Inc.

By: /s/ David A. Palamé
Name: David A. Palamé
Title: General Counsel

Credit RE Operating Company, LLC

By: /s/ David A. Palamé
Name: David A. Palamé
Title: Vice President

CLNC Manager, LLC

By: /s/ Mark M. Hedstrom
Name: Mark M. Hedstrom
Title: Vice President

[Signature Page to Amended and Restated Management Agreement]

Exhibit A

The Board of Directors has adopted the following investment guidelines:

a. No investment shall be made that would cause the Company to fail to qualify as a REIT for U.S. federal income tax purposes;

b. No investment shall be made that would cause the Company or any Subsidiary to be required to be registered as an investment company under the Investment Company Act;

c. Until appropriate investments can be identified, the Manager may invest the proceeds of the Company's Initial Public Offering, if any, and any future offerings in interest-bearing, short-term investments, including money market accounts and/or U.S. treasury securities, that are consistent with the Company's intention to qualify as a REIT and maintain its exemption from registration under the Investment Company Act;

d. No investment shall require prior approval of the Board of Directors or a majority of the Independent Directors solely because such investment constitutes (1) a co-investment made by and between the Company or any Subsidiary, on the one hand, and one or more investment vehicles formed, sponsored and managed by Constellation or any of its subsidiaries, on the other hand, regardless of when such co-investment is made, or (2) a transaction related to any such co-investment;

e. Any investment with a total net commitment by Operating Company of greater than 5% of Operating Company's net equity (computed using the most recently available publicly filed balance sheet) shall require the approval of the Board of Directors or a duly constituted committee of the Board of Directors (with total net commitment by Operating Company being the aggregate amount of funds directly or indirectly committed by Operating Company to such investment net of any upfront fees received by the Company or any Subsidiary in connection with such investment); and

f. Any investment with a total net commitment by Operating Company of between 3% and 5% of Operating Company's net equity (computed using the most recently available publicly filed balance sheet) shall require the approval of the Board of Directors or a duly constituted committee of the Board of Directors (with total net commitment by Operating Company being the aggregate amount of funds directly or indirectly committed by Operating Company to such investment net of any upfront fees received by the Company or any Subsidiary in connection with such investment), unless the investment falls within specific parameters approved by the Board of Directors and in effect at the time such commitment is made.

These Investment Guidelines may be amended, restated, modified, supplemented or waived pursuant to the approval of the Board (which must include a majority of the Independent Directors) and the Manager from time to time, but without the approval of the Company’s stockholders.

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 8, 2019

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 8, 2019

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 nine months ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, 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 8, 2019

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 nine months ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, 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 8, 2019

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.