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

FORM 10-Q

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

For the quarterly period ended June 30, 2021

OR

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

Commission File Number: 001-38377

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

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

590 Madison Avenue, 33rd Floor
New York, NY 10022
(Address of Principal Executive Offices, Including Zip Code)
(212) 547-2631
(Registrant’s Telephone Number, Including Area Code)
Colony Credit Real Estate, Inc.
515 S. Flower Street, 44th Floor
Los Angeles, California 90071
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

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

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

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

As of August 4, 2021, BrightSpire Capital, Inc. had 129,759,132 shares of Class A common stock, par value $0.01 per share, outstanding

BRIGHTSPIRE CAPITAL, INC.

FORM 10-Q

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Special Note Regarding Forward-Looking Statements

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

Currently, one of the most significant factors that could cause actual outcomes to differ materially from our forward-looking statements is the adverse effect of the current pandemic of the novel coronavirus, or COVID-19, on the financial condition, results of operations, cash flows and performance of the Company, its borrowers and tenants, the real estate market and the global economy and financial markets. The extent to which the COVID-19 pandemic impacts us, our borrowers and our tenants will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, the availability and acceptance of effective vaccines, and the direct and indirect economic effects of the pandemic and containment measures, among others.

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

- operating costs and business disruption may be greater than expected;
- the novel coronavirus pandemic, measures intended to prevent its spread and government actions to mitigate its economic impact have had and may continue to have a material adverse effect on our business, results of operations and financial condition;
- we depend on borrowers and tenants for a substantial portion of our revenue and, accordingly, our revenue and our ability to make distributions to stockholders will be dependent upon the success and economic viability of such borrowers and tenants;
- deterioration in the performance of the properties securing our investments (including depletion of interest and other reserves or payment-in-kind concessions in lieu of current interest payment obligations) that may cause deterioration in the performance of our investments and, potentially, principal losses to us (including, but not limited to, the Los Angeles mixed-use development loan, other hospitality loans and Dublin development financings);
- the fair value of our investments may be subject to uncertainties or decrease;
- our ability to realize the anticipated benefits from the internalization of management following the termination of our relationship with our former external manager;
- the ability to realize substantial efficiencies as well as anticipated strategic and financial benefits, including, but not limited to expected returns on equity and/or yields on investments;
- adverse impacts on our corporate revolver, including covenant compliance and borrowing base capacity;
- adverse impacts on our liquidity, including margin calls on master repurchase facilities, debt service or lease payment defaults or deferrals, demands for protective advances and capital expenditures;
- our real estate investments are relatively illiquid and we may not be able to vary our portfolio in response to changes in economic and other conditions, which may result in losses to us;
- the timing of and ability to deploy available capital;
- we have not established a minimum distribution payment level, and we cannot assure you of our ability to pay distributions in the future;
- the timing of and ability to complete repurchases of our stock;
- we are subject to risks associated with obtaining mortgage financing on our real estate, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to stockholders;
- the impact of legislative, regulatory and competitive changes and the actions of governmental authorities, and in particular those affecting the commercial real estate finance and mortgage industry or our business.

The foregoing list of factors is not exhaustive. We urge you to carefully review the disclosures we make concerning risks in the sections entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020, the section entitled “Risk Factors” in our Form 10-Q for the quarter ended June 30, 2021 herein and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” herein.

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2021 (Unaudited)	December 31, 2020
Assets		
Cash and cash equivalents	$ 210,182	$ 474,817
Restricted cash	81,837	65,213
Loans and preferred equity held for investment	2,852,935	2,220,688
Allowance for loan losses	(42,152)	(37,191)
Loans and preferred equity held for investment, net	2,810,783	2,183,497
Real estate securities, available for sale, at fair value	4,045	10,389
Real estate, net	811,966	839,257
Investments in unconsolidated ventures ($4,876 and $6,883 at fair value, respectively)	313,424	373,364
Receivables, net	110,698	37,375
Deferred leasing costs and intangible assets, net	70,419	75,700
Assets held for sale	27,615	323,356
Other assets	88,699	60,900
Mortgage loans held in securitization trusts, at fair value	912,115	1,768,069
Total assets	$ 5,441,783	$ 6,211,937
Liabilities		
Securitization bonds payable, net	$ 836,234	$ 835,153
Mortgage and other notes payable, net	764,522	1,022,757
Credit facilities	1,002,789	535,224
Due to related party (Note 10)	—	10,060
Accrued and other liabilities	84,939	96,578
Intangible liabilities, net	6,934	7,657
Liabilities related to assets held for sale	—	323
Escrow deposits payable	67,472	36,973
Dividends payable	18,597	—
Mortgage obligations issued by securitization trusts, at fair value	872,605	1,708,534
Total liabilities	3,654,092	4,253,259
Commitments and contingencies (Note 16)		
Equity		
Stockholders' equity		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively	—	—
Common stock, $0.01 par value per share		
Class A, 950,000,000 shares authorized, 129,759,132 and 128,564,930 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively	1,298	1,286
Additional paid-in capital	2,851,916	2,844,023
Accumulated deficit	(1,377,412)	(1,234,224)
Accumulated other comprehensive income	48,812	54,588
Total stockholders' equity	1,524,614	1,665,673
Noncontrolling interests in investment entities	227,380	253,225
Noncontrolling interests in the Operating Partnership	35,697	39,780
Total equity	1,787,691	1,958,678
Total liabilities and equity	$ 5,441,783	$ 6,211,937

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

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

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

	June 30, 2021 (Unaudited)	December 31, 2020
Assets		
Cash and cash equivalents	$ 10,228	$ 19,248
Restricted cash	11,296	15,397
Loans and preferred equity held for investment, net	929,192	919,681
Real estate, net	408,214	413,057
Investments in unconsolidated ventures	194,475	252,384
Receivables, net	88,182	25,127
Deferred leasing costs and intangible assets, net	48,098	52,240
Other assets	21,922	21,984
Mortgage loans held in securitization trusts, at fair value	908,764	1,768,069
Total assets	$ 2,620,371	$ 3,487,187
Liabilities		
Securitization bonds payable, net	$ 836,234	$ 835,153
Mortgage and other notes payable, net	377,918	399,337
Accrued and other liabilities	80,904	98,576
Intangible liabilities, net	6,934	7,657
Escrow deposits payable	3,677	3,591
Mortgage obligations issued by securitization trusts, at fair value	869,254	1,708,534
Total liabilities	$ 2,174,921	$ 3,052,848

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

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

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net interest income				
Interest income	$ 37,921	$ 39,508	$ 72,295	$ 85,612
Interest expense	(12,993)	(16,745)	(25,488)	(37,489)
Interest income on mortgage loans held in securitization trusts	11,390	20,539	31,079	41,094
Interest expense on mortgage obligations issued by securitization trusts	(10,111)	(18,364)	(27,447)	(36,423)
Net interest income	26,207	24,938	50,439	52,794
Property and other income				
Property operating income	24,799	43,722	50,521	96,235
Other income (loss)	1,110	(8,360)	1,155	1,049
Total property and other income	25,909	35,362	51,676	97,284
Expenses				
Management fee expense	2,338	7,206	9,596	15,152
Property operating expense	6,758	16,311	14,869	38,842
Transaction, investment and servicing expense	644	2,907	2,932	6,041
Interest expense on real estate	7,777	11,818	16,410	24,896
Depreciation and amortization	9,994	14,020	19,533	31,996
Provision for loan losses	1,200	(51)	4,425	69,881
Impairment of operating real estate	—	25,935	—	30,061
Administrative expense (including $5,443, $1,549, $9,705 and $1,891 of equity-based compensation expense, respectively)	14,053	6,751	26,648	13,789
Restructuring charges	150	—	109,321	—
Total expenses	42,914	84,897	203,734	230,658
Other income (loss)				
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	19,516	(8,975)	28,154	(28,427)
Realized loss on mortgage loans and obligations held in securitization trusts, net	(19,516)	—	(19,516)	—
Other gain (loss), net	836	(119,633)	9,203	(139,795)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	10,038	(153,205)	(83,778)	(248,802)
Equity in earnings (loss) of unconsolidated ventures	(33,788)	(85,277)	(36,266)	(68,110)
Income tax benefit (expense)	134	(2,102)	1,935	(3,813)
Net loss	(23,616)	(240,584)	(118,109)	(320,725)
Net loss attributable to noncontrolling interests:				
Investment entities	3,459	8,107	3,685	7,584
Operating Partnership	437	5,418	2,390	7,310
Net loss attributable to BrightSpire Capital, Inc. common stockholders	$ (19,720)	$ (227,059)	$ (112,034)	$ (305,831)
Net loss per common share - basic and diluted (Note 18)	$ (0.15)	$ (1.77)	$ (0.87)	$ (2.38)
Weighted average shares of common stock outstanding - basic and diluted (Note 18)	128,298	128,539	128,297	128,513

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Net loss	$ (23,616)	$ (240,584)	$ (118,109)	$ (320,725)
Other comprehensive income (loss)				
Unrealized gain (loss) on real estate securities, available for sale	—	58,510	(200)	(16,519)
Change in fair value of net investment hedges	—	—	—	21,764
Foreign currency translation gain (loss)	2,213	11,097	(6,319)	(8,339)
Total other comprehensive income (loss)	2,213	69,607	(6,519)	(3,094)
Comprehensive loss	(21,403)	(170,977)	(124,628)	(323,819)
Comprehensive (income) loss attributable to noncontrolling interests:				
Investment entities	3,123	7,850	4,125	7,327
Operating Partnership	526	4,014	2,694	7,608
Comprehensive loss attributable to common stockholders	$ (17,754)	$ (159,113)	$ (117,809)	$ (308,884)

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

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

	Common Stock Class A Shares	Common Stock Class A Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Noncontrolling Interests in Investment Entities	Noncontrolling Interests in the Operating Partnership	Total Equity
Balance as of December 31, 2019	128,539	$ 1,285	$ 2,909,181	$ (819,738)	$ 28,294	$ 2,119,022	$ 31,631	$ 50,697	$ 2,201,350
Distributions	—	—	—	—	—	—	(11,013)	—	(11,013)
Issuance and amortization of equity-based compensation	—	—	342	—	—	342	—	—	342
Other comprehensive income	—	—	—	—	(70,999)	(70,999)	—	(1,702)	(72,701)
Dividends and distributions declared ($0.30 per share)	—	—	—	(38,541)	—	(38,541)	—	(922)	(39,463)
Shares canceled for tax withholding on vested stock awards	(173)	(1)	(1,686)	—	—	(1,687)	—	—	(1,687)
Reallocation of equity	—	—	(41)	—	—	(41)	—	41	—
Costs of noncontrolling equity	—	—	—	—	—	—	—	—	—
Investment by JV partner in consolidated JV and equity reallocation related to that partner's return (see Note 2)	—	—	—	—	—	—	—	—	—
Effect of CECL Adoption (see Note 2)	—	—	—	(22,644)	—	(22,644)	—	(542)	(23,186)
Net income (loss)	—	—	—	(78,772)	—	(78,772)	523	(1,892)	(80,141)
Balance as of March 31, 2020	128,366	$ 1,284	$ 2,907,796	$ (959,695)	$ (42,705)	$ 1,906,680	$ 21,141	$ 45,680	$ 1,973,501
Contributions	—	—	—	—	—	—	200,467	—	200,467
Distributions	—	—	—	—	—	—	(3,156)	—	(3,156)
Issuance and amortization of equity-based compensation	237	2	1,547	—	—	1,549	—	—	1,549
Other comprehensive income	—	—	—	—	67,946	67,946	257	1,404	69,607
Dividends and distributions declared ($0.10 per share)	—	—	—	—	—	—	—	—	—
Shares canceled for tax withholding on vested stock awards	(20)	—	(81)	—	—	(81)	—	—	(81)
Reallocation of equity	—	—	1,777	—	—	1,777	—	(1,777)	—
Costs of noncontrolling equity	—	—	(466)	—	—	(466)	—	—	(466)
Investments by JV partner in consolidated JV and equity reallocation to that partner's return (see Note 2)	—	—	(70,439)	—	—	(70,439)	70,439	—	—
Net income (loss)	—	—	—	(227,059)	—	(227,059)	(8,107)	(5,418)	(240,584)
Balance as of June 30, 2020	128,583	$ 1,286	$ 2,840,134	$ (1,186,754)	$ 25,241	$ 1,679,907	$ 281,041	$ 39,889	$ 2,000,837

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

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

	Common Stock Class A		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Noncontrolling Interests in Investment Entities	Noncontrolling Interest in the Operating Partnership	Total Equity
	Shares	Amount							
Balance as of December 31, 2020	128,565	$ 1,286	$ 2,844,023	$ (1,234,224)	$ 54,588	$ 1,665,673	$ 253,225	$ 39,780	$ 1,958,678
Contributions	—	—	—	—	—	—	1,384	—	1,384
Distributions	—	—	—	—	—	—	(10,794)	—	(10,794)
Issuance and amortization of equity-based compensation	1,420	14	4,248	—	—	4,262	—	—	4,262
Other comprehensive income	—	—	—	—	(7,742)	(7,742)	(776)	(215)	(8,733)
Dividends and distributions declared ($0.10 per share)	—	—	—	(12,988)	—	(12,988)	—	(308)	(13,296)
Shares canceled for tax withholding on vested stock awards	(136)	(2)	(1,307)	—	—	(1,309)	—	—	(1,309)
Reallocation of equity	—	—	521	—	—	521	—	(521)	—
Net income (loss)	—	—	—	(92,314)	—	(92,314)	(226)	(1,953)	(94,493)
Balance as of March 31, 2021	129,849	$ 1,298	$ 2,847,485	$ (1,339,526)	$ 46,846	$ 1,556,103	$ 242,813	$ 36,783	$ 1,835,699
Contributions	—	—	—	—	—	—	838	—	838
Distributions	—	—	—	—	—	—	(13,148)	—	(13,148)
Issuance and amortization of equity-based compensation	41	—	5,443	—	—	5,443	—	—	5,443
Other comprehensive income	—	—	—	—	1,966	1,966	336	(89)	2,213
Dividends and distributions declared ($0.14 per share)	—	—	—	(18,166)	—	(18,166)	—	(431)	(18,597)
Shares canceled for tax withholding on vested stock awards	(131)	—	(1,141)	—	—	(1,141)	—	—	(1,141)
Reallocation of equity	—	—	129	—	—	129	—	(129)	—
Net income (loss)	—	—	—	(19,720)	—	(19,720)	(3,459)	(437)	(23,616)
Balance as June 30, 2021	129,759	$ 1,298	$ 2,851,916	$ (1,377,412)	$ 48,812	$ 1,524,614	$ 227,380	$ 35,697	$ 1,787,691

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

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

	Six Months Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Net loss	$ (118,109)	$ (320,725)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in (earnings) losses of unconsolidated ventures	35,624	68,110
Depreciation and amortization	19,533	31,996
Straight-line rental income	(1,407)	(1,818)
Amortization of above/below market lease values, net	(26)	(565)
Amortization of premium/accretion of discount and fees on investments and borrowings, net	(2,582)	(6,066)
Amortization of deferred financing costs	5,893	6,290
Amortization of right-of-use lease assets and operating lease liabilities	52	49
Paid-in-kind interest added to loan principal, net of interest received	(4,240)	(6,382)
Distributions of cumulative earnings from unconsolidated ventures	—	13,429
Unrealized (gain) loss on mortgage loans and obligations held in securitization trusts, net	(28,154)	28,427
Realized loss on mortgage loans and obligations held in securitization trusts, net	19,516	—
Realized loss on securities from write-down to fair value	990	29,240
Realized gain on sale of real estate securities, available for sale	(131)	57,045
Realized gain on sale of real estate	(11,911)	—
Provision for loan losses	4,425	69,881
Impairment of operating real estate	—	30,061
Amortization of equity-based compensation	9,705	1,891
Mortgage notes above/below market value amortization	63	(817)
Deferred income tax (benefit) expense	(1,910)	719
Other (gain) loss, net	1,369	23,531
Changes in assets and liabilities:		
Receivables, net	(1,952)	2,159
Deferred costs and other assets	(22,937)	20,432
Due to related party	(10,059)	(1,377)
Other liabilities	(22,363)	(15,943)
Net cash provided (used in) by operating activities	(128,611)	29,567
Cash flows from investing activities:		
Acquisition, origination and funding of loans and preferred equity held for investment, net	(822,834)	(66,722)
Repayment on loans and preferred equity held for investment	124,198	160,069
Repayment on loans held for sale	—	32,576
Proceeds from sale of real estate	332,003	161,817
Acquisition of and additions to real estate, related intangibles and leasing commissions	(2,612)	(15,196)
Investments in unconsolidated ventures	(3,499)	(47,541)
Proceeds from sale of investments in unconsolidated ventures	—	99,985
Distributions in excess of cumulative earnings from unconsolidated ventures	21,433	24,170
Repayment of real estate securities, available for sale, from sales	5,079	89,680
Repayment of real estate securities, available for sale, from cost recovery	210	2,106
Repayment of principal in mortgage loans held in securitization trusts	9,649	13,138
Proceeds from sale of beneficial interests of securitization trusts	28,662	—
Net receipts on settlement of derivative instruments	—	19,637
Change in escrow deposits	30,498	(23,892)
Net cash provided (used in) by investing activities	(277,213)	449,827
Cash flows from financing activities:		
Distributions paid on common stock	(12,864)	(51,705)
Distributions paid on common stock to noncontrolling interests	(431)	(922)
Shares canceled for tax withholding on vested stock awards	(2,451)	(1,769)
Borrowings from mortgage notes	3,069	13,338
Repayment of mortgage notes	(263,329)	(77,893)
Borrowings from credit facilities	675,429	255,128
Repayment of credit facilities	(207,992)	(454,188)
Repayment of mortgage obligations issued by securitization trusts	(9,649)	(13,138)
Payment of deferred financing costs	(4,186)	(6,842)
Contributions from noncontrolling interests	2,222	200,001
Distributions to noncontrolling interests	(23,942)	(14,169)
Net cash provided by (used in) financing activities	155,876	(152,159)
Effect of exchange rates on cash, cash equivalents and restricted cash	1,937	(957)
Net increase (decrease) in cash, cash equivalents and restricted cash	(248,011)	326,278
Cash, cash equivalents and restricted cash - beginning of period	540,030	195,684
Cash, cash equivalents and restricted cash - end of period	$ 292,019	$ 521,962

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

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

	Six Months Ended June 30,	
	2021	2020
Reconciliation of cash, cash equivalents, and restricted cash to consolidated balance sheets		
Beginning of the period		
Cash and cash equivalents	$ 474,817	$ 69,619
Restricted cash	65,213	126,065
Total cash, cash equivalents and restricted cash, beginning of period	$ 540,030	$ 195,684
End of the period		
Cash and cash equivalents	$ 210,182	$ 437,951
Restricted cash	81,837	84,011
Total cash, cash equivalents and restricted cash, end of period	$ 292,019	$ 521,962

	Six Months Ended June 30,	
	2021	2020
Supplemental disclosure of non-cash investing and financing activities:		
Deconsolidation of securitization trust (VIE asset/liability reductions)	$ (802,195)	$ —
Accrual of distribution payable	(18,597)	(13,164)
Right-of-use lease assets and operating lease liabilities	5,435	(730)

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

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

1. Business and Organization

On June 24, 2021, BrightSpire Capital, Inc. (together with its consolidated subsidiaries, the "Company") changed its name from Colony Credit Real Estate, Inc. As of June 25, 2021, the Company also changed its principal place of business and corporate headquarters from Los Angeles to New York City, now located at 590 Madison Avenue, 33rd Floor, New York, NY 10022. The Company will continue to be publicly traded on the New York Stock Exchange, trading under the new ticker symbol, BRSP.

BrightSpire Capital, Inc. is a commercial real estate ("CRE") credit real estate investment trust ("REIT") focused on originating, acquiring, financing and managing a diversified portfolio consisting primarily of CRE debt investments and net leased properties predominantly in the United States. CRE debt investments primarily consist of first mortgage loans, which the Company expects to be its primary investment strategy. Additionally, the Company may selectively originate mezzanine loans and make preferred equity investments, which may include profit participations. The mezzanine loans and preferred investments equity may be in conjunction with the Company's origination of corresponding first mortgages on the same properties. Net leased properties consist of CRE properties with long-term leases to tenants on a net-lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance capital expenditures and real estate taxes. The Company will continue to target net leased equity investments on a selective basis. The Company also currently has investments in CRE debt securities primarily consisting of commercial mortgage-backed securities ("CMBS") (including "B-pieces" of a CMBS securitization pool) or CRE collateralized loan obligations ("CLOs") (including the junior tranches thereof, collateralized by pools of CRE debt investments). Any future investments in more highly rated investment grade CRE debt securities would be selective and opportunistic.

The Company was organized in the state of Maryland on August 23, 2017 and maintains key offices in New York, New York and Los Angeles, California. The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, beginning with the taxable year ended December 31, 2018. The Company conducts all activities and holds substantially all assets and liabilities through the Company's operating subsidiary, BrightSpire Capital Operating Company, LLC, (formerly known as Credit RE Operating Company, LLC, the "OP"). At June 30, 2021, the Company owned 97.7% of the OP, as its sole managing member. The remaining 2.3% is owned as noncontrolling interests.

The Internalization

On April 30, 2021, the Company completed the internalization of the Company's management and operating functions and terminated its relationship with CLNC Manager, LLC (the "Manager"), a subsidiary of DigitalBridge Group, Inc., formerly known as Colony Capital, Inc. ("DigitalBridge"), in accordance with that termination agreement dated April 4, 2021 between the Company, the OP, the Manager and Colony Capital Investment Advisors, LLC (the "Termination Agreement," and the transactions contemplated thereunder, the "Internalization"). Pursuant to the Termination Agreement, the Company paid the Manager a one-time termination fee of $102.3 million. Therefore, the Company will no longer pay management or incentive fees to the Manager for any post-closing period and the Company has assumed general and administrative expenses directly. The Company anticipates a savings in operating costs as a result of the Internalization. Further, in connection with the Internalization, certain affiliates of each of the Company and the Manager entered into a transition services agreement to facilitate an orderly internalization transition of the Company's management of its operations and, in addition, the Company will provide affiliates of the Manager with certain limited transition services.

The Company's executive team remains unchanged, including Michael J. Mazzei, Chief Executive Officer and President; Andrew E. Witt, Chief Operating Officer and Executive Vice President; Frank V. Saracino, Chief Financial Officer and Executive Vice President; David A. Palamé, General Counsel, Secretary and Executive Vice President; George Kok, Chief Credit Officer; and Daniel Katz, Head of Originations. Following the Company's 2021 Annual Meeting of Stockholders (the "Annual Meeting"), DigitalBridge no longer has affiliated representatives on the Company's board of directors. The Company's board of directors is comprised of five members, including four incumbent independent directors, led by Catherine D. Rice, the Company's Independent Chairperson, Vernon Schwartz, John Westerfield and Winston W. Wilson, and Michael J. Mazzei, the Company's Chief Executive Officer and President. Additionally, certain employees that have contributed substantially to the Company's investment, underwriting, portfolio and asset management, loan servicing, financial reporting, treasury, legal, tax, credit, risk and compliance responsibilities seamlessly moved forward with the Company.

Segment Realignment

During the first quarter of 2021, the Company realigned the business and reportable segment information to reflect how the Chief Operating Decision Makers ("CODM") regularly review and manage the business. Refer to Note 17, "Segment Reporting" for further detail.

Impact of COVID-19

Throughout 2020, continuing into the second quarter of 2021, countries around the world continue to face healthcare and economic challenges arising from the coronavirus disease 2019, or COVID-19. Efforts to address the pandemic, such as social distancing, closures or reduced capacity of retail and service outlets, hotels, factories and public venues, often mandated by governments, have had a significant impact on the global economy and financial markets across major industries, including many sectors of real estate. In particular, the Company's loans and preferred equity held for investment and real estate investments in the hospitality and retail sectors have experienced or anticipate a myriad of challenges, including, but not limited to: significant declines in operating cash flows of the Company's investments which in turn affect their ability to meet debt service and covenant requirements on investment-level debt (non-recourse to the Company); flexible lease payment terms sought by tenants; increased property operating costs such as labor and supplies as a result of COVID-19; potential payment defaults on the Company's loans and preferred equity held for investment; and a distressed market affecting real estate values in general. The COVID-19 crisis may also lead to heightened risk of litigation at the investment and corporate level, with an ensuing increase in litigation and related costs.

The volatility in equity and debt markets, and the economic fallout from COVID-19 continue to affect the valuation of the Company's financial assets, carried at fair value. The Company's consideration and assessment of impairment is discussed further in Note 3, "Loans and Preferred Equity Held for Investment, net," Note 5, "Real Estate Securities, Available for Sale," Note 6, "Real Estate, net and Real Estate Held for Sale" and Note 14, "Fair Value."

A prolonged economic downturn as a result of efforts to contain COVID-19 may continue to negatively affect the Company's financial condition and results of operations. While the extent and duration of the broad effects of COVID-19 on the global economy and the Company remain unclear, the Company believes it has materially addressed overall recoverability in value across its assets based upon external factors known to date and assumptions using the Company's best estimate at this time. The Company will continue to monitor the progress of the COVID-19 crisis and reassess its effects on the Company's results of operations and recoverability in value across its assets as conditions change.

2. Summary of Significant Accounting Policies

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

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by generally accepted accounting principles in the United States of America ("GAAP") for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented. However, the results of operations for the interim period presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2021, or any other future period. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in, or presented as exhibits to, the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

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

Use of Estimates

The preparation of consolidated financial statements in conformity with 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.

Restructuring Charges

On April 4, 2021, the Company entered into the Termination Agreement with the Manager whereby its management agreement terminated on April 30, 2021. The termination of the management agreement resulted in a material change in the management structure of the Company, and was accounted for under ASC 420, *Exit or disposal cost obligations.* The one-time payment made to the Manager under the Termination Agreement, and other associated costs, were recorded within restructuring charges on the consolidated statement of operations. See Note 19, "Restructuring Charges" for additional discussion of the Company's internalization.

Principles of Consolidation

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

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

Variable Interest Entities

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

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

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

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

As of June 30, 2021, the Company has identified certain consolidated and unconsolidated VIEs. Assets of each of the VIEs, other than the OP, may only be used to settle obligations of the respective VIE. Creditors of each of the VIEs have no recourse to the general credit of the Company.

Consolidated VIEs

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

Other consolidated VIEs include the Investing VIEs (as defined and discussed below) and certain operating real estate properties that have noncontrolling interests. At June 30, 2021, the noncontrolling interests in the operating real estate properties represent third party joint venture partners with ownership ranging from 5.0% to 11.0%. These noncontrolling interests do not have substantive kick-out nor participating rights.

Investing VIEs

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

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

As of June 30, 2021, the Company held subordinate tranches of a securitization trust in one Investing VIE 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 trust. The Company's subordinate tranches of the securitization trust, which represents 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 trust, less the Company's retained interest from the subordinate tranches of the securitization trust), income and expenses of the Investing VIE are presented in the consolidated financial statements of the Company although the Company legally owns the subordinate tranches of the securitization trust only. Regardless of the presentation, the Company's consolidated financial statements of operations ultimately reflect the net income attributable to its retained interest in the subordinate tranches of the securitization trust. During the three months ended June 30, 2021, the Company sold its retained investments in the subordinate tranches of one securitization trust for $28.7 million in total proceeds. In connection with the sale, the Company recognized a realized loss of $19.5 million for the three and six months ended June 30, 2021. Additionally, the Company also recognized unrealized gains of $19.5 million and $28.2 million for the three and six months ended June 30, 2021, respectively. The Company deconsolidated the securitization trust with gross assets and liabilities of approximately $830.9 million and $802.2 million, respectively. Refer to Note 5, "Real Estate Securities, Available for Sale" for further discussion.

The Company elected the fair value option for the initial recognition of the assets and liabilities of its consolidated Investing VIEs. Interest income and interest expense associated with the Investing VIEs are presented separately on the consolidated statements of operations, and the assets and liabilities of the Investing VIEs are separately presented as "Mortgage loans held in securitization trusts, at fair value" and "Mortgage obligations issued by securitization trusts, at fair value," respectively, on the consolidated balance sheets. Refer to Note 14, "Fair Value" for further discussion.

The Company has adopted guidance issued by the Financial Accounting Standards Board ("FASB"), allowing the Company to measure both the financial assets and liabilities of a qualifying collateralized financing entity ("CFE"), such as its Investing

VIEs, using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable. A CFE is a VIE that holds financial assets, issues beneficial interests in those assets and has no more than nominal equity, and the beneficial interests have contractual recourse only to the related assets of the CFE. As the liabilities of the Company's Investing VIEs are marketable securities with observable trade data, their fair value is more observable and is referenced to determine fair value of the assets of its Investing VIEs. Refer to Note 14, "Fair Value" for further discussion.

Unconsolidated VIEs

As of June 30, 2021, 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 June 30, 2021.

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 June 30, 2021 (dollars in thousands):

	Carrying Value	Maximum Exposure to Loss
Loans and preferred equity held for investment, net	$ 18,842	$ 18,842
Real estate securities, available for sale	4,045	4,045
Investments in unconsolidated ventures	266,212	274,797
Total assets	$ 289,099	$ 297,684

The Company did not provide financial support to the unconsolidated VIEs during the six months ended June 30, 2021. As of June 30, 2021, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to the unconsolidated VIEs. The maximum exposure to loss of real estate securities, available for sale was determined as the amortized cost as of June 30, 2021. See Note 5, "Real Estate Securities, Available for Sale" for further discussion on fair value of the real estate securities. The maximum exposure to loss of investments in unconsolidated ventures and loans and preferred equity held for investment, net was determined as the carrying value plus any future funding commitments. Refer to Note 3, "Loans and Preferred Equity Held for Investment, net" and Note 16, "Commitments and Contingencies" for further discussion.

Noncontrolling Interests

Noncontrolling Interests in Investment Entities—This represents interests in consolidated investment entities held by third party joint venture partners and prior to the closing of the Company's formation transactions (the "Combination") on January 31, 2018, such interests held by private funds managed by DigitalBridge. Subsequent to the Combination, the Company entered into a preferred financing arrangement with Goldman Sachs ("GS") limited to interests in four co-investments and a triple-net industrial distribution center. Allocation of net income or loss is generally based upon relative ownership interests held by equity owners in each investment entity, or based upon contractual arrangements that may provide for disproportionate allocation of economic returns among equity interests, including using a hypothetical liquidation at book value ("HLBV") basis, where applicable and substantive. HLBV uses a balance sheet approach, which measures each party's capital account at the end of a period assuming that the subsidiary was liquidated or sold at book value. Each party's share of the subsidiary's earnings or loss is calculated by measuring the change in the party's capital account from the beginning of the period in question to the end of period, adjusting for effects of distributions and new investments.

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

Comprehensive Income (Loss)

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

Fair Value Measurement

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

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

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

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

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

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

Fair Value Option

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

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

Business Combinations

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

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

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

Cash and Cash Equivalents

Short-term, highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Company did not have any cash equivalents at June 30, 2021 or December 31, 2020. The Company’s cash is held with major financial institutions and may at times exceed federally insured limits.

Restricted Cash

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

Loans and Preferred Equity Held for Investment

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

Loans and Preferred Equity Held for Investment

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

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

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

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

Loans Held for Sale

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

At June 30, 2021, the Company had no loans classified as held for sale.

Acquisition, Development and Construction (“ADC”) Arrangements

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

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. See Note 6, “Real Estate, net and Real Estate Held for Sale” and Note 14, “Fair Value” for further detail.

Real Estate Held for Sale

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

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

At June 30, 2021, there was one property held for sale. See Note 6, “Real Estate, net and Real Estate Held for Sale” and Note 17, “Segment Reporting” 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 June 30, 2021, the Company held subordinate tranches of one securitization trust, which represent the Company's retained interest in a securitization trust that the Company consolidates under U.S. GAAP. Refer to Note 5, "Real Estate Securities, Available for Sale" for further discussion.

Impairment

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

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

During the six months ended June 30, 2021, the Company recorded an impairment loss of $1.0 million related to its CRE securities. The impairment loss is included in other gain, net in the Company's consolidated statements of operations. Refer to Note 5, "Real Estate Securities, Available for Sale" for further discussion.

Investments in Unconsolidated Ventures

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

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

Equity Method Investments

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

At June 30, 2021 and December 31, 2020, the Company's investments in unconsolidated joint ventures consisted of investments in PE Investments, senior loans, mezzanine loans and preferred equity held in joint ventures, as well as ADC arrangements accounted for as equity method investments.

Impairment

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

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

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

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

Identifiable Intangibles

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

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

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

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

Transfers of Financial Assets

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

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

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

Derivative Instruments and Hedging Activities

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

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

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

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

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

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

Release of accumulated other comprehensive income related to net investment hedges occurs upon losing a controlling financial interest in an investment or obtaining control over an equity method investment. Upon sale, complete or substantially complete liquidation of an investment in a foreign subsidiary, or partial sale of an equity method investment, the gain or loss on the related net investment hedge is reclassified from accumulated other comprehensive income to earnings. Refer to Note 15, “Derivatives” for further discussion on the Company’s derivative and hedging activity.

Financing Costs

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

Revenue Recognition

Property Operating Income

Property operating income includes the following:

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

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

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

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

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

Real Estate Securities

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

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

As of April 1, 2020, the Company placed its investment grade and non-investment grade rated CRE securities on cost recovery and as a result, ceased accretion of any discounts to expected maturity and applied any cash interest received against the CRE securities amortized cost basis. Refer to Note 5, “Real Estate Securities, Available for Sale” for further discussion.

Foreign Currency

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

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

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

Equity-Based Compensation

Equity-classified stock awards granted to executive officers and both independent and non-independent directors are based on the closing price of the Class A common stock on the grant date and recognized on a straight-line basis over the requisite service period of the awards for restricted stock awards. For performance stock units (“PSUs”) the fair value is based on a Monte Carlo simulation as of the grant date and expense is recognized on a straight-line basis over the measurement period. See Note 11, “Equity-Based Compensation” for further discussion.

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 June 30, 2021 and 2020, the Company recorded an income tax benefit of $0.1 million and income tax expense of $2.1 million, respectively. For the six months ended June 30, 2021 and 2020, the Company recorded an income tax benefit and expense of $1.9 million and $3.8 million, respectively.

Current Expected Credit Losses ("CECL") reserve

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

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

In measuring the CECL reserve for financial instruments that share similar risk characteristics, the Company primarily applies a probability of default ("PD")/loss given default ("LGD") model for instruments that are collectively assessed, whereby the CECL reserve is calculated as the product of PD, LGD and exposure at default ("EAD"). The Company's model principally utilizes historical loss rates derived from a commercial mortgage backed securities database with historical losses from 1998 through June 2021 provided by a third party, Trepp LLC, forecasting the loss parameters using a scenario-based statistical approach over a reasonable and supportable forecast period of twelve months, followed by a straight-line reversion period of twelve-months back to average historical losses.

For financial instruments assessed outside of the PD/LGD model on an individual basis, including when it is probable that the Company will be unable to collect the full payment of principal and interest on the instrument, the Company applies a discounted cash flow ("DCF") methodology. For financial instruments where the borrower is experiencing financial difficulty based on the Company's assessment at the reporting date and the repayment is expected to be provided substantially through the operation or sale of the collateral, the Company may elect to use as a practical expedient the fair value of the collateral at the reporting date when determining the provision for loan losses.

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

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

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

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

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

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

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

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

Changes in the CECL reserve for the Company's financial instruments are recorded in provision for loan losses on the Statement of Operations with a corresponding offset to the loans and preferred equity held for investment or as a component of other liabilities for future loan fundings recorded on the Company's consolidated balance sheets. See Note 3, "Loans and Preferred Equity Held for Investment, net" for further detail.

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

Accounting Standards adopted in 2021

Income Tax Accounting—In December 2019, the FASB issued ASU No. 2019-12, *Simplifying Accounting for Income Taxes*. The ASU simplifies accounting for income taxes by eliminating certain exceptions to the general approach in ASC 740, Income Taxes, and clarifies certain aspects of the guidance for more consistent application. The simplifications relate to intraperiod tax allocations when there is a loss in continuing operations and a gain outside of continuing operations, accounting for tax law or tax rate changes and year-to-date losses in interim periods, recognition of deferred tax liability for outside basis difference when investment ownership changes, and accounting for franchise taxes that are partially based on income. The ASU also provides new guidance that clarifies the accounting for transactions resulting in a step-up in tax basis of goodwill, among other changes. Transition is generally prospective, other than the provision related to outside basis difference which is on a modified retrospective basis with the cumulative effect adjusted to retained earnings at the beginning of the period adopted, and franchise tax provision which is on either full or modified retrospective. ASU No. 2019-12 is effective January 1, 2021, with early adoption permitted in an interim period, to be applied to all provisions. The Company adopted this on January 1, 2021, and the impact was not material.

Accounting for Certain Equity Investments—In January 2020, the FASB issued ASU No. 2020-01, *Clarifying the Interactions between Topic 321 Investments-Equity Securities, Topic 323-Investments Equity Method and Joint Ventures, and Topic 815-Derivatives and Hedging*. The ASU clarifies, that if as a result of an observable transaction, an equity investment under the measurement alternative is transitioned into equity method or an equity method investment is transitioned into measurement alternative, then the investment is to be remeasured immediately before and after the transaction, respectively. The ASU also clarifies that certain forward contracts or purchased options to acquire equity securities that are not deemed to be derivatives or in-substance common stock will generally be measured using the fair value principles of ASC 321 before settlement or exercise, and that an entity should not be considering how it will account for the resulting investments upon eventual settlement or exercise. ASU No. 2020-01 is to be applied prospectively, effective January 1, 2021, with early adoption permitted in an interim period. The Company adopted this on January 1, 2021, and the impact was not material.

Future Application of Accounting Standards

Accounting for Convertible Instruments and Contracts on Entity's Own Equity— In August 2020, the FASB issued ASU No. 2020-06, Debt—Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. The ASU (1) simplifies an issuer's accounting for convertible instruments as a single unit of account; (2) allows more contracts on an entity's own equity to qualify for equity classification and more embedded derivatives to meet the derivative scope exception; and (3) simplifies diluted earnings per share ("EPS") computation.

- The guidance eliminates the requirement to separate embedded conversion features in convertible instruments, except for (1) a convertible instrument that contains features requiring bifurcation as a derivative under ASC 815 or (2) a convertible debt instrument that was issued at a substantial premium.
- Under the new guidance, certain conditions under Subtopic ASC 815-40 that may result in contracts being settled in cash rather than shares and therefore preclude (1) equity classification for contracts on an entity's own equity; and (2) embedded derivatives from qualifying for the derivative scope exception, have been removed; for example, the requirement that equity contracts permit settlement in unregistered shares unless such contracts explicitly require settlement in cash if registered shares are unavailable. The guidance also clarifies that freestanding contracts on an entity's own equity that do not qualify for equity classification under the indexation criteria (ASC 815-4015) or settlement criteria (ASC 815-40-25) are to be measured at fair value through earnings, even if they do not meet the definition of a derivative under ASC 815.
- The ASU also amends certain guidance on computation of diluted EPS for convertible instruments and contracts on an entity's own equity that results in a more dilutive EPS, including (1) requiring the if converted method to be applied for all convertible instruments (the treasury stock method is no longer available), and (2) removing the ability to rebut the presumption of share settlement for contracts that may be settled in cash or stock and that are not liability classified share based payments.

- Expanded disclosures are required, including but not limited to, (1) terms and features of convertible instruments and contracts on entity's own equity; and (2) information about events, conditions, and circumstances that could affect amount or timing of future cash flows related to these instruments or contracts; and in the period of adoption (3) nature of and reason for the change in accounting principle; and (4) effects of the change on EPS.

Upon adoption, a one-time election may be made to apply the fair value option for any liability-classified convertible securities.

Adoption of the new standard may be made either on a full retrospective approach or a modified retrospective approach, with cumulative effect adjustment recorded to beginning retained earnings. ASU No. 2020-06 is effective January 1, 2022, with early adoption permitted beginning January 1, 2021. The Company is currently evaluating the effects of this new guidance.

Certain Leases with Variable Lease Payments— In July 2021, the FASB issued ASU 2021-05. The guidance in ASU 2021-05 amends the lease classification requirements for the lessors under certain leases containing variable payments to align with practice under ASC 840. Under the guidance, the lessor should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met: 1) the lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in ASC 842-10-25-2 through 25-3; and 2) the lessor would have otherwise recognized a day-one loss. The amendments in ASU 2021-05 are effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is currently evaluating the effects of this new guidance.

Modifications of equity-classified written call options— In May 2021, the FASB issued ASU 2021-04 Modification of equity-classified written call options — Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging— Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options — to codify how an issuer should account for modifications made to equity-classified written call options (a warrant to purchase the issuer's common stock). The guidance in the ASU requires the issuer to treat a modification of an equity-classified warrant that does not cause the warrant to become liability-classified as an exchange whether structured as an amendment or reissuance and is effective for all periods beginning after December 15, 2021 with early application permitted. The Company is currently evaluating the effects of this new guidance.

3. Loans and Preferred Equity Held for Investment, net

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

	June 30, 2021				December 31, 2020			
	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	$ 164,034	$ 163,611	12.8 %	3.5	$ 155,803	$ 155,225	12.8 %	4.0
Preferred equity interests	19,348	19,348	15.0 %	2.2	18,680	18,681	15.0 %	2.7
	183,382	182,959			174,483	173,906		
Variable rate								
Senior loans	1,727,615	1,716,606	4.1 %	3.6	1,029,760	1,026,846	5.4 %	3.4
Securitized loans[2]	937,408	936,564	4.9 %	3.4	1,006,495	1,004,698	5.1 %	3.4
Mezzanine loans	12,000	12,120	11.5 %	1.2	12,000	12,120	11.5 %	1.7
Preferred equity interests	4,686	4,686	— %	0.8	3,118	3,118	5.3 %	0.0
	2,681,709	2,669,976			2,051,373	2,046,782		
Loans and preferred equity held for investment	2,865,091	2,852,935			2,225,856	2,220,688		
Allowance for loan losses	NA	(42,152)			NA	(37,191)		
Loans and preferred equity held for investment, net	$ 2,865,091	$ 2,810,783			$ 2,225,856	$ 2,183,497		

(1) Calculated based on contractual interest rate.
(2) Represents loans transferred into securitization trusts that are consolidated by the Company.

As of June 30, 2021, the weighted average maturity, including extensions, of loans and preferred equity investments was 3.5 years.

The Company had $7.1 million and $7.0 million of interest receivable related to its loans and preferred equity held for investment, net as of June 30, 2021 and December 31, 2020, respectively. This is included in receivables, net on the Company's consolidated balance sheets.

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

		Carrying Value
lance at January 1, 2021	$	2,183,497
quisitions/originations/additional funding		822,835
an maturities/principal repayments		(197,410)
scount accretion/premium amortization		2,582
pitalized interest		4,240
ovision for loan losses[(1)]		(5,181)
arge-off		220
lance at June 30, 2021	$	2,810,783

(1) Provision for loan losses excludes $0.7 million determined by the Company's PD/LGD model for unfunded commitments reported on the consolidated statement of operations, with a corresponding offset to other liabilities recorded on the Company's consolidated balance sheets.

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.

During the three months ended March 31, 2021, the Company placed one senior loan and preferred equity investment in a hotel located in San Jose, California ("the San Jose Hotel") on nonaccrual status, and continued to maintain the nonaccrual status for the three months ended June 30, 2021. The onset of the COVID-19 pandemic in the spring of 2020 created challenges across the hospitality industry. The global reduction in business travel directly impacted operations at the San Jose Hotel, which is located in the heart of downtown San Jose. Low occupancy led to weaker financial performance. In order to continue operations in 2020 the principal of the borrower funded approximately $18.6 million to the borrower. In the fourth quarter of 2020, the borrower requested to terminate the existing hotel management agreement and pay the manager liquidated damages in accordance with the management agreement; however, the manager refused to terminate the agreement. Faced with the manager's refusal to neither terminate the management agreement nor contribute capital as requested by borrower, the borrower closed the hotel and filed for Chapter 11 bankruptcy in March 2021. The Company entered into a restructuring support agreement with the borrower with respect to the bankruptcy process, in the Company's capacity as the sole secured creditor. The bankruptcy court has authorized the borrower to reject the existing hotel management agreement, and to solicit proposals for (a) subordinate financing to support the asset, and (b) a new contract with a new hotel manager to re-brand the hotel. The borrower is actively negotiating with the former manager to resolve any damages due to the former manager.

The bankruptcy proceeding and rulings, the continued impact of COVID-19 on business travel, and other risks associated with a new hotel manager may negatively impact the value of the Company's investment interest. The Company currently holds the senior loan as an unencumbered asset as the borrower proceeds towards exiting bankruptcy.

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[(1)]		90 Days or More Past Due		Total Loans
June 30, 2021	$	2,674,764	$	—	$	178,171	$	—	$	2,852,935
December 31, 2020		2,220,688		—		—		—		2,220,688

(1) Includes the San Jose Hotel which was put on nonaccrual status during the six months ended June 30, 2021.

Allowance for Loan Losses

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

	Six Months Ended June 30,	
	2021	2020
Allowance for loan losses at beginning of period	$ 37,191	$ 272,624
Effect of CECL adoption[(1)]	—	21,093
Provision for loan losses[(2)]	5,181	75,200
Charge-off	(220)	(15,533)
Transfer to loans held for sale	—	(300,863)
Allowance for loan losses at end of period[(3)]	$ 42,152	$ 52,521

(1) Calculated by the Company's PD/LGD model upon CECL adoption on January 1, 2020. See Note 2, "Summary of Significant Accounting Policies" for further details.
(2) Provision for loan losses excludes $0.7 million and $0.1 million for the six months ended June 30, 2021 and June 30, 2020, respectively. These amounts were determined by the Company's PD/LGD model for unfunded commitments reported on the consolidated statement of operations, with a corresponding offset to other liabilities recorded on the Company's consolidated balance sheets.
(3) Includes $42.2 million related to the Company's PD/LGD model at June 30, 2021. At June 30, 2020, includes $29.3 million related to the Company's PD/LGD model and $23.2 million which were evaluated individually.

Credit Quality Monitoring

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

As of June 30, 2021, there was one senior loan and preferred equity investment past due and all remaining loans were performing in accordance with the contractual terms of their governing documents and were categorized as performing loans. There were no loans held for investment with contractual payments past due as of December 31, 2020. For the six months ended June 30, 2021, no debt investment contributed more than 10.0% of interest income.

The following table provides a summary by carrying values before any allowance for loan losses of the Company's loans and preferred equity held for investment by year of origination and credit quality risk ranking (dollars in thousands). Refer to Note 2, "Summary of Significant Accounting Policies—Accounting Standards Adopted in 2020—Credit Losses" for loans risk ranking definitions.

BRIGHTSPIRE CAPITAL, INC.
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	2021	2020	2019	2018	2017	Total
Senior loans						
Risk Rankings:						
2	$ —	$ 41,485	$ —	$ —	$ —	$ 41,485
3	795,314	137,904	405,412	262,746	33,826	1,635,202
4	—	—	683,604	119,394	—	802,998
5	—	—	—	173,485	—	173,485
Total Senior loans	795,314	179,389	1,089,016	555,625	33,826	2,653,170
Mezzanine loans						
Risk Rankings:						
3	—	—	36,257	67,049	—	103,306
4	—	—	60,305	—	12,120	72,425
Total Mezzanine loans	—	—	96,562	67,049	12,120	175,731
Preferred equity interests and other						
Risk Rankings:						
3	—	—	—	19,348	—	19,348
5	—	4,686	—	—	—	4,686
Total Preferred equity interests and other	—	4,686	—	19,348	—	24,034
Total Loans and preferred equity held for investment	$ 795,314	$ 184,075	$ 1,185,578	$ 642,022	$ 45,946	$ 2,852,935

The quarter ended June 30, 2021 average risk rating for loans and preferred equity held for investment was 3.4.

Lending Commitments

The Company has lending commitments to borrowers pursuant to certain loan agreements in which the borrower may submit a request for funding contingent on achieving certain criteria, which must be approved by the Company as lender, such as leasing, performance of capital expenditures and construction in progress with an approved budget. At June 30, 2021, assuming the terms to qualify for future advances, if any, had been met, total gross unfunded lending commitments were $197.1 million. Refer to Note 16, “Commitments and Contingencies” for further details. At June 30, 2021, the Company recorded a $0.7 million allowance for lending commitments in accrued and other liabilities on its consolidated balance sheets in accordance with the credit losses accounting standard No. 2016-13. See Note 2, “Summary of Significant Accounting Policies” for further details.

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

4. Investments in Unconsolidated Ventures

Summary

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

	June 30, 2021	December 31, 2020
Equity method investments	$ 308,548	$ 366,481
Investments under fair value option	4,876	6,883
Investments in Unconsolidated Ventures	$ 313,424	$ 373,364

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 DigitalBridge with third party joint venture partners. These investment entities are generally capitalized through equity contributions from the members, although certain investments are leveraged through various financing arrangements.

The assets of the equity method investment entities may only be used to settle the liabilities of these entities and there is no recourse to the general credit of the Company nor the other investors for the obligations of these investment entities. Neither the Company nor the other investors are required to provide financial or other support in excess of their capital commitments. The Company's exposure to the investment entities is limited to its equity method investment balance as of June 30, 2021 and December 31, 2020, respectively.

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

		Carrying Value	
Investments	Description	June 30, 2021	December 31, 2020
ADC investments(1)(2)(3)	Interests in three acquisition, development and construction loans in which the Company participates in residual profits from the projects, and the risk and rewards of the arrangements are more similar to those associated with investments in joint ventures	$ 40,154	$ 57,481
Other investment ventures(1)(4)	Interests in six investments, each with less than $97.9 million carrying value at June 30, 2021	268,394	309,000

(1) The Company's ownership interest in ADC investments and other investment ventures varies and represents capital contributed to date and may not be reflective of the Company's economic interest in the entity because of provisions in operating agreements governing various matters, such as classes of partner or member interests, allocations of profits and losses, preferential returns and guaranty of debt. Each equity method investment has been determined to be a VIE for which the Company was not deemed to be the primary beneficiary or a voting interest entity in which the Company does not have the power to control through a majority of voting interest or through other arrangements.
(2) The Company owns varying levels of stated equity interests in certain ADC investments, as well as profit participation interests in real estate ventures without a stated ownership interest in other ADC investments.
(3) Includes two investments with a carrying value of $40.2 million that were contributed to a preferred financing arrangement. See Note 13, "Noncontrolling Interests," for further information.
(4) Includes four investments with a carrying value of $154.3 million that were contributed to a preferred financing arrangement. See Note 13, "Noncontrolling Interests," for further information.

Under the fair value option, loans and preferred equity investments are measured each reporting period based on their exit values in an orderly transaction. Fair value adjustments recorded on each of these investments is included in equity in earnings of unconsolidated ventures on the Company's consolidated statements of operations.

Los Angeles, California Mixed-Use Project

July 9, 2021 Maturity Default and Risk of Foreclosure (see Historical Details below)

On July 9, 2021, the borrower failed to pay the principal balance of the Upsized Mezzanine Loan and senior mortgage loan or meet other tests for extension of such maturity date. The Senior Mezzanine Lender and senior mortgage lender each delivered reservation of rights letters to the senior mezzanine borrower and borrower, respectively. The lender parties and borrower have engaged in discussions regarding the current status of the sale of the hotel and the completion of the tower condominiums and anticipated tower condominium sales projections. Since the new capital investment of $275 million was made on September 1, 2020, there have been further additional hard and soft costs not supported by current commitments or reserves at the Mixed-use Project. Further delays are anticipated until completion of the tower condominiums and the sale of the hotel has also not yet been completed.

The Company continues to maintain the nonaccrual status and fair value loss adjustment on the proportionate share of the CLNY Mezzanine Lender's B-participation investment. During the three months ended June 30, 2021, there was no change in accrual status or fair value.

It is possible that due to the maturity default on July 9, 2021, the exercise of default remedies and/or foreclosure by the Senior Mezzanine Lender or mortgage lender along with additional capital requirements and further delays in the sale of the hotel or condo units could result in further impairment or foreclosure of the Company's interests in the B-participation investment, which has a carrying value of $97.9 million at June 30, 2021.

Historical Details

The Company's mezzanine loan and preferred equity investment in a development project in Los Angeles County, which includes a hospitality and retail renovation and a new condominium tower construction (the "Mixed-use Project"), was converted into a mezzanine participation during the three months ended September 30, 2020. The Company's investment was made through a joint venture with affiliates of the Company's Manager (the "CLNY Mezzanine Lender") in the form of a $574.0 million commitment to the Mixed-use Project, of which the Company's proportionate share of the commitment is $189.0 million.

In April 2020, the senior mortgage lender notified the borrower developer that the Mixed-use Project loan funding was over budget, due to cost overruns from certain hard and soft costs and senior loan interest reserve shortfalls projected through completion. As a result, during the second quarter of 2020, the Company and its affiliates made two protective advances to the senior mortgage lender totaling $69.1 million, of which the Company's proportionate share was $28.5 million. During the three months ended June 30, 2020, the Company placed the mezzanine loan and preferred equity investment on nonaccrual status.

In June 2020, the senior mortgage lender sought a third protective advance of $15.5 million of which the Company's proportionate share would have been $7.0 million. While the Company and its affiliates did not fund its proportionate share, the senior mortgage lender funded the full amount of the required June advances. The senior mortgage lenders funding did not relieve the Company and its affiliates from its commitment to fund. As a result during the three months ended June 30, 2020, the Mixed-use Project's recorded fair value losses totaling $250.0 million. The Company recognized its proportionate share of fair value losses equaling $89.3 million. The Mixed-use Project's fair value was based on a weighted average probability analysis of potential resolutions based on a number of factors which included the maturity default of the loan, cost overruns, COVID-19 related delays, lack of funding by the borrower and recent negotiations with the senior lender, the borrower and potential sources of additional mezzanine financing.

In September 2020, in cooperation with the borrower and the EB-5 lender, the CLNY Mezzanine Lender and senior mortgage lender secured $275 million of additional mezzanine financing from a third-party mezzanine lender (the "Senior Mezzanine Lender"). To consummate the new mezzanine financing, the CLNY Mezzanine Lender simplified its investment interest by converting its existing preferred equity principal and accrued interest into the existing mezzanine loan, transferred the mezzanine loan to the Senior Mezzanine Lender, who subsequently increased the mezzanine loan amount by $275 million to a $821 million total mezzanine loan (the "Upsized Mezzanine Loan"). The Senior Mezzanine Lender holds a $275 million A-participation and the CLNY Mezzanine Lender (including the Company's interest) continues to hold a $546 million B-participation interest in the Upsized Mezzanine Loan at the Mixed-use Project.

The Co-Invest Portfolio Sale

On July 19, 2021, the Company reached an agreement to sell the five co-investment assets to managed vehicles of Fortress Investment Group LLC ("Fortress"), for gross proceeds of $223 million (the "Co-Invest Portfolio Sale"). Per generally accepted accounting principles, the Company is required to value these assets at the lower of cost or fair market value. As of June 30, 2021, to reflect the cash the Company expects to receive from the sale, the Company recorded other-than-temporary impairment loss adjustments on one senior mortgage loan for a fully entitled land acquisition for a mixed use development project in Dublin, Ireland for $32.8 million, one mezzanine loan secured by single family development projects in Rolling Hills, California for $1.4 million and one mezzanine loan secured by a mixed use development project in San Rafael, California for $1.3 million, totaling a loss of $35.5 million, of which $32.0 million was allocated to the Company and $3.5 million was allocated to the Company's partner in the "5-Investment Preferred Financing." Additionally, the Company expects to record an offsetting gain on the other two co-investment assets totaling approximately $27.4 million upon the closing of the transaction, which is subject to customary closing conditions, third-party consents and purchase price adjustments, resulting in an expected total net realized loss of approximately $4.6 million, net of selling costs. We can offer no assurances that the transaction will close as expected or at all or the actual amount of any loss or gain realized by the Company in connection with the sale.

Investments under Fair Value Option

Private Funds

The Company elected to account for its limited partnership interests, which range from 1.0% to 15.6%, 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.

5. Real Estate Securities, Available for Sale

Investments in CRE Securities

CRE securities are composed of CMBS backed by a pool of CRE loans which are typically well-diversified by type and geography. The following table presents CMBS investments as of June 30, 2021 and December 31, 2020 (dollars in thousands):

					Cumulative Unrealized on Investments			Weighted Average	
As of Date:	**Count**	**Principal Amount**	**Total Discount**	**Amortized Cost**	**Gain**	**(Loss)**	**Fair Value**	**Coupon[1]**	**Unleveraged Current Yield[2]**
June 30, 2021	1	$ 11,820	$ (7,775)	$ 4,045	$ —	$ —	$ 4,045	3.25 %	— %
December 31, 2020	2	19,560	(9,371)	10,189	200	—	10,389	3.35 %	— %

(1) All CMBS are fixed rate.
(2) The Company placed all of its CRE securities on cost recovery status as of April 1, 2020.

Consistent with the overall market, the Company's CRE securities, which it marks to fair value, lost significant value since the onset of the COVID-19 pandemic. While the Company will evaluate selling its non-investment grade rated CRE security over the next twelve months, it is more likely than not that the Company will sell before recovery. During the six months ended June 30, 2021, the Company wrote down through earnings the amortized cost basis for securities in which the fair value dropped below the amortized cost basis, realizing a loss of $1.0 million. The loss was recorded in other gain (loss), net on the Company's consolidated statements of operations.

During the six months ended June 30, 2021, the Company sold one CRE security for a total gross sales price of $5.1 million and realized a gain of $0.1 million. The gain was recorded in other gain (loss), net on the Company's consolidated statements of operations. At June 30, 2021 the Company had one remaining CRE security, which is on cost recovery, and as a result has ceased accretion of any discounts to expected maturity and applied any cash interest received against the CRE security's carrying value. This decision was made given the inability to project future cash flows. CRE securities serve as collateral for financing transactions for the CMBS Credit Facilities (refer to Note 9, "Debt," for further detail).

During the six months ended June 30, 2021, the Company recorded an unrealized loss in OCI of $0.2 million. During the three and six months ended June 30, 2020, the Company recorded an unrealized gain in OCI of $58.5 million and an unrealized loss of $16.5 million, respectively. As of June 30, 2021, the Company did not hold any securities in an unrealized loss position.

As of June 30, 2021, the contractual maturity of the one remaining CRE security was 27.9 years with an expected maturity of 4.8 years.

Investments in Investing VIEs

The Company is the directing certificate holder of one securitization trust 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.

During the three months ended June 30, 2021, the Company sold its retained investments in the subordinate tranches of one securitization trust for $28.7 million in total proceeds. In connection with the sale, the Company recognized a realized loss of $19.5 million for the three and six months ended June 30, 2021. Additionally, the Company also recognized unrealized gains of $19.5 million and $28.2 million for the three and six months ended June 30, 2021, respectively. The Company deconsolidated the securitization trust with gross assets and liabilities of approximately $830.9 million and $802.2 million, respectively.

Other than the securities represented by the Company’s subordinate tranches of the securitization trust, the Company does not have any claim to the assets or exposure to the liabilities of the securitization trust. The original issuers, who are unrelated third parties, guarantee the interest and principal payments related to the investment grade securitization bonds in the securitization trust, therefore these obligations do not have any recourse to the general credit of the Company as the consolidator of the securitization trust. 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 trust.

As of June 30, 2021, the mortgage loans and the related mortgage obligations held in the securitization trust had an unpaid principal balance of $912.1 million and $872.6 million, respectively. As of December 31, 2020, the mortgage loans and the related mortgage obligations held in the securitization trusts had an unpaid principal balance of $1.7 billion and $1.6 billion, respectively. As of June 30, 2021, the underlying collateral of the securitization trust consisted of 65 underlying commercial mortgage loans, with a weighted average coupon of 4.9% and a weighted average loan to value ratio of 61.6%.

The following table presents the assets and liabilities recorded on the consolidated balance sheets attributable to the securitization trust as of June 30, 2021 and December 31, 2020 (dollars in thousands):

	June 30, 2021	December 31, 2020
Assets		
Mortgage loans held in a securitization trust, at fair value	$ 912,115	$ 1,768,069
Receivables, net	3,563	6,644
Total assets	$ 915,678	$ 1,774,713
Liabilities		
Mortgage obligations issued by a securitization trust, at fair value	$ 872,605	$ 1,708,534
Accrued and other liabilities	3,260	6,119
Total liabilities	$ 875,865	$ 1,714,653

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 $39.5 million and $59.5 million as of June 30, 2021 and December 31, 2020, respectively, and approximates the fair value of the Company’s retained investments in the subordinate tranches of the securitization trusts, which are eliminated in consolidation. Refer to Note 14, “Fair Value” for a description of the valuation techniques used to measure fair value of assets and liabilities of the Investing VIEs.

The below table presents net income attributable to the Company's common stockholders for the three and six months ended June 30, 2021 and 2020 generated from the Company's investments in the subordinate tranches of the securitization trusts (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Statement of Operations				
Interest expense	$ —	$ (160)	$ —	$ (345)
Interest income on mortgage loans held in securitization trusts	11,390	20,539	31,079	41,094
Interest expense on mortgage obligations issued by securitization trusts	(10,111)	(18,364)	(27,447)	(36,423)
Net interest income	1,279	2,015	3,632	4,326
Administrative expense	(161)	(180)	(927)	(695)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	19,516	(8,975)	28,154	(28,427)
Realized loss on mortgage loans and obligations held in securitization trusts, net	(19,516)	—	(19,516)	—
Net income (loss) attributable to BrightSpire Capital, Inc. common stockholders	$ 1,118	$ (7,140)	$ 11,343	$ (24,796)

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

The following table presents the Company's net lease portfolio, net, as of June 30, 2021, and December 31, 2020 (dollars in thousands):

	June 30, 2021	December 31, 2020
Land and improvements	$ 139,972	$ 136,184
Buildings, building leaseholds, and improvements	584,986	569,610
Tenant improvements	17,385	16,311
Construction-in-progress	660	3,804
Subtotal	$ 743,003	$ 725,909
Less: Accumulated depreciation	(63,982)	(52,201)
Less: Impairment(1)	(39,169)	(34,104)
Net lease portfolio, net(2)	$ 639,852	$ 639,604

(1) See Note 14, "Fair Value," for discussion of impairment of real estate.
(2) Prior period amounts have been revised to conform to the current year presentation. See Note 17, "Segment Reporting" for further discussion.

The following table presents the Company's portfolio of other real estate, including foreclosed properties, as of June 30, 2021 and December 31, 2020 (dollars in thousands):

	June 30, 2021	December 31, 2020
Land and improvements	$ 46,269	$ 53,523
Buildings, building leaseholds, and improvements	235,581	262,874
Tenant improvements	24,883	24,931
Furniture, fixtures and equipment	179	4,245
Construction-in-progress	1,001	738
Subtotal	$ 307,913	$ 346,311
Less: Accumulated depreciation	(27,392)	(29,955)
Less: Impairment(1)	(108,407)	(116,703)
Other portfolio, net(2)	$ 172,114	$ 199,653

(1) See Note 14, "Fair Value," for discussion of impairment of real estate.
(2) Prior period amounts have been revised to conform to the current year presentation. See Note 17, "Segment Reporting" for further discussion.

For the six months ended June 30, 2021, the Company had no properties with rental and other income equal to or greater than 10.0% of total revenue.

At June 30, 2021 and December 31, 2020, the Company held foreclosed properties which are included in real estate, net with a carrying value of $27.7 million and $26.2 million, respectively.

Depreciation Expense

Depreciation expense on real estate was $7.0 million and $9.4 million for the three months ended June 30, 2021 and 2020, respectively. Depreciation expense on real estate was $13.9 million and $21.4 million for the six months ended June 30, 2021 and 2020, respectively.

Property Operating Income

For the three and six months ended June 30, 2021 and 2020, the components of property operating income were as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Lease revenues[(1)]				
Minimum lease revenue	$ 20,240	$ 37,204	$ 42,649	$ 79,162
Variable lease revenue	2,449	6,041	5,229	12,690
	$ 22,689	$ 43,245	$ 47,878	$ 91,852
Hotel operating income	1,902	317	2,603	3,818
	$ 24,591	$ 43,562	$ 50,481	$ 95,670

(1) Excludes net amortization income related to above and below-market leases of $0.2 million and de minimis income for the three and six months ended June 30, 2021, respectively. Excludes net amortization income related to above and below-market leases of $0.2 million and $0.6 million for the three and six months ended June 30, 2020, respectively.

Minimum Future Rents

Minimum rental amounts due under leases are generally either subject to scheduled fixed increases or adjustments. The following table presents approximate future minimum rental income under noncancellable operating leases, excluding variable lease revenue of tenant reimbursements, to be received over the next five years and thereafter as of June 30, 2021 (dollars in thousands):

Remainder of 2021	$ 42,416
2022	75,297
2023	67,476
2024	62,164
2025	56,205
2026 and thereafter	409,071
Total	$ 712,629

The following table presents approximate future minimum rental income under noncancellable operating leases, excluding variable lease revenue of tenant reimbursements, to be received over the next five years and thereafter as of December 31, 2020 (dollars in thousands):

2021	$ 77,716
2022	73,760
2023	66,137
2024	60,657
2025	55,152
2026 and thereafter	393,964
Total[(1)]	$ 727,386

(1) Excludes minimum future rents that is classified as held for sale totaling $103.6 million through 2050.

The rental properties owned at June 30, 2021 are leased under noncancellable operating leases with current expirations ranging from 2022 to 2038, with certain tenant renewal rights. For certain properties, the tenants pay the Company, in addition to the contractual base rent, their pro rata share of real estate taxes and operating expenses. Certain lease agreements provide for periodic rental increases and others provide for increases based on the consumer price index.

Lease Concessions

As a result of the COVID-19 crisis, some tenants sought and others may seek more flexible payment terms and the Company has and will engage with affected tenants on a case-by-case basis. For lease concessions resulting directly from the impact of COVID-19 that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee, for example, where total payments required by the modified contract will be substantially the same as or less than the original contract, the Company made a policy election to account for the concessions as though the enforceable rights and obligations for those concessions existed in the lease contracts, under a relief provided by the FASB. Under the relief, the concessions will not be treated as lease modifications that are accounted for over the remaining term of the respective leases, as the Company believes this would not accurately reflect the temporary economic effect of the concessions. Instead, (i) rent deferrals that meet the criteria will be treated as if no changes were made to the lease contract, with continued recognition of lease income and receivables under the original terms of the contract; and (ii) rent forgiveness that meets the criteria will be accounted for as variable lease payments in the affected periods.

Commitments and Contractual Obligations

Ground Lease Obligation

In connection with real estate acquisitions, the Company assumed certain noncancellable operating ground leases as lessee or sublessee with expiration dates through 2055. Rents on certain ground leases are paid directly by the tenants. Ground rent expense for the three and six months ended June 30, 2021 was $0.8 million and $1.5 million, respectively. Ground rent expense for the three and six months ended June 30, 2020 was $0.8 million and $1.6 million, respectively.

Refer to Note 16, "Commitments and Contingencies" for the details of future minimum rental payments on noncancellable ground lease on real estate as of June 30, 2021.

Real Estate Held for Sale

The following table summarizes the Company's assets and liabilities related to assets held for sale at June 30, 2021 and December 31, 2020 (dollars in thousands):

	June 30, 2021	December 31, 2020
Assets		
Real estate, net	$ 27,615	$ 314,817
Deferred leasing costs and intangible assets, net	—	8,539
Total assets held for sale	$ 27,615	$ 323,356
Liabilities		
Intangible liabilities, net	$ —	$ 323
Total liabilities related to assets held for sale	$ —	$ 323

There were no assets held for sale that constituted discontinued operations as of June 30, 2021.

Real Estate Sales

During the six months ended June 30, 2021, the Company completed the sale of an industrial portfolio for a total gross sales price of $335.0 million and a total gain on sale of $11.8 million. This sale did not constitute discontinued operations.

7. Deferred Leasing Costs and Other Intangibles

The Company's deferred leasing costs, other intangible assets and intangible liabilities, excluding those related to assets held for sale, at June 30, 2021 and December 31, 2020 are as follows (dollars in thousands):

	June 30, 2021		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount(1)
Deferred Leasing Costs and Intangible Assets			
In-place lease values	$ 83,582	$ (32,422)	$ 51,160
Deferred leasing costs	29,637	(13,521)	16,116
Above-market lease values	10,344	(7,201)	3,143
	$ 123,563	$ (53,144)	$ 70,419
Intangible Liabilities			
Below-market lease values	$ 16,199	$ (9,265)	$ 6,934

	December 31, 2020		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount(1)
Deferred Leasing Costs and Intangible Assets			
In-place lease values	$ 83,239	$ (28,558)	$ 54,681
Deferred leasing costs	29,052	(11,860)	17,192
Above-market lease values	10,468	(6,641)	3,827
	$ 122,759	$ (47,059)	$ 75,700
Intangible Liabilities			
Below-market lease values	$ 16,149	$ (8,492)	$ 7,657

(1) Excludes deferred leasing costs and intangible assets and intangible liabilities related to assets held for sale at June 30, 2021 and December 31, 2020.

The following table summarizes the amortization of deferred leasing costs, intangible assets and intangible liabilities for the three and six months ended June 30, 2021 and 2020 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Above-market lease values	$ (262)	$ (662)	$ (666)	$ (1,493)
Below-market lease values	470	822	692	2,058
Net increase (decrease) to property operating income	$ 208	$ 160	$ 26	$ 565
In-place lease values	$ 1,862	$ 2,748	$ 3,627	$ 7,098
Deferred leasing costs	935	1,593	1,556	3,241
Other intangibles	129	287	172	263
Amortization expense	$ 2,926	$ 4,628	$ 5,355	$ 10,602

The following table presents the amortization of deferred leasing costs, intangible assets and intangible liabilities, for each of the next five years and thereafter as of June 30, 2021 (dollars in thousands):

	2021	2022	2023	2024	2025	2026 and thereafter	Total
Above-market lease values	$ 663	$ 1,068	$ 574	$ 446	$ 268	$ 124	$ 3,143
Below-market lease values	(715)	(1,385)	(1,378)	(1,378)	(1,376)	(702)	(6,934)
Net increase (decrease) to property operating income	$ (52)	$ (317)	$ (804)	$ (932)	$ (1,108)	$ (578)	$ (3,791)
In-place lease values	$ 3,491	$ 6,187	$ 5,286	$ 4,986	$ 4,300	$ 26,910	$ 51,160
Deferred leasing costs	1,708	2,827	2,262	1,954	1,565	5,800	16,116
Amortization expense	$ 5,199	$ 9,014	$ 7,548	$ 6,940	$ 5,865	$ 32,710	$ 67,276

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

The following table presents a summary of restricted cash as of June 30, 2021 and December 31, 2020 (dollars in thousands):

	June 30, 2021	December 31, 2020
Restricted cash:		
Borrower escrow deposits	$ 67,472	$ 36,973
Capital expenditure reserves	7,440	6,949
Real estate escrow reserves	4,327	13,807
Working capital and other reserves	2,168	2,561
Tenant lockboxes	241	4,633
Margin pledged as collateral	189	290
Total	$ 81,837	$ 65,213

The following table presents a summary of other assets as of June 30, 2021 and December 31, 2020 (dollars in thousands):

	June 30, 2021	December 31, 2020
Other assets:		
Right-of-use lease asset	$ 26,259	$ 22,056
Prepaid taxes and deferred tax assets	25,880	26,294
Investment deposits and pending deal costs	23,307	801
Deferred financing costs, net - credit facilities	6,066	6,440
Prepaid expenses	5,848	4,272
Derivative asset	1,339	386
Other Assets	—	651
Total	$ 88,699	$ 60,900

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

The following table presents a summary of accrued and other liabilities as of June 30, 2021 and December 31, 2020 (dollars in thousands):

	June 30, 2021	December 31, 2020
Accrued and other liabilities:		
Current and deferred tax liability	$ 31,270	$ 32,569
Operating lease liability	26,534	22,186
Accounts payable, accrued expenses and other liabilities	9,806	15,083
Prepaid rent and unearned revenue	8,318	9,082
Interest payable	7,522	14,970
Unfunded CECL loan allowance	736	1,313
Tenant security deposits	411	1,338
Restructuring charges	323	—
Derivative liability	19	37
Total	$ 84,939	$ 96,578

9. Debt

The following table presents debt as of June 30, 2021 and December 31, 2020 (dollars in thousands):

						June 30, 2021		December 31, 2020	
	Capacity ($)	Recourse vs. Non-Recourse[1]	Final Maturity	Contractual Interest Rate		Principal Amount[2]	Carrying Value[2]	Principal Amount[2]	Carrying Value[2]
Securitization bonds payable, net									
CLNC 2019-FL1[3]		Non-recourse	Aug-35	LIBOR + 1.59%		$ 840,423	$ 836,234	$ 840,423	$ 835,153
Subtotal securitization bonds payable, net						840,423	836,234	840,423	835,153
Mortgage and other notes payable, net									
Net lease 6		Non-recourse	Oct-27	4.45%		23,385	23,385	23,608	23,608
Net lease 5		Non-recourse	Nov-26	4.45%		3,322	3,250	3,351	3,272
Net lease 4		Non-recourse	Nov-26	4.45%		7,168	7,012	7,230	7,059
Net lease 3		Non-recourse	Aug-21	4.00%		12,059	11,979	12,191	12,163
Net lease 6		Non-recourse	Jul-23	LIBOR + 2.15%		1,102	1,077	1,364	1,333
Net lease 5		Non-recourse	Aug-26	4.08%		30,991	30,773	31,244	31,004
Net lease 1[4]		Non-recourse	Nov-26	4.45%		18,041	17,647	18,196	17,765
Net lease 1[5]		Non-recourse	Mar-28	4.38%		11,885	11,448	12,021	11,584
Net lease 1		Non-recourse	Jul-25	4.31%		—	—	250,000	247,939
Net lease 2[6]		Non-recourse	Jun-25	3.91%		186,448	189,092	187,151	189,806
Net lease 3		Non-recourse	Sep-33	4.77%		200,000	198,646	200,000	198,604
Other real estate 1		Non-recourse	Oct-24	4.47%		106,129	106,601	107,029	107,596
Other real estate 3		Non-recourse	Jan-25	4.30%		73,189	72,671	73,905	73,341
Other real estate 6[7]		Non-recourse	Apr-24	LIBOR + 2.95%		25,820	25,564	22,788	22,306
Loan 9[8]		Non-recourse	Jun-24	LIBOR + 3.00%		65,377	65,377	75,377	75,377
Subtotal mortgage and other notes payable, net						764,916	764,522	1,025,455	1,022,757
Bank credit facility									
Bank credit facility	$ 300,000	Recourse	Feb-23 [9]	LIBOR + 2.25%		—	—	—	—
Subtotal bank credit facility						—	—	—	—
Master repurchase facilities									
Bank 1 facility 3	$ 400,000	Limited Recourse[10]	Apr-26[11]	LIBOR + 1.95%	(12)	133,373	133,373	112,509	112,509
Bank 2 facility 3	21,353	Limited Recourse[10]	Oct-22[13]	(14)	(12)	—	—	19,353	19,353
Bank 3 facility 3	600,000	Limited Recourse[10]	Apr-23[15]	LIBOR + 2.12%	(12)	239,313	239,313	196,738	196,738
Bank 7 facility 1	500,000	Limited Recourse[10]	Apr-25[16]	LIBOR + 2.01%	(12)	205,336	205,336	89,912	89,912
Bank 8 facility 1	250,000	Limited Recourse[10]	Jun-23 [17]	LIBOR + 1.90%	(12)	181,975	181,975	116,712	116,712
Bank 9 facility 1	300,000	(18)	Nov-23[19]	LIBOR + 1.80%	(12)	242,792	242,792	—	—
Subtotal master repurchase facilities	$ 2,071,353					1,002,789	1,002,789	535,224	535,224
Subtotal credit facilities						1,002,789	1,002,789	535,224	535,224
Total						$ 2,608,128	$ 2,603,545	$ 2,401,102	$ 2,393,134

(1) Subject to customary non-recourse carveouts.
(2) Difference between principal amount and carrying value of securitization bonds payable, net and mortgage and other notes payable, net is attributable to deferred financing costs, net and premium/discount on mortgage notes payable.

(3) The Company, through indirect Cayman subsidiaries, securitized commercial mortgage loans originated by the Company. Senior notes issued by the securitization trusts were generally sold to third parties and subordinated notes retained by the Company. These securitizations are accounted for as secured financing with the underlying mortgage loans pledged as collateral. Principal payments from underlying collateral loans must be applied to repay the notes until fully paid off, irrespective of the contractual maturities on the notes. Underlying collateral loans have initial terms of two to three years.
(4) Payment terms are periodic payment of principal and interest for debt on two properties and periodic payment of interest only with principal at maturity (except for principal repayments to release collateral properties disposed) for debt on one property.
(5) Represents a mortgage note collateralized by three properties.
(6) As of June 30, 2021, the outstanding principal of the mortgage payable was NOK 1.6 billion, which translated to $189.1 million.
(7) 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.
(8) The current maturity of the note payable is June 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.
(9) 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.
(10) Recourse solely with respect to 25.0% of the financed amount.
(11) The current maturity date is April 2023, with three 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.
(12) Represents the weighted average spread as of June 30, 2021. The contractual interest rate depends upon asset type and characteristics and ranges from one-month London Interbank Offered Rates ("LIBOR") plus 1.50% to 2.60%.
(13) The current maturity date is October 2021.
(14) The interest rate will be determined by the lender in its sole discretion.
(15) The current maturity date is April 2022, with a one-year extension available at the option of the Company, which may be exercised upon the satisfaction of certain customary conditions set forth in the governing documents.
(16) The current maturity date is April 2024, with a one-year extension available at the option of the Company, which may be exercised upon the satisfaction of certain customary conditions set forth in the governing documents.
(17) The current maturity date is June 2022, with a one-year extension available at the option of the Company, which may be exercised upon the satisfaction of certain customary conditions set forth in the governing documents.
(18) Recourse is either 25.0% or 50.0% depending on loan metrics.
(19) The current maturity date is November 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.

Future Minimum Principal Payments

The following table summarizes future scheduled minimum principal payments at June 30, 2021 based on initial maturity dates or extended maturity dates to the extent criteria are met and the extension option is at the borrower's discretion (dollars in thousands):

	Total	Securitization Bonds Payable, Net	Mortgage Notes Payable, Net	Credit Facilities
Remainder of 2021	$ 13,268	$ —	$ 13,268	$ —
2022	2,520	—	2,520	—
2023	666,607	—	2,527	664,080
2024	199,545	—	199,545	—
2025	467,249	—	261,913	205,336
2026 and thereafter	1,258,939	840,423	285,143	133,373
Total	$ 2,608,128	$ 840,423	$ 764,916	$ 1,002,789

Bank Credit Facility

On February 1, 2018, the Company, through subsidiaries, including the OP, entered into a credit agreement with several lenders to provide a revolving credit facility in the aggregate principal amount of up to $400.0 million (the "Bank Credit Facility"). On December 17, 2018, the aggregate amount of revolving commitments was increased to $525.0 million and on February 4, 2019, the aggregate amount of revolving commitments was increased to $560.0 million. On May 6, 2020 these commitments were reduced to $450.0 million and further reduced to $300.0 million on April 4, 2021. 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 June 30, 2021, the borrowing base valuation was sufficient to support the borrowing of up to $116.1 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 June 30, 2021, depending upon the amount of facility utilization.

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

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

On April 5, 2021, the Company entered into a fourth amendment to its Bank Credit Facility to: (i) permit the OP to consummate the Internalization; (ii) reduce the minimum tangible net worth covenant requirement from $1.5 billion to $1.35 billion upon consummation of the Internalization; (iii) increase the Company's ability to make restricted payments including additional dividends and stock buybacks and remove all material restrictions on new investments, in each case, so long as no default exists and the OP is in compliance with the financial covenants; (iv) increase the maximum amount available for borrowing from 90% to 100% of borrowing base value; and (v) reduce the aggregate amount of lender commitments from $450.0 million to $300.0 million. At June 30, 2021, the Company was in compliance with all of the financial covenants.

Securitization Financing Transactions

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

In October 2019, the Company executed a securitization transaction, through wholly-owned subsidiaries, CLNC 2019-FL1, Ltd. and CLNC 2019-FL1, LLC (collectively, "CLNC 2019-FL1"), which resulted in the sale of $840.4 million of investment grade notes. The securitization reflects an advance rate of 83.5% at a weighted average cost of funds of LIBOR plus 1.59% (before transaction expenses), and is collateralized by a pool of 24 senior loans originated by the Company.

CLNC 2019-FL1 includes a two-year reinvestment feature that allows us to contribute existing or newly originated loan investments in exchange for proceeds from repayments or repurchases of loans held in CLNC 2019-FL1, subject to the satisfaction of certain conditions set forth in the indenture. In addition to existing eligible loans available for reinvestment, the continued origination of securitization eligible loans is required to ensure that the Company reinvests the available proceeds within CLNC 2019-FL1.

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

As of June 30, 2021, the Company had $1.0 billion carrying value of CRE debt investments and other assets financed with $840.4 million of securitization bonds payable, net.

Subsequent to June 30, 2021, the Company executed a securitization transaction through wholly-owned subsidiaries, BRSP 2021-FL1, Ltd. and BRSP 2021-FL1, LLC (collectively, "BRSP 2021-FL1"), which resulted in the sale of $800 million of investment grade notes. The securitization reflects an advance rate of 83.75% at a weighted costs of funds of LIBOR plus 1.49% (before transaction costs) and is collateralized by a pool of 31 floating-rate mortgages secured by 41 properties. The asset collateral is located across 11 states and primarily consists of multifamily properties, with the remainder collateralized by office and self-storage properties. The structure features a two-year reinvestment period. See Note 20, "Subsequent Events," for further detail.

Master Repurchase Facilities

As of June 30, 2021, the Company, through subsidiaries, had entered into repurchase agreements with multiple global financial institutions to provide an aggregate principal amount of up to $2.1 billion to finance the origination of first mortgage loans and senior loan participations secured by CRE debt investments ("Master Repurchase Facilities"). The Company agreed to guarantee certain obligations under the Master Repurchase Facilities, which contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. The Master Repurchase Facilities act as revolving loan facilities that can be paid down as assets are repaid or sold and re-drawn upon for new investments. As of June 30, 2021, the Company was in compliance with all of its financial covenants under the Master Repurchase Facilities.

As of June 30, 2021, the Company had $1.3 billion carrying value of CRE debt investments financed with $1.0 billion under the master repurchase facilities.

On May 7, 2020, the Company amended all six of its Master Repurchase Facilities to reduce the minimum tangible net worth covenant consistent with the Bank Credit Facility. During the first quarter of 2020, the Company received and timely paid a margin call on a hospitality loan and made voluntarily paydowns on two other hospitality and one retail loan. The lender granted the Company a holiday from future margin calls for four months, and it obtained broader discretion to enter into permitted modifications with the borrowers on these three specific loans, if necessary.

In May 2020, the Company amended two of its Master Repurchase Facilities pursuant to which the Company reduced facility advances corresponding to ten senior mortgage loans financed under such facilities. The Company and its lender counterparties agreed to temporary modifications providing for margin holidays from future margin calls or buffers before further margin calls are possible, as well as providing additional protections before certain repurchase obligations may be triggered. The Company was also provided broader discretion to negotiate with its borrowers to implement certain modifications to the underlying loans during such period. These holiday periods expired in the fourth quarter of 2020. Additionally, during the third quarter and fourth quarter of 2020, the Company made voluntarily paydowns on a hospitality loan and a self-storage loan, respectively. In exchange for the paydown on the self-storage loan, the lender granted the Company a holiday from future margin calls for four months, and the Company obtained broader approval to enter into a permitted modification with the borrower.

During the first quarter of 2021, the Company entered into an amendment under its Master Repurchase Facility with Bank 3 and Bank 7 to extend the maturity date by two years and three years, respectively.

During the second quarter of 2021, the Company entered into an amendment under its Master Repurchase Facility with Bank 1 and Bank 8 to extend the maturity date by three years and two years, respectively.

Additionally, during the second quarter of 2021, the Company entered into amendments under its six Master Repurchase Facilities to: (i) permit the guarantor and the OP to consummate the Internalization; and (ii) reduce the minimum tangible net worth covenant requirement from $1.5 billion to $1.35 billion upon consummation of the Internalization.

Subsequent to June 30, 2021 the Company repaid approximately $575.8 million under its master repurchase facilities.

CMBS Credit Facilities

As of June 30, 2021 the Company had entered into eight master repurchase agreements (collectively the "CMBS Credit Facilities") to finance CMBS investments. The CMBS Credit Facilities are on a recourse basis and contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. The CMBS Credit Facilities were undrawn at June 30, 2021 and December 31, 2020.

10. Related Party Arrangements

Management Agreement

On January 31, 2018, the Company and the OP entered into a management agreement (the "Management Agreement") with the Manager, pursuant to which the Manager managed the Company's assets and its day-to-day operations. The Manager was 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 was also responsible for the Company's day-to-day operations and performed (or would 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 required 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 was also an employee of the Manager or its affiliates. The Manager's role as Manager was under the supervision and direction of the Company's Board of Directors.

The initial term of the Management Agreement expired on the third anniversary of the closing date of the Combination, January 31, 2018 (the "Closing Date"), and would be automatically renewed for a one-year term each anniversary date thereafter unless earlier terminated as described below. The Company's independent directors reviewed the Manager's performance and the fees that may be payable to the Manager annually and, following the initial term, the Management Agreement could be terminated if there was an affirmative vote of at least two-thirds of the Company's independent directors determining that (1) there had 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, was 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 was required to provide the Manager 180 days' prior written notice of any such termination.

The Company could 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 would be paid a termination fee as described below. The Manager could terminate the Management Agreement if the Company was 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 could have declined 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 could also terminate the Management Agreement with at least 60 days' prior written notice if the Company breached the Management Agreement in any material respect or otherwise was unable to perform its obligations thereunder and the breach continued for a period of 30 days after written notice to the Company, in which case the Manager would be paid a termination fee as described below.

In November 2019, the Manager, the Company and the OP amended and restated the Management Agreement to modify the "Core Earnings" definition, providing that "unrealized provisions for loan losses and real estate impairments" shall only be applied as exclusions from the definition of Core Earnings if approved by a majority of the independent directors of the Company. Such change became effective during the fourth quarter of 2019 and resulted in a reduction to Core Earnings which thereby reduced 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.

Internalization

On April 30, 2021, the Company completed the Internalization, including the internalization of the Company's management and operating functions and terminated its relationship with its Manager, a subsidiary of DigitalBridge, in accordance with the Termination Agreement. The Company paid the Manager a one-time termination fee of $102.3 million and additional closing costs of $0.3 million. The Company will not pay management or incentive fees to the Manager for any post-closing period. Refer to Note 1, "Business and Organization," for further details.

Fees to Manager

Base Management Fee

Following the Internalization on April 30, 2021, the Company no longer pays a base management fee to the Manager.

The base management fee payable to the Manager under the Management Agreement was 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 six months ended June 30, 2021, the total management fee expense incurred was $2.3 million, and $9.6 million, respectively. For the three and six months ended June 30, 2020, the total management fee expense incurred was $7.2 million and $15.2 million, respectively.

Incentive Fee

Following the Internalization on April 30, 2021, the Company no longer pays an incentive fee to the Manager.

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

The Company did not incur any incentive fees during the three and six months ended June 30, 2021 and 2020.

Reimbursements of Expenses

Following the Internalization on April 30, 2021, the Company no longer reimburses expenses incurred by the Manager.

Reimbursement of expenses related to the Company incurred by the Manager, including legal, accounting, financial, due diligence and other services were paid on the Company's behalf by the OP or its designee(s). The Company reimbursed 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 spent all or a portion of their time managing the Company's affairs, and the Company's share of such costs were based upon the percentage of such time devoted by personnel of the Manager (or its affiliates) to the Company's affairs. The Company may have been 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 six months ended June 30, 2021, the total reimbursements of expenses incurred by the Manager on behalf of the Company and reimbursable in accordance with the Management Agreement was $0.8 million and $2.8 million, respectively, and are included in administrative expense on the consolidated statements of operations. For the three and six months ended June 30, 2020, the total reimbursements of expenses incurred by the Manager on behalf of the Company and reimbursable in accordance with the Management Agreement was $2.4 million and $5.1 million, respectively. As of December 31, 2020, there was $2.7 million of unpaid expenses included in due to related party in the Company's consolidated balance sheets.

Equity Plan Grants

In January 2021, the Company granted 1,420,000 shares of restricted stock and 276,000 PSUs to certain employees of the Manager under the 2018 Equity Incentive Plan (the "2018 Plan"). Following the Internalization, these employees became employees of the Company. In April 2020, the Company granted 143,000 shares to its chief executive officer. In March 2019, the Company granted 800,000 shares to the Manager and/or employees thereof under the 2018 Plan. In March 2018, the Company granted 978,946 shares to its non-independent directors, officers and the Manager and/or employees thereof under the 2018 Plan. 1,550,862 shares remain granted and unvested as of June 30, 2021. See Note 11, "Equity-Based Compensation" for further discussion on the 2018 Plan including shares issued to independent directors of the Company. In connection with these grants, the Company recognized share-based compensation expense of $5.4 million and $9.5 million within administrative expense in the consolidated statements of operations for the three and six months ended June 30, 2021, respectively. The Company recognized share-based compensation expense of $1.5 million and $1.7 million to its Manager within administrative expense in the consolidated statement of operations for the three and six months ended June 30, 2020, 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 July 2017, NorthStar Real Estate Income II, Inc., a Maryland corporation which merged with and into the Company as part of the Company's formation transactions ("NorthStar II"), entered into a joint venture with an affiliate of the Manager to make a $60.0 million investment in a $180.0 million mezzanine loan which was originated by such affiliate of the Manager. The transaction was approved by NorthStar II's board of directors, including all of its independent directors. The investment was purchased by the Company in connection with the Combination. In June 2018, the Company increased its commitment to $101.8 million in connection with the joint venture bifurcating the mezzanine loan into a mezzanine loan and a preferred equity investment. The Company's interest in both the underlying mezzanine loan and preferred equity investment is 31.8%, and the affiliate entities own the remaining 68.2%. Both the underlying mezzanine loan and preferred equity investment carry a fixed 13.0% interest rate. This investment is recorded in investments in unconsolidated ventures in the Company's consolidated balance sheets. In July 2019, the Company increased its commitment in the mezzanine loan from $101.8 million to $189.0 million. The Company's interest in the upsized mezzanine loan is 45.2% and it carries a fixed 13.0% interest rate. During the three months ended June 30, 2020, the Company made its pro-rata share of two protective advances to the senior mortgage lender totaling $28.5 million. The Company placed this investment on nonaccrual status as of April 1, 2020. In September 2020 the Company's mezzanine loan and preferred equity investment was converted into a mezzanine participation. See Note 4, "Investments in Unconsolidated Ventures," for further information.

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

In July 2018, the Company entered into a joint venture to invest in a development project for land and a Grade A office building in Ireland. The Company agreed to invest up to $69.9 million of the $139.7 million total commitment. The Company co-invested along with two affiliates of the Manager, with the Company owning 50.0% of the joint venture and the affiliate entities owning the remaining 50.0%. The joint venture invested in a senior mortgage loan of $66.7 million with a fixed interest rate of 12.5% and a maturity date of 3.5 years from origination and common equity. This investment is included as part of the Co-Invest Portfolio Sale. See Note 4, "Investments in Unconsolidated Ventures," for further information.

In October 2018, the Company entered into a joint venture to invest in a mixed-use development project in Ireland. The Company agreed to invest up to $162.4 million of the $266.5 million total commitment. The Company co-invested along with two affiliates of the Manager, with the Company owning 61.0% of the joint venture and the affiliate entities owning the remaining 39.0%. The joint venture invested in a senior mortgage loan with a fixed interest rate of 15.0% and a maturity date of two years from origination. The Company placed this investment on nonaccrual status as of July 1, 2020. This investment is included as part of the Co-Invest Portfolio Sale. See Note 4, "Investments in Unconsolidated Ventures," for further information.

11. Equity-Based Compensation

On January 29, 2018 the Company's Board of Directors adopted the 2018 Plan. The 2018 Plan permits the grant of awards with respect to 4.0 million shares of the Class A common stock, subject to adjustment pursuant to the terms of the 2018 Plan. Awards may be granted under the 2018 Plan to (x) the Manager or any employee, officer, director, consultant or advisor (who is a natural person) providing services to the Company, the Manager or their affiliates and (y) any other individual whose participation in the 2018 Plan is determined to be in the best interests of the Company. The following types of awards may be made under the 2018 Plan, subject to the limitations set forth in the plan: (i) stock options (which may be either incentive stock options or non-qualified stock options); (ii) stock appreciation rights; (iii) restricted stock awards; (iv) stock units; (v) unrestricted stock awards; (vi) dividend equivalent rights; (vii) performance awards; (viii) annual cash incentive awards; (ix) long-term incentive units; and (x) other equity-based awards.

Shares subject to an award granted under the 2018 Plan will be counted against the maximum number of shares of Class A common stock available for issuance thereunder as one share of Class A common stock for every one share of Class A common stock subject to such an award. Shares subject to an award granted under the 2018 Plan will again become available for issuance under the 2018 Plan if the award terminates by expiration, forfeiture, cancellation, or otherwise without the issuance of such shares (except as set forth in the following sentence). The number of shares of Class A common stock available for issuance under the 2018 Plan will not be increased by (i) any shares tendered or withheld in connection with the purchase of shares upon exercise of a stock option, (ii) any shares deducted or delivered in connection with the Company's tax withholding obligations, or (iii) any shares purchased by the Company with proceeds from stock option exercises. The shares granted in May 2020 to the independent directors of the Company under the 2018 Plan vested in May 2021. The shares granted in June 2021 to the independent directors of the Company under the 2018 Plan vest in May 2022. Shares granted to non-independent directors, officers and the Manager under the 2018 Plan vest ratably in three annual installments.

Restricted Stock—Restricted stock awards relating to the Company's class A common stock are granted to certain employees of the Manager and independent directors of the Company, with a service condition only and are generally subject to annual time-based vesting in equal tranches over a three-year period. Restricted stock is entitled to dividends declared and paid on the Company's class A common stock and such dividends are not forfeitable prior to vesting of the award. Restricted stock awards are valued based on the Company's class A common stock price on grant date and equity-based compensation expense is recognized on a straight-line basis over the requisite three-year service period. Some employees of the Manager who were granted restricted stock under the 2018 Plan became employees of the Company following the Internalization on April 30, 2021. The shares held by substantially all remaining employees of the Manager vested following the Internalization.

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

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

	2021 Grant
Expected volatility[(1)]	86.6 %
Risk free rate[(2)]	0.1 %
Expected dividend yield[(3)]	—

(1) Based upon the Company's historical stock volatility.
(2) Based upon the continuously compounded zero-coupon U.S. Treasury yield for the term coinciding with the measurement period of the award as of valuation date.
(3) Based upon the dividend yield in place as of the grant date.

Fair value of PSU awards, excluding dividend equivalent rights, is recognized on a straight-line basis over their measurement period as compensation expense, and is subject to reversal if the performance condition is not achieved.

The table below summarizes the Company's awards granted, forfeited or vested under the 2018 Plan during the six months ended June 30, 2021:

	Number of Shares			Weighted Average Grant Date Fair Value	
	Restricted Stock	PSUs	Total	Restricted Stock	PSUs
Unvested shares at December 31, 2020	885,070	—	1,190,682	$ 16.16	$ —
Granted	1,458,060	276,000	1,734,060	8.35	11.96
Vested	(525,384)	(3,026)	(528,410)	15.51	11.96
Forfeited	(266,884)	(974)	(267,858)	15.89	11.96
Unvested shares at June 30, 2021	1,550,862	272,000	1,822,862	12.40	11.96

Fair value of equity awards that vested during the six months ended June 30, 2021 and June 30, 2020, determined based on their respective fair values at vesting date, was $3.9 million and $2.7 million, respectively. Fair value of granted awards is determined based on the closing price of the Class A common stock on the date of grant of the awards. Equity-based compensation is classified within administrative expense in the consolidated statement of operations.

At June 30, 2021, aggregate unrecognized compensation cost for all unvested equity awards was $11.0 million, which is expected to be recognized over a weighted-average period of 2.5 years.

12. Stockholders' Equity

Authorized Capital

As of June 30, 2021, the Company had the authority to issue up to 1.0 billion shares of stock, at $0.01 par value per share, consisting of 950.0 million shares of Class A common stock and 50.0 million shares of preferred stock.

The Company had no shares of preferred stock issued and outstanding as of June 30, 2021.

Dividends

During the six months ended June 30, 2021, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Per Share
February 24, 2021	March 31, 2021	April 15, 2021	$0.10
April 30, 2021	June 30, 2021	July 15, 2021	$0.14

Subsequent to June 30, 2021, the Board of Directors approved a quarterly cash dividend of $0.16 per share for the third quarter of 2021, payable on October 15, 2021 to stockholders of record on September 30, 2021.

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, 2020	$ 275	$ 47,127	$ 7,186	$ 54,588
Other comprehensive income (loss) before reclassification	(1,035)	—	(7,547)	(8,582)
Amounts reclassified from AOCI	760	—	—	760
Net current period OCI	(275)	—	(7,547)	(7,822)
AOCI at March 31, 2021	$ —	$ 47,127	$ (361)	$ 46,766
Other comprehensive income (loss) before reclassification	—	—	1,966	1,966
Amounts reclassified from AOCI	—	—	—	—
Net current period OCI	—	—	1,966	1,966
AOCI at June 30, 2021	$ —	$ 47,127	$ 1,605	$ 48,732

(in thousands)	Unrealized gain (loss) on real estate securities, available for sale	Unrealized gain on net investment hedges	Foreign currency translation loss	Total
AOCI at December 31, 2019	$ 15,909	$ 25,872	$ (13,487)	$ 28,294
Other comprehensive income (loss)	(73,273)	21,255	(18,981)	(70,999)
AOCI at March 31, 2020	$ (57,364)	$ 47,127	$ (32,468)	$ (42,705)
Other comprehensive income (loss) before reclassification	(26,905)	—	—	(26,905)
Amounts reclassified from AOCI	84,269	—	—	84,269
Net current period OCI	57,364	—	10,581	67,945
AOCI at June 30, 2020	$ —	$ 47,127	$ (21,887)	$ 25,240

Changes in Components of AOCI - Noncontrolling Interests in the OP

(in thousands)	Unrealized gain (loss) on real estate securities, available for sale	Unrealized gain (loss) on net investment hedges	Foreign currency translation gain (loss)	Total
AOCI at December 31, 2020	$ (73)	$ 1,403	$ (272)	$ 1,058
Other comprehensive income (loss) before reclassification	98	—	(210)	(112)
Amounts reclassified from AOCI	(25)	—	—	(25)
Net current period OCI	73	—	(210)	(137)
AOCI at March 31, 2021	$ —	$ 1,403	$ (482)	$ 921
Other comprehensive income (loss) before reclassification	—	—	(89)	(89)
Amounts reclassified from AOCI	—	—	—	—
Net current period OCI	—	—	(89)	(89)
AOCI at June 30, 2021	$ —	$ 1,403	$ (571)	$ 832

(in thousands)	Unrealized gain (loss) on real estate securities, available for sale	Unrealized gain on net investment hedges	Foreign currency translation loss	Total
AOCI at December 31, 2019	$ 612	$ 893	$ (801)	$ 704
Other comprehensive income (loss)	(1,756)	509	(455)	(1,702)
AOCI at March 31, 2020	$ (1,144)	$ 1,402	$ (1,256)	$ (998)
Other comprehensive income (loss) before reclassification	(872)	—	—	(872)
Amounts reclassified from AOCI	2,016	—	—	2,016
Net current period OCI	1,144	—	259	1,403
AOCI at June 30, 2020	$ —	$ 1,402	$ (997)	$ 405

Changes in Components of AOCI - Noncontrolling Interests in investment entities

(in thousands)	Unrealized gain (loss) on real estate securities, available for sale	Unrealized gain (loss) on net investment hedges	Foreign currency translation gain (loss)	Total
AOCI at December 31, 2020	$ —	$ —	$ 2,193	2,193
Other comprehensive income	—	—	(776)	(776)
AOCI at March 31, 2021	$ —	$ —	$ 1,417	$ 1,417
Other comprehensive income (loss) before reclassification	—	—	336	336
Amounts reclassified from OCI	—	—	—	—
Net current period OCI	—	—	336	336
AOCI at June 30, 2021	$ —	$ —	$ 1,753	$ 1,753

(in thousands)	Unrealized gain (loss) on real estate securities, available for sale	Unrealized gain (loss) on net investment hedges	Foreign currency translation gain (loss)	Total
AOCI at December 31, 2019	$ —	$ —	$ —	$ —
Other comprehensive income (loss)	—	—	—	—
AOCI at March 31, 2020	$ —	$ —	$ —	$ —
Other comprehensive income	—	—	257	257
AOCI at June 30, 2020	$ —	$ —	$ 257	$ 257

The following table presents the details of the reclassifications from AOCI for the six months ended June 30, 2021:

(in thousands)

Component of AOCI reclassified into earnings	Six Months Ended June 30, 2021	Affected Line Item in the Consolidated Statements of Operations
Realized gain on sale of real estate securities	$ 104	Other gain (loss), net
Impairment of real estate securities	$ (967)	Other gain (loss), net

13. Noncontrolling Interests

Operating Partnership

Noncontrolling interests include the aggregate limited partnership interests in the OP held by an affiliate of DigitalBridge. 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 $0.4 million and $2.4 million for the three and six months ended June 30, 2021, respectively. Net loss attributable to the noncontrolling interests of the OP was $5.4 million and $7.3 million for the three and six months ended June 30, 2020, respectively.

Investment Entities

Noncontrolling interests in investment entities represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net loss attributable to noncontrolling interests in the investment entities was $3.5 million and $3.7 million for the three and six months ended June 30, 2021, respectively. Net loss attributable to noncontrolling interests in the investment entities for the three and six months ended June 30, 2020 was $8.1 million and $7.6 million, respectively.

5-Investment Preferred Financing

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

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

The preferred financing resulted in a reallocation of a portion of stockholders equity to noncontrolling interest, resulting in a $69 million day-one reduction in stockholders equity. The transaction resulted in the Company receiving net liquidity of approximately $170 million, net of approximately $30 million in paydowns under the Company's Bank Credit Facility. The preferred financing provides the ability to draw down up to $29 million additional commitments from GS for future advances to the portfolio, if any, at the Company's same advance rate.

The preferred financing provides for a disproportionate allocation of profits and losses, and thus each party's share of earnings or loss is determined using a balance sheet approach known as the HLBV method. Under the HLBV method, earnings and losses are recognized based on the change in each party's capital account from the beginning of the period in question to the end of the period, adjusting for the effects of distributions and new investments. The entity measures each party's capital account assuming that the subsidiary was liquidated or sold at book value.

For the three months ended June 30, 2021, the Company has drawn-down additional funds of $0.8 million from GS and completed $12.9 million in cash distributions to GS. The noncontrolling interest in investment entities on the Company's consolidated balance sheet includes $233.7 million representing GS's investment at June 30, 2021 under the HLBV method.

Subsequent to June 30, 2021, the Company agreed to sell the four co-investments within the 5-Investment Preferred Financing. Refer to Note 4, "Investments in Unconsolidated Ventures" and Note 20, "Subsequent Events" for more details on this transaction.

14. Fair Value

Determination of Fair Value

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

PE Investments

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

Real Estate Securities

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

Investing VIEs

As discussed in Note 5, "Real Estate Securities, Available for Sale," the Company has elected the fair value option for the financial assets and liabilities of the consolidated Investing VIEs. The Investing VIEs are "static," that is no reinvestment is permitted and there is very limited active management of the underlying assets. The Company is required to determine whether the fair value of the financial assets or the fair value of the financial liabilities of the Investing VIEs are more observable, but in either case, the methodology results in the fair value of the assets of the securitization trusts being equal to the fair value of their liabilities. The Company has determined that the fair value of the liabilities of the securitization trusts are more observable, since market prices for the liabilities are available from a third-party pricing service or are based on quoted prices provided by dealers who make markets in similar financial instruments. The financial assets of the securitization trusts are not readily marketable and their fair value measurement requires information that may be limited in availability.

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

Derivatives

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

Fair Value Hierarchy

Financial assets recorded at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table presents financial assets that were accounted for at fair value on a recurring basis as of June 30, 2021 and December 31, 2020 by level within the fair value hierarchy (dollars in thousands):

	June 30, 2021				December 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Investments in unconsolidated ventures - PE Investments	$ —	$ —	$ 4,876	$ 4,876	$ —	$ 5	$ 6,878	$ 6,883
Real estate securities, available for sale	—	4,045		4,045	—	10,389	—	10,389
Mortgage loans held in securitization trusts, at fair value	—	—	912,115	912,115	—	—	1,768,069	1,768,069
Other assets - derivative assets	—	1,339		1,339	—	386	—	386
Liabilities:								
Mortgage obligations issued by securitization trusts, at fair value	$ —	$ 872,605	$ —	$ 872,605	$ —	$ 1,708,534	$ —	$ 1,708,534
Other liabilities - derivative liabilities	—	19	—	19	—	37	—	37

The following table presents the changes in fair value of financial assets which are measured at fair value on a recurring basis using Level 3 inputs to determine fair value for the six months ended June 30, 2021 and year ended December 31, 2020 (dollars in thousands):

	Six Months Ended June 30, 2021		Year Ended December 31, 2020	
	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	$ 6,878	$ 1,768,069	$ 8,858	$ 1,872,970
Distributions/paydowns	(1,929)	(9,648)	(2,649)	(76,719)
Sale of investments	—	(28,662)	—	—
Deconsolidation of securitization trust[(2)]	—	(802,196)	—	—
Equity in earnings	(73)	—	669	—
Unrealized gain in earnings	—	4,068	—	(28,182)
Realized loss in earnings	—	(19,516)	—	—
Ending balance	$ 4,876	$ 912,115	$ 6,878	$ 1,768,069

(1) For the six months ended June 30, 2021, the Company recorded an unrealized gain of $4.1 million related to mortgage loans held in securitization trusts, at fair value and an unrealized gain of $24.1 million related to mortgage obligations issued by securitization trusts, at fair value.
(2) In April 2021, the Company sold its retained investments in the subordinate tranches of one securitization trust. As a results of the sale, the Company deconsolidated one of the securitization trusts. See Note 5, "Real Estate Securities, Available for Sale" for further information.

As of June 30, 2021 and December 31, 2020, the Company utilized a discounted cash flow model, comparable precedent transactions and other market information to quantify Level 3 fair value measurements on a recurring basis. As of June 30, 2021 and December 31, 2020, the key unobservable inputs used in the analysis of PE Investments included discount rates with a range of 11.0% to 12.0% and timing and amount of expected future cash flows. As of June 30, 2021, the key unobservable inputs used in the valuation of mortgage obligations issued by securitization trusts included a blended yield of 21.7% and a weighted average life of 5.8 years. As of December 31, 2020, the key unobservable inputs included yields ranging from 21.1% to 53.7%, respectively, and a weighted average life of 5.0 years. Significant increases or decreases in any one of the inputs described above in isolation may result in significantly different fair value of the financial assets and liabilities using such Level 3 inputs.

During the three and six months ended June 30, 2021, the Company recorded an unrealized gain of $19.5 million and $28.2 million, respectively, on mortgage loans and obligations held in securitization trusts, net related to the sale of the retained investments in the subordinate tranches of one securitization trust. Upon the sale in the second quarter of 2021, the accumulated unrealized losses relating to the retained investments were reversed and subsequently recorded to realized loss on mortgage loans and obligations held in securitization trusts, net. For the three and six months ended June 30, 2020, the Company recorded a net unrealized loss of $9.0 million and $28.4 million, respectively, related to mortgage loans held in and mortgage obligations issued by securitization trusts, at fair value. These amounts, when incurred, are recorded as unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations.

For the three and six months ended June 30, 2021, the Company recorded a $19.5 million realized loss on mortgage loans held in securitization trusts, at fair value, which represents the loss upon the sale of the Company's retained interests in the subordinate tranches of one securitization trust. This amount is recorded as realized loss on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations.

Fair Value Option

The Company may elect to apply the fair value option of accounting for certain of its financial assets or liabilities due to the nature of the instrument at the time of the initial recognition of the investment. The Company elected the fair value option for PE Investments and eligible financial assets and liabilities of its consolidated Investing VIEs because management believes it is a more useful presentation for such investments. The Company determined recording the PE Investments based on the change in fair value of projected future cash flow from one period to another better represents the underlying economics of the respective investment. As of June 30, 2021 and December 31, 2020, the Company has elected not to apply the fair value option for any other eligible financial assets or liabilities.

Fair Value of Financial Instruments

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

The following table presents the principal amount, carrying value and fair value of certain financial assets and liabilities as of June 30, 2021 and December 31, 2020 (dollars in thousands):

	June 30, 2021			December 31, 2020		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial assets:[1]						
Loans and preferred equity held for investment, net	$ 2,865,091	$ 2,810,783 [2]	$ 2,821,152	$ 2,225,856 [2]	$ 2,183,497	$ 2,189,006
Financial liabilities:[1]						
Securitization bonds payable, net	$ 840,423	$ 836,234	$ 840,423	$ 840,423	$ 835,153	$ 840,423
Mortgage and other notes payable, net	764,916	764,522	764,916	1,025,455	1,022,757	1,025,455
Master repurchase facilities	1,002,789	1,002,789	1,002,789	535,224	535,224	535,224

(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 $197.1 million and $163.0 million as of June 30, 2021 and December 31, 2020, respectively.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of June 30, 2021. Although management is not aware of any factors that would significantly affect fair value, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

Loans and Preferred Equity Held for Investment, Net

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

Securitization Bonds Payable, Net

The Company’s securitization bonds payable, net bear floating rates of interest. As of June 30, 2021, the Company believes the carrying value approximates fair value. These fair value measurements are based on observable inputs, and as such, are classified as Level 2 of the fair value hierarchy.

Mortgage and Other Notes Payable, Net

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

Master Repurchase Facilities

The Company has amounts outstanding under Master Repurchase Facilities. The Master Repurchase Facilities bear floating rates of interest. As of June 30, 2021, the Company believes the carrying value approximates fair value. These fair value measurements are based on observable inputs, and as such, are classified as Level 2 of the fair value hierarchy.

Other

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

Nonrecurring Fair Values

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

The following table summarizes assets carried at fair value on a nonrecurring basis as of June 30, 2021 (dollars in thousands):

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Investments in unconsolidated ventures[(1)]	$ —	$ —	$ 139,314	$ 139,314

(1) See Note 4 "Investments in Unconsolidated Ventures" for further details.

The Company did not hold any assets carried at fair value on a nonrecurring basis as of December 31, 2020.

15. Derivatives

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

As of June 30, 2021 and December 31, 2020, fair value of derivative assets and derivative liabilities were as follows (dollars in thousands):

	Non-Designated Hedges	
	June 30, 2021	December 31, 2020
Derivative Assets		
Foreign exchange contracts	$ 1,339	$ 386
Included in other assets	$ 1,339	$ 386
Derivative Liabilities		
Interest rate contracts	$ (19)	$ (37)
Included in accrued and other liabilities	$ (19)	$ (37)

As of June 30, 2021, the Company's counterparties held $0.1 million in cash collateral.

The following table summarizes the Company’s interest rate contracts as of June 30, 2021:

		Notional Amount (in thousands)	
Type of Derivatives	Notional Currency	Non-Designated	Range of Maturity Dates
Put Option	NOK	928,000	July 2021
FX Forward	NOK	274,300	August 2021 - May 2024
Interest Rate Swap	USD	30,994	April 2022 - July 2023

The table below represents the effect of the derivative financial instruments on the consolidated statements of operations and of comprehensive income (loss) for the three and six months ended June 30, 2021 and 2020 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Other gain (loss), net				
Non-designated foreign exchange contracts	$ 1,232	$ 8,556	$ 952	$ 4,474
Non-designated interest rate contracts	5	(721)	18	(17,091)
	$ 1,237	$ 7,835	$ 970	$ (12,617)
Other income				
Non-designated foreign exchange contracts	$ —	$ (8,560)	$ —	$ 178
	$ —	$ (8,560)	$ —	$ 178
Accumulated other comprehensive income (loss)				
Designated foreign exchange contracts	$ —	$ —	$ —	$ 21,764
	$ —	$ —	$ —	$ 21,764

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 six months ended June 30, 2021 and 2020, 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 June 30, 2021 and December 31, 2020 (dollars in thousands):

	Gross Amounts of Assets (Liabilities) Included on Consolidated Balance Sheets	Net Amounts of Assets (Liabilities)
June 30, 2021		
Derivative Assets		
Foreign exchange contracts	$ 1,339	$ 1,339
	$ 1,339	$ 1,339
Derivative Liabilities		
Interest rate contracts	$ (19)	$ (19)
	$ (19)	$ (19)
December 31, 2020		
Derivative Assets		
Foreign exchange contracts	$ 386	$ 386
	$ 386	$ 386
Derivative Liabilities		
Interest rate contracts	$ (37)	$ (37)
	$ (37)	$ (37)

The Company did not offset any of its derivatives positions as of June 30, 2021 and December 31, 2020.

In July 2021, the Company entered into two USD-EUR forward swaps for the total notional amount of 90 million EUR in order to minimize foreign currency cash flow risk on the Company's European denominated assets. This forward swap matures on December 31, 2021, where the Company has agreed to sell EUR and buy USD at a locked in forward curve rate. See Note 20, "Subsequent Events" for further detail.

16. Commitments and Contingencies

Lending Commitments

The Company has lending commitments to borrowers pursuant to certain loan agreements in which the borrower may submit a request for funding contingent on achieving certain criteria, which must be approved by the Company as lender, such as leasing, performance of capital expenditures and construction in progress with an approved budget. At June 30, 2021, assuming the terms to qualify for future fundings, if any, had been met, total unfunded lending commitments for loans and preferred equity held for investment was $181.6 million for senior loans and $15.5 million for mezzanine loans. Total unfunded commitments for equity method investments was $8.6 million.

Ground Lease Obligation

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

At June 30, 2021, the weighted average remaining lease term was 14.1 years for ground leases.

The following table presents ground lease expense, included in property operating expense, for the three and six months ended June 30, 2021 and 2020 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Operating lease expense:				
Minimum lease expense	$ 761	$ 797	$ 1,529	$ 1,601
	$ 761	$ 797	$ 1,529	$ 1,601

The operating lease liability for ground leases was determined using a weighted average discount rate of 5.3%. The following table presents future minimum rental payments, excluding contingent rents, on noncancellable ground leases on real estate as of June 30, 2021 (dollars in thousands):

Remainder of 2021	$	1,536
2022		3,099
2023		3,110
2024		2,213
2025		2,148
2026 and thereafter		19,327
Total lease payments		31,433
Less: Present value discount		10,212
Operating lease liability (Note 8)	$	21,221

The following table presents future minimum rental payments, excluding contingent rents, on noncancellable ground leases on real estate as of December 31, 2020 (dollars in thousands):

2021	$	3,071
2022		3,099
2023		3,110
2024		2,213
2025		2,148
2026 and thereafter		19,327
Total lease payments		32,968
Less: Present value discount		10,782
Operating lease liability (Note 8)	$	22,186

Office Lease

During the second quarter of 2021, the Company entered into an office lease in New York.

At June 30, 2021, the remaining lease term was 7.3 years for the New York office lease.

For the six months ended June 30, 2021, the following table summarizes lease expense, included in administrative expense (dollars in thousands):

	Six Months Ended June 30, 2021	
	Corporate Offices	
Operating lease expense:		
Fixed lease expense	$	133
	$	133

The operating lease liability for the office lease was determined using a weighted average discount rate of 2.36%. As of June 30, 2021, the Company's future operating lease commitments for the corporate office was as follows (dollars in thousands):

	Corporate Offices
Remainder of 2021	$ 399
2022	798
2023	798
2024	798
2025	798
2026 and thereafter	2,195
Total lease payments	5,786
Less: Present value discount	$ 473
Operating lease liability (Note 8)	$ 5,313

Litigation and Claims

The Company may be involved in litigation and claims in the ordinary course of the business. As of June 30, 2021, 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.

Internalization

During the three months ended June 30, 2021, the Company finalized the internalization with its Manager. The Company entered into the Termination Agreement with its Manager pursuant to which the Management Agreement terminated effective April 30, 2021, and the Company will no longer pay base management fees or incentive fees with respect to any period thereafter and made a one-time cash payment of $102.3 million to the Manager.

Employment contracts

At March 31, 2021, the Company did not employ any personnel. Instead, the Company relied on the resources of its Manager and affiliates to conduct the Company's operations. On April 30, 2021, the Company entered into employment agreements with the Company's Chief Executive Officer and certain of the Company's senior management team, and in accordance with the terms of the Termination Agreement, the Company extended offers of employment to certain employees that have contributed substantially to the Company's investment, underwriting, portfolio and asset management, loan servicing, financial reporting, treasury, legal, tax, credit, risk and compliance responsibilities employment, which have been accepted.

17. Segment Reporting

Since the third quarter of 2019, the Company conducted its business through the following two portfolios and accompanying operating segments: the Core Portfolio, which consisted of the loan portfolio, CRE debt securities, net leased real estate and corporate; and the Legacy, Non-Strategic Portfolio segment, which consisted of direct investments in operating real estate, private equity investments, certain retail and other loans, as well as corporate-level asset management and other fees. Since then, the Company has resolved 56 investments in the Legacy, Non-Strategic Portfolio and the remaining Legacy, Non-Strategic Portfolio net asset value represented less than 1% of the total net book value at the end of 2020. As such, the Company has dissolved the separate segment reporting of the Legacy, Non-Strategic Portfolio segment as of the beginning of the first quarter of 2021. Prior periods have been recast to reflect these reportable segments for all periods presented.

During the first quarter of 2021, the Company realigned the business and reportable segment information to reflect how the CODM regularly review and manage the business. As a result, the Company presents its business as one portfolio and the following business 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.
- Net Leased and Other Real Estate—direct investments in CRE with long-term leases to tenants on a net lease basis,

where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance, capital expenditures and real estate taxes. It also includes other real estate, currently consisting of three investments with direct ownership in commercial real estate with an emphasis on properties with stable cash flow.

- CRE Debt Securities—investments currently consisting of BBB and some BB rated CMBS (including Non-Investment Grade “B-pieces” of a CMBS securitization pool), or CRE CLOs (including the junior tranches thereof, collateralized by pools of CRE debt investments). It also includes two sub-portfolios of private equity funds.

- Corporate—includes corporate-level asset management and other fees including expenses related to the Bank Credit Facility, related party and general and administrative expenses.

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. Accordingly, the Company realigned the discussion and analysis of its portfolio and results of operations to reflect these reportable segments.

The Company primarily generates revenue from net interest income on the loan, preferred equity and securities portfolios, rental and other income from its net leased, hotel, multi-tenant office, and multifamily real estate assets, as well as equity in earnings of unconsolidated ventures. CRE debt securities include the Company’s investment in the subordinate tranches of the securitization trusts which are eliminated in consolidation. The Company’s income is primarily derived through the difference between revenue and the cost at which the Company is able to finance its investments. The Company may also acquire investments which generate attractive returns without any leverage.

The following tables present segment reporting for the three and six months ended June 30, 2021 and 2020 (dollars in thousands):

	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased and Other Real Estate	Corporate[1]	Total
Three Months Ended June 30, 2021					
Net interest income (expense)	$ 25,926	$ 1,279	$ —	$ (998)	$ 26,207
Property and other income	181	—	24,808	920	25,909
Management fee expense	—	—	—	(2,338)	(2,338)
Property operating expense	—	—	(6,758)	—	(6,758)
Transaction, investment and servicing expense	(563)	—	(62)	(19)	(644)
Interest expense on real estate	—	—	(7,777)	—	(7,777)
Depreciation and amortization	—	—	(9,948)	(46)	(9,994)
Provision for loan losses	(1,200)	—	—	—	(1,200)
Administrative expense	(291)	(166)	—	(13,596)	(14,053)
Restructuring charges	—	—	—	(150)	(150)
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	—	19,516	—	—	19,516
Realized loss on mortgage loans and obligations held in securitization trusts, net		(19,516)			(19,516)
Other gain (loss), net	(400)	—	1,236	—	836
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	23,653	1,113	1,499	(16,227)	10,038
Equity in earnings (loss) of unconsolidated ventures	(33,665)	(123)	—	—	(33,788)
Income tax benefit	—	49	85	—	134
Net income (loss)	$ (10,012)	$ 1,039	$ 1,584	$ (16,227)	$ (23,616)

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

Three Months Ended June 30, 2020	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased and Other Real Estate	Corporate[(1)]	Total
Net interest income (expense)	$ 27,266	$ 1,050	$ 3	$ (3,381)	$ 24,938
Property and other income	81	—	35,165	116	35,362
Management fee expense	—	—	—	(7,206)	(7,206)
Property operating expense	—	—	(16,311)	—	(16,311)
Transaction, investment and servicing expense	(1,961)	(73)	(147)	(726)	(2,907)
Interest expense on real estate	—	—	(11,818)	—	(11,818)
Depreciation and amortization	—	—	(14,020)	—	(14,020)
Provision for loan losses	51	—	—	—	51
Impairment of operating real estate	—	—	(25,935)	—	(25,935)
Administrative expense	(412)	(201)	(137)	(6,001)	(6,751)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	(9,498)	—	523	(8,975)
Other gain (loss), net	(37,180)	(87,006)	4,555	(2)	(119,633)
Loss before equity in earnings of unconsolidated ventures and income taxes	(12,155)	(95,728)	(28,645)	(16,677)	(153,205)
Equity in earnings (loss) of unconsolidated ventures	(85,277)	—	—	—	(85,277)
Income tax benefit (expense)	(2,200)	—	98	—	(2,102)
Net loss	$ (99,632)	$ (95,728)	$ (28,547)	$ (16,677)	$ (240,584)

(1) Includes losses incurred from the CRE securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the three months ended June 30, 2020, $0.5 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Corporate column.

Six Months Ended June 30, 2021	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased and Other Real Estate	Corporate[(1)]	Total
Net interest income (expense)	$ 48,845	$ 3,632	$ —	$ (2,038)	$ 50,439
Property and other income	180	53	50,605	838	51,676
Management fee expense	—	—	—	(9,596)	(9,596)
Property operating expense	—	—	(14,869)	—	(14,869)
Transaction, investment and servicing expense	(1,252)	(167)	(177)	(1,336)	(2,932)
Interest expense on real estate	—	—	(16,410)	—	(16,410)
Depreciation and amortization	—	—	(19,487)	(46)	(19,533)
Provision for loan losses	(4,425)	—	—	—	(4,425)
Administrative expense	(540)	(946)	(31)	(25,131)	(26,648)
Restructuring charges	—	—	—	(109,321)	(109,321)
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	—	28,154	—	—	28,154
Realized loss on mortgage loans and obligations held in securitization trusts, net	—	(19,516)	—	—	(19,516)
Other gain (loss), net	(400)	(859)	10,462	—	9,203
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	42,408	10,351	10,093	(146,630)	(83,778)
Equity in earnings (loss) of unconsolidated ventures	(36,066)	(200)	—	—	(36,266)
Income tax benefit	—	1,826	109	—	1,935
Net income (loss)	$ 6,342	$ 11,977	$ 10,202	$ (146,630)	$ (118,109)

Six Months Ended June 30, 2020	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased and Other Real Estate	Corporate[1]	Total
Net interest income (expense)	$ 52,116	$ 6,594	$ 11	$ (5,927)	$ 52,794
Property and other income	132	73	96,958	121	97,284
Management fee expense	—	—	—	(15,152)	(15,152)
Property operating expense	(1)	—	(38,841)	—	(38,842)
Transaction, investment and servicing expense	(2,835)	(80)	(347)	(2,779)	(6,041)
Interest expense on real estate	—	—	(24,896)	—	(24,896)
Depreciation and amortization	—	—	(31,996)	—	(31,996)
Provision for loan losses	(69,881)	—	—	—	(69,881)
Impairment of operating real estate			(30,061)		(30,061)
Administrative expense	(749)	(736)	(228)	(12,076)	(13,789)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	(29,404)	—	977	(28,427)
Other gain (loss), net	(37,180)	(103,342)	821	(94)	(139,795)
Loss before equity in earnings of unconsolidated ventures and income taxes	(58,398)	(126,895)	(28,579)	(34,930)	(248,802)
Equity in earnings (losses) of unconsolidated ventures	(69,323)	1,213	—	—	(68,110)
Income tax benefit (expense)	(2,561)	(1,548)	296	—	(3,813)
Net loss	$ (130,282)	$ (127,230)	$ (28,283)	$ (34,930)	$ (320,725)

(1) Includes losses incurred from the CRE securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the six months ended June 30, 2020, $1.0 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Corporate column.

The following table presents total assets by segment as of June 30, 2021 and December 31, 2020 (dollars in thousands):

Total Assets	Senior and Mezzanine Loans and Preferred Equity[1]	CRE Debt Securities[2]	Net Leased and Other Real Estate	Corporate[3]	Total
June 30, 2021	$ 2,340,350	$ 830,246	$ 903,051	$ 1,368,136	$ 5,441,783
December 31, 2020	1,929,937	1,720,624	1,261,137	1,300,239	6,211,937

(1) Includes investments in unconsolidated ventures totaling $308.5 million and $366.5 million as of June 30, 2021 and December 31, 2020, respectively.
(2) Includes PE Investments totaling $4.9 million and $6.9 million as of June 30, 2021 and December 31, 2020, respectively.
(3) Includes cash, unallocated receivables, deferred costs and other assets, net and the elimination of the subordinate tranches of the securitization trusts in consolidation.

Geography

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Total income by geography:				
United States	$ 67,564	$ 6,779	$ 138,515	$ 131,732
Europe	(26,132)	3,353	(19,731)	24,148
Total(1)	$ 41,432	$ 10,132	$ 118,784	$ 155,880

	June 30, 2021	December 31, 2020
Long-lived assets by geography:		
United States	$ 574,453	$ 600,767
Europe	307,932	314,190
Total(2)	$ 882,385	$ 914,957

(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.

18. Earnings Per Share

The Company's net income (loss) and weighted average shares outstanding for the three and six months ended June 30, 2021 and 2020 consist of the following (dollars in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net loss	$ (23,616)	$ (240,584)	$ (118,109)	$ (320,725)
Net loss attributable to noncontrolling interests:				
Investment Entities	3,459	8,107	3,685	7,584
Operating Partnership	437	5,418	2,390	7,310
Net loss attributable to BrightSpire Capital, Inc. common stockholders	$ (19,720)	$ (227,059)	$ (112,034)	$ (305,831)
Numerator:				
Net loss allocated to participating securities (non-vested shares)	$ —	$ —	$ —	$ (322)
Net loss attributable to common stockholders	$ (19,720)	$ (227,059)	$ (112,034)	$ (306,153)
Denominator:				
Weighted average shares outstanding(1)	128,298	128,539	128,297	128,513
Net loss per common share - basic and diluted	$ (0.15)	$ (1.77)	$ (0.87)	$ (2.38)

(1) The outstanding shares used to calculate the weighted average basic shares outstanding exclude 1,550,862 and 928,230 restricted stock awards as of June 30, 2021 and 2020 net of forfeitures, respectively, as those shares were issued but were not vested and therefore, not considered outstanding for purposes of computing basic income (loss) per common share for the three and six months ended June 30, 2021.

19. Restructuring Charges

In April 2021, the Company entered into the Termination Agreement with its Manager pursuant to which the Company internalized its management function and made a one-time cash payment of $102.3 million to the Manager. The Company will no longer pay base management fees or incentive fees with respect to any period after April 30, 2021. The Company incurred a total of $0.2 million and $109.3 million of restructuring costs for the three and six months ended June 30, 2021, respectively, which were paid by the Company in the second quarter of 2021. The additional restructuring costs of $7.0 million consist primarily of fees paid for legal and investment banking advisory services. Refer to Note 1, “Business and Organization,” for further detail.

20. Subsequent Events

Dividends

On July 15, 2021, the Company paid a quarterly cash dividend of $0.14 per share of Class A common stock for the quarter ending June 30, 2021, to stockholders of record on June 30, 2021.

Subsequent to June 30, 2021, the Board of Directors approved a quarterly cash dividend of $0.16 per share for the third quarter of 2021, payable on October 15, 2021 to stockholders of record on September 30, 2021.

Investment Sales

On July 19, 2021, the Company reached an agreement to sell the five co-investment assets to managed vehicles of Fortress Investment Group LLC (“Fortress”), for gross proceeds of $223 million (the “Co-Invest Portfolio Sale”). Per generally accepted accounting principles, the Company is required to value these assets at the lower of cost or fair market value. As of June 30, 2021, to reflect the cash the Company expects to receive from the sale, the Company recorded other-than-temporary impairment loss adjustments on one senior mortgage loan for a fully entitled land acquisition for a mixed use development project in Dublin, Ireland for $32.8 million, one mezzanine loan secured by single family development projects in Rolling Hills, California for $1.4 million and one mezzanine loan secured by a mixed use development project in San Rafael, California for $1.3 million, totaling a loss of $35.5 million, of which $32.0 million was allocated to the Company and $3.5 million was allocated to the Company’s partner in the “5-Investment Preferred Financing”. Additionally, the Company expects to record an offsetting gain on the other two co-invest assets totaling approximately $27.4 million upon the closing of the transaction, which is subject to customary closing conditions, third-party consents and purchase price adjustments, resulting in a total net realized loss of approximately $4.6 million, net of selling costs. We can offer no assurances that the transaction will close as expected or at all or the actual amount of any loss or gain realized by the Company in connection with the sale.

Loan Originations

Subsequent to June 30, 2021, the Company funded 11 senior mortgage loans, substantially all comprised of cash flowing multifamily properties, with a total commitment of $327.4 million. The average initial funded amount was $23.0 million and a weighted average spread of 3.26% plus LIBOR.

Securitization

Subsequent to June 30, 2021, the Company executed a securitization transaction through BRSP 2021-FL1, which resulted in the sale of $800 million of investment grade notes. The securitization reflects an advance rate of 83.75% at a weighted costs of funds of LIBOR plus 1.49% (before transaction costs) and is collateralized by a pool of 31 floating-rate mortgages secured by 41 properties. The asset collateral is located across 11 states and primarily consists of multifamily properties, with the remainder collateralized by office and self-storage. The structure features a two-year reinvestment period. Refer to Note 9, “Debt” for further discussion.

Hedging Activity

In July 2021, the Company entered into two USD-EUR forward swaps for the total notional amount of 90 million EUR in order to minimize foreign currency cash flow risk on the Company’s European denominated assets. Both forward swaps mature on December 31, 2021, where the Company has agreed to sell EUR and buy USD at a locked in forward curve rate.

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, 2020, which is accessible on the SEC's website at www.sec.gov.

Introduction

We are a commercial real estate ("CRE") credit real estate investment trust ("REIT") focused on originating, acquiring, financing and managing a diversified portfolio consisting primarily of CRE debt investments and net leased properties predominantly in the United States. CRE debt investments primarily consist of first mortgage loans, which we expect to be our primary investment strategy. Additionally, we may also selectively originate mezzanine loans and preferred equity investments, which may include profit participations. The mezzanine loans and preferred equity investments may be in conjunction with our origination of corresponding first mortgages on the same properties. Net leased properties consist of CRE properties with long-term leases to tenants on a net-lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance capital expenditures and real estate taxes. We will continue to target net leased equity investments on a selective basis. Additionally, we currently have investments in CRE debt securities primarily consisting of commercial mortgage-backed securities ("CMBS") (including "B-pieces" of a CMBS securitization pool) or CRE collateralized loan obligations ("CLOs") (including the junior tranches collateralized by pools of CRE debt investments). We have continued to reduce our CMBS holdings since the second quarter of 2020, and have one CMBS security available for sale in addition to our "B-pieces" of a CMBS securitization pool at June 30, 2021. Any future investments in CRE debt securities would be selective and opportunistic.

We were organized in the state of Maryland on August 23, 2017 and maintain key offices in New York, New York and Los Angeles, California. We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, beginning with our taxable year ended December 31, 2018. We conduct all our activities and hold substantially all our assets and liabilities through our operating subsidiary, BrightSpire Capital Operating Company, LLC (formerly known as Credit RE Operating Company, LLC, the "OP"). At June 30, 2021, we owned 97.7% of the OP, as its sole managing member. The remaining 2.3% is owned as noncontrolling interests.

The Internalization

On April 30, 2021, we completed the internalization of the Company's management and operating functions and terminated our relationship with CLNC Manager, LLC (the "Manager"), a subsidiary of DigitalBridge Group, Inc. ("DigitalBridge"), formerly known as Colony Capital, Inc., in accordance with that termination agreement dated April 4, 2021 between the Company, the OP, the Manager and Colony Capital Investment Advisors, LLC (the "Termination Agreement," and the transactions contemplated thereunder, the "Internalization"). We have paid the Manager a one-time termination fee of $102.3 million. Therefore, we will no longer pay management or incentive fees to the Manager for any post-closing period and we have assumed general and administrative expenses directly. We anticipate a savings in operating costs as a result of the Internalization. Further, in connection with the Internalization, certain affiliates of ours and the Manager entered into a transition services agreement to facilitate an orderly internalization transition of the management of our operations and, in addition, we will provide affiliates of the Manager with certain limited transition services.

Our executive team remains unchanged, including Michael J. Mazzei, Chief Executive Officer and President; Andrew E. Witt, Chief Operating Officer and Executive Vice President; Frank V. Saracino, Chief Financial Officer and Executive Vice President; David A. Palamé, General Counsel, Secretary and Executive Vice President; George Kok, Chief Credit Officer; and Daniel Katz, Head of Originations. As a result of the Company's 2021 Annual Meeting of Stockholders, DigitalBridge no longer has affiliated representatives on our board of directors. The Company's board of directors is comprised of five members, including our four incumbent independent directors, led by Catherine D. Rice, our Independent Chairperson, Vernon Schwartz, John Westerfield and Winston W. Wilson, and Michael J. Mazzei, the Company's Chief Executive Officer and President. Additionally, certain professionals that have contributed substantially to our investment, underwriting, portfolio and asset management, loan servicing, financial reporting, treasury, legal, tax, credit, risk and compliance responsibilities seamlessly moved forward as direct employees of the Company.

Our senior management team has extensive experience managing and investing in our target assets and other real estate-related investments through a variety of credit cycles and market conditions. The clarity in organizational structure and dedicated management and employee base achieved through the Internalization solidifies the footprint and corresponding network developed by our investment and asset management teams, with proprietary market knowledge, sourcing capabilities and the local presence required to identify, execute and manage new originations and existing investments on behalf of the Company. Our real estate investment platform and relationships allow us to source, underwrite, structure and manage investment opportunities as well as to access debt and equity capital to fund our operations. We have fully integrated investment and portfolio management, finance and administration functions, including legal, compliance, human resources, investor relations, asset valuation, credit and risk management and information technology services. The Company has a captive, fully functional, 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. Our asset management company is a commercial special servicer rated by both Standard & Poor's and Fitch's rating services.

On June 24, 2021, BrightSpire Capital, Inc. changed its name from Colony Credit Real Estate, Inc. We also changed our principal place of business and corporate headquarters from Los Angeles to New York City, now located at 590 Madison Avenue, 33rd Floor, New York, NY 10022. We continue to be publicly traded on the New York Stock Exchange. However, concurrent with our name change, we changed our ticker symbol to BRSP.

Our Target Assets

During the second quarter of 2021, we have continued to selectively pursue new investments. These new investments were entirely first mortgage loans eligible for collateralized loan obligation securitizations.

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

- ***CRE Debt Investments:***
  - ***Senior Mortgage Loans.*** Our primary focus is originating and selectively acquiring senior mortgage loans that are backed by CRE assets. These loans are secured by a first mortgage lien on a commercial property and provide mortgage financing to a commercial property developer or owner. Going forward, we expect to increase our exposure to senior mortgage loans as a percentage of our overall portfolio. The loans may vary in duration, bear interest at a fixed or floating rate and amortize, if at all, over varying periods, often with a balloon payment of principal at maturity. Senior mortgage loans may include junior participations in our originated senior loans for which we have syndicated the senior participations to other investors and retained the junior participations for our portfolio. We believe these junior participations are more like the senior mortgage loans we originate than other loan types given their credit quality and risk profile.
- ***Mezzanine Loans and Preferred Equity:***
  - ***Mezzanine Loans.*** We may originate or acquire mezzanine loans, which are structurally subordinate to senior loans, but senior to the borrower's equity position. Mezzanine loans may be structured such that our return accrues and is added to the principal amount rather than paid on a current basis. We may also pursue equity participation opportunities in instances when the risk-reward characteristics of the investment warrant additional upside participation in the possible appreciation in value of the underlying assets securing the investment.
  - ***Preferred Equity.*** We may make investments that are subordinate to senior and mezzanine loans, but senior to the common equity in the mortgage borrower. Preferred equity investments may be structured such that our return accrues and is added to the principal amount rather than paid on a current basis. We also may pursue equity participation opportunities in preferred equity investments, like such participations in mezzanine loans.
- ***Net Leased and Other 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 our investments, we invest so as to maintain our qualification as a REIT for U.S. federal income tax purposes and our exclusion or exemption from regulation under the Investment Company Act of 1940, as amended (the "Investment Company Act").

We believe that events in the financial markets from time to time, including the current and potential impacts of the COVID-19 pandemic, have created and will continue to create significant dislocation between price and intrinsic value in certain asset classes as well as a supply and demand imbalance of available credit to finance these assets. We believe that our in-depth understanding of CRE and real estate-related investments, in-house underwriting, asset management and resolution capabilities, provides an extensive platform to regularly evaluate our investments and determine primary, secondary or alternative disposition strategies. This includes intermediate servicing and negotiating, restructuring of non-performing investments, foreclosure considerations, management or development of owned real estate, in each case to reposition and achieve optimal value realization for 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

During the first quarter of 2021, the Company 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, we present our business as one portfolio and the following business 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.

- Net Leased and Other Real Estate—direct investments in commercial real estate with long-term leases to tenants on a net lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance, capital expenditures and real estate taxes. It also includes other real estate, currently consisting of three investments with direct ownership in commercial real estate, with an emphasis on properties with stable cash flow.

- CRE Debt Securities— securities investments currently consisting of BBB and some BB rated CMBS (including Non-Investment Grade "B-pieces" of a CMBS securitization pool) or CRE CLOs (including the junior tranches thereof, collateralized by pools of CRE debt investments). It also includes two sub-portfolios of private equity funds.

- Corporate—includes corporate-level asset management and other fees including expenses related to our secured revolving credit facility (the "Bank Credit Facility"), related party and general and administrative expenses.

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.

Significant Developments

During the three months ended June 30, 2021 and through August 4, 2021, significant developments affecting our business and results of operations of our portfolio included the following:

Capital Resources

- On April 30, 2021, we completed the Internalization, consisting of the internalization of our management and operating functions and terminated our relationship with the Manager, a subsidiary of DigitalBridge, in accordance with the Termination Agreement. We paid the Manager a one-time termination fee of $102.3 million, and we will no longer pay management or incentive fees to the Manager for any post-closing period;
- During the second quarter of 2021, we amended our Bank Credit Facility to permit the Internalization and reduced the minimum tangible net worth covenant, increased our ability to make restricted payments such as dividends and stock buybacks and removed material restrictions on new investments, subject to covenant compliance, increased the maximum amount available for borrowing to 100% of the borrowing base value and reduced the aggregate amount of lender commitments from $450 million to $300 million. See "Liquidity and Capital Resources" below for further discussion;
- During the second quarter of 2021, we amended our six Master Repurchase Facilities to permit the Internalization and reduce the minimum tangible net worth covenants consistent with that in the Bank Credit Facility, along with extending the maturity date on five Master Repurchase Facilities. See "Liquidity and Capital Resources" below for further discussion;
- In July 2021, we executed a securitization transaction through BRSP 2021-FL1, which resulted in the sale of $800 million of investment grade notes. The securitization reflects an advance rate of 83.75% at a weighted cost of

funds of LIBOR plus 1.49% (before transaction expenses). See “Liquidity and Capital Resources” below for further discussion;
- Declared and paid a second quarter $0.14 per share dividend on July 15, 2021;
- In July 2021, our board of directors declared a third quarter dividend of $0.16 per share, payable on October 15, 2021 to stockholders of record as of September 30, 2021.
- As of the date of this report, we have approximately $381 million of liquidity, consisting of $221 million cash on hand and $160 million available on our Bank Credit Facility;

Our Portfolio

- During the second quarter of 2021, we funded 14 senior mortgage loans with a total commitment of $402.1 million. The average initial funded amount was $26.6 million and a weighted average spread of 3.34% plus LIBOR. Subsequent to June 30, 2021, we funded 11 senior mortgage loans with a total commitment of $327.4 million. The average initial funded amount was $23.0 million and a weighted average spread of 3.26% plus LIBOR. Substantially all funded loans during these periods were comprised of cash flowing multifamily properties;
- During the second quarter of 2021, we sold our retained investments in the subordinate tranches of one securitization trust for $28.7 million in total proceeds. In connection with the sale, we recognized a realized loss of $19.5 million for the three and six months ended June 30, 2021. Additionally, we also recognized unrealized gains of $19.5 million and $28.2 million for the three and six months ended June 30, 2021, respectively. We deconsolidated the securitization trust with gross assets and liabilities of approximately $830.9 million and $802.2 million, respectively;
- During the second quarter of 2021, we classified one hotel with a carrying value of $27.6 million as held for sale;
- On July 19, 2021, we reached an agreement to sell five co-investment assets to managed vehicles of Fortress Investment Group LLC (“Fortress”), for gross proceeds of $223 million (the “Co-Invest Portfolio Sale”). Upon closing of the transaction, which is subject to customary closing conditions, third-party consents and purchase price adjustments, we anticipate recognizing a total net realized loss of approximately $4.6 million, net of selling costs. See “Our Portfolio” below for further discussion of accounting and transaction economics.

Results of Operations

Our Portfolio

- Generated U.S. GAAP net loss of $19.7 million, or $(0.15) per share and Distributable Earnings (Loss) of $27.1 million, or $(0.20) per share during the three months ended June 30, 2021.

Impact of COVID-19

Considerable uncertainty still surrounds COVID-19 and its potential effects, and the extent of and effectiveness of any responses taken on a national and local level. Accordingly, the COVID-19 pandemic has negatively impacted CRE credit REITs across the industry, as well as other companies that own and operate commercial real estate investments, including our company. As we manage the impact and uncertainties of the COVID-19 pandemic, cash preservation, liquidity and investment and portfolio management remain key priorities.

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

The COVID-19 pandemic has created uncertainties that have and may continue to negatively impact our future operating results, liquidity and financial condition. However, we believe there are too many uncertainties to predict and quantify the continuing impact. The potential concerns and risks include, but are not limited to, mortgage borrowers ability to make monthly payments, lessees’ capacity to pay their rent, and the resulting impact on us to meet our obligations. Therefore, there can be no assurances that we will not need to take impairment charges in future quarters or experience further declines in revenues and net income, which could be material.

Our Portfolio

As of June 30, 2021, our portfolio consisted of 93 investments representing approximately $3.7 billion in book value (based on our share of ownership and excluding cash, cash equivalents and certain other assets). Our senior and mezzanine loans and preferred equity consisted of 75 senior mortgage loans, mezzanine loans, preferred equity investments and other loans and had a weighted average cash coupon of 4.3% and a weighted average all-in unlevered yield of 5.1%. Our net leased real estate consisted of approximately 3.2 million total square feet of space and total second quarter 2021 net operating income ("NOI") of that portfolio was approximately $9.6 million.

As of June 30, 2021, our portfolio consisted of the following investments (dollars in thousands):

	Count[(1)]	Book value (Consolidated)	Book value (at BRSP share)[(2)]	Net book value (Consolidated)[(3)]	Net book value (at BRSP share)[(4)]
Our Portfolio					
Senior mortgage loans[(5)]	59	$ 2,713,538	$ 2,623,964	$ 804,947	$ 715,372
Mezzanine loans[(5)]	10	361,213	274,577	361,213	274,577
Preferred equity[(5)(6)]	6	43,925	40,474	43,925	40,474
Subtotal	75	3,118,676	2,939,015	1,210,085	1,030,423
Net leased real estate	9	693,030	500,952	198,650	152,604
Other real estate	3	210,041	196,205	4,903	4,424
CRE debt securities	5	43,555	43,555	43,555	43,555
Private equity interests	1	4,876	4,876	4,876	4,876
Total/Weighted average Our Portfolio	93	$ 4,070,178	$ 3,684,603	$ 1,462,069	$ 1,235,882

(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 June 30, 2021.
(3) Net book value represents book value less any associated financing as of June 30, 2021.
(4) Net book value at our share represents the proportionate book value based on asset ownership less any associated financing based on ownership as of June 30, 2021.
(5) Senior mortgage loans, mezzanine loans, and preferred equity include investments in joint ventures whose underlying interest is in a loan or preferred equity.
(6) Preferred equity balances include $16.5 million of book value at our share attributable to related equity participation interests.

Underwriting Process

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

Loan Risk Rankings

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

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

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

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

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

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

As mentioned above, management considers several risk factors when assigning our risk ranking each quarter. For the quarter ended June 30, 2021, management believes the extended impact of the COVID-19 pandemic remains uncertain, and therefore continues to represent a significant risk to our portfolio. However, the origination of 14 new loans during the quarter and improved outlook in others, resulted in a quarter-end average risk rating of 3.5. This is a slight improvement as compared to an average risk ranking of 3.6 for the quarter ended March 31, 2021.

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 based on our internal risk rankings as of June 30, 2021 (dollars in thousands):

		Carrying Value (at BRSP share)[(1)]				
Risk Ranking	**Count[(2)]**	**Senior mortgage loans[(3)]**	**Mezzanine loans**	**Preferred equity**	**Total**	**% of Our Portfolio**
2	1	$ 41,284	$ —	$ —	$ 41,284	1.4 %
3	51	1,626,069	68,626	19,588	1,714,283	58.4 %
4	15	816,094	77,212	16,200	909,506	30.9 %
5	7	168,095	101,161	4,686	273,942	9.3 %
	74	$ 2,651,542	$ 246,999	$ 40,474	$ 2,939,015	100.0 %
Weighted average risk ranking						3.5

(1) Carrying value at our share represents the proportionate book value based on ownership by asset as of June 30, 2021.
(2) Count excludes one equity method participation held in a joint venture with a de minimis carry value (at BRSP share) which was not assigned a risk ranking.
(3) Includes one mezzanine loan totaling $27.6 million where we are also the senior lender.

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The following table provides asset level detail for our senior and mezzanine loans and preferred equity as of June 30, 2021 (dollars in thousands):

	Collateral type	Origination Date	City, State	Carrying value[1]	Principal balance	Coupon type	Cash Coupon[2]	Unlevered all-in yield[3]	Extended maturity date	Loan-to-value[4]	Q2 Risk ranking[5]
Senior loans											
Loan 1	Multifamily	6/21/2019	Milpitas, CA	$ 180,031	$ 180,293	Floating	3.1%	5.5%	7/9/2024	72%	3
Loan 2[7]	Hotel	1/2/2018	San Jose, CA	160,700	173,485	n/a [7]	n/a [7]	n/a [7]	1/9/2023	62%	5
Loan 3	Office	12/7/2018	Carlsbad, CA	115,915	116,000	Floating	3.7%	6.0%	12/9/2023	73%	3
Loan 4	Industrial	9/19/2019	New York, NY	115,747	116,000	Floating	3.1%	5.8%	9/19/2024	72%	4
Loan 5	Hotel	6/28/2018	Berkeley, CA	114,953	120,000	Floating	3.2%	5.2%	7/9/2025	66%	4
Loan 6	Office	5/31/2019	Stamford, CT	105,624	106,366	Floating	3.5%	5.8%	6/9/2025	71%	4
Loan 7[6]	Multifamily	6/18/2019	Santa Clara, CA	105,170	106,241	Floating	4.4%	6.8%	6/18/2024	70%	4
Loan 8	Multifamily	4/11/2019	Various - U.S.	88,348	92,000	Floating	3.0%	5.8%	4/9/2024	65%	4
Loan 9	Office	8/28/2018	San Jose, CA	72,768	72,809	Floating	2.5%	4.3%	8/28/2025	75%	3
Loan 10	Hotel	6/25/2018	Englewood, CO	72,139	73,938	Floating	3.5%	4.0%	2/9/2025	69%	3
Loan 11	Office	1/19/2021	Phoenix, AZ	71,532	72,460	Floating	3.6%	4.4%	2/9/2026	70%	3
Loan 12	Other (Mixed-use)	10/24/2019	Brooklyn, NY	70,836	74,876	Floating	4.0%	4.8%	11/9/2024	70%	3
Loan 13	Office	4/5/2019	Long Island City, NY	63,306	63,979	Floating	3.3%	5.7%	4/9/2024	58%	4
Loan 14	Multifamily	5/13/2021	Chapel Hill, NC	62,475	62,888	Floating	2.9%	3.8%	6/9/2025	69%	3
Loan 15	Office	5/29/2019	Long Island City, NY	61,299	65,358	Floating	3.5%	5.9%	6/9/2024	59%	4
Loan 16	Office	7/12/2019	Washington, D.C.	55,978	56,081	Floating	2.8%	5.7%	8/9/2024	68%	4
Loan 17	Office	2/13/2019	Baltimore, MD	55,909	56,199	Floating	3.5%	6.2%	2/9/2024	74%	4
Loan 18	Multifamily	12/23/2020	Salt Lake City, UT	50,604	51,100	Floating	3.2%	4.0%	1/9/2026	68%	3
Loan 19	Multifamily	5/26/2021	Las Vegas, NV	43,781	44,330	Floating	3.4%	3.9%	6/9/2026	80%	3
Loan 20	Multifamily	3/1/2021	Richardson, TX	42,662	43,227	Floating	3.4%	3.8%	3/9/2026	75%	3
Loan 21	Multifamily	12/21/2020	Austin, TX	41,284	41,833	Floating	3.7%	5.0%	1/9/2026	54%	2
Loan 22	Multifamily	2/8/2019	Las Vegas, NV	40,484	40,508	Floating	3.2%	5.7%	2/9/2024	71%	3
Loan 23	Multifamily	2/3/2021	Arlington, TX	39,842	40,153	Floating	3.6%	4.9%	2/9/2026	81%	3
Loan 24	Multifamily	3/22/2021	Fort Worth, TX	37,490	37,849	Floating	3.5%	4.1%	4/9/2026	83%	3
Loan 25	Multifamily	3/25/2021	Fort Worth, TX	36,237	36,568	Floating	3.3%	3.9%	4/9/2026	82%	3
Loan 26	Multifamily	12/29/2020	Fullerton, CA	34,425	34,860	Floating	3.8%	4.8%	1/9/2026	70%	3
Loan 27	Office	6/16/2017	Miami, FL	33,813	33,486	Floating	4.9%	5.6%	7/9/2022	68%	3
Loan 28	Multifamily	3/16/2021	Fremont, CA	31,948	32,320	Floating	3.5%	4.3%	4/9/2026	76%	3
Loan 29	Office	6/2/2021	South Pasadena, CA	31,312	31,637	Floating	4.9%	5.6%	6/9/2026	69%	3
Loan 30	Office	3/28/2019	San Jose, CA	30,752	30,758	Floating	3.0%	5.7%	4/9/2024	64%	3
Loan 31	Office	4/30/2021	San Diego, CA	30,247	30,700	Floating	3.6%	4.1%	5/9/2026	55%	3
Loan 32	Multifamily	3/31/2021	Mesa, AZ	29,144	29,506	Floating	3.7%	4.4%	4/9/2026	83%	3
Loan 33	Multifamily	5/5/2021	Dallas. TX	28,201	28,520	Floating	3.4%	4.0%	5/9/2026	68%	3
Loan 34	Multifamily	4/29/2021	Las Vegas, NV	27,883	28,225	Floating	3.1%	3.6%	5/9/2026	76%	3
Loan 35	Multifamily	5/27/2021	Houston, TX	27,692	28,000	Floating	3.0%	3.7%	6/9/2026	67%	3
Loan 36	Multifamily	5/13/2021	Phoenix, AZ	23,444	23,789	Floating	3.1%	3.5%	6/9/2026	76%	3
Loan 37	Multifamily	1/29/2021	Charlotte, NC	23,135	23,500	Floating	3.5%	4.1%	2/9/2026	76%	3
Loan 38	Office	9/16/2019	San Francisco, CA	22,882	22,951	Floating	3.2%	5.7%	10/9/2024	72%	3
Loan 39	Multifamily	3/25/2021	San Jose, CA	22,304	22,650	Floating	3.7%	4.1%	4/9/2026	70%	3
Loan 40	Office	9/26/2019	Salt Lake City, UT	22,183	22,381	Floating	2.7%	5.0%	10/9/2024	72%	4
Loan 41	Office	2/26/2019	Charlotte, NC	21,607	21,671	Floating	3.4%	6.0%	3/9/2024	56%	3
Loan 42	Office	8/27/2019	San Francisco, CA	20,588	20,623	Floating	2.8%	5.4%	9/9/2024	73%	3
Loan 43	Multifamily	2/25/2021	Raleigh, NC	20,546	20,838	Floating	3.3%	4.0%	3/9/2026	76%	3
Loan 44	Multifamily	6/22/2021	Phoenix, AZ	19,733	20,045	Floating	3.2%	3.6%	7/9/2026	75%	3
Loan 45	Hotel	7/30/2020	Bloomington, MN	19,277	19,353	Floating	4.0%	5.0%	11/9/2021	64%	3
Loan 46	Office	10/29/2020	Denver, CO	18,475	18,708	Floating	3.6%	4.7%	11/9/2025	64%	3
Loan 47	Multifamily	3/31/2021	San Antonio, TX	18,395	18,600	Floating	3.1%	3.6%	4/9/2026	77%	3

	Collateral type	Origination Date	City, State	Carrying value[1]	Principal balance	Coupon type	Cash Coupon[2]	Unlevered all-in yield[3]	Extended maturity date	Loan-to-value[4]	Q2 Risk ranking[5]
Loan 48	Multifamily	6/24/2021	Phoenix, AZ	18,301	18,548	Floating	3.4%	4.0%	7/9/2026	74%	3
Loan 49	Multifamily	6/25/2021	Phoenix, AZ	16,184	16,428	Floating	3.2%	3.6%	7/9/2026	75%	3
Loan 50	Multifamily	6/15/2021	Phoenix, AZ	15,215	15,392	Floating	3.3%	3.7%	7/9/2026	74%	3
Loan 51	Multifamily	11/24/2020	Tucson, AZ	14,636	14,769	Floating	3.6%	4.7%	12/9/2025	75%	3
Loan 52	Multifamily	2/8/2019	Las Vegas, NV	14,024	14,031	Floating	3.2%	5.7%	2/9/2024	71%	3
Loan 53	Multifamily	3/31/2021	Albuquerque, NM	13,728	13,928	Floating	3.4%	3.9%	4/9/2026	76%	3
Loan 54	Multifamily	3/5/2021	Tucson, AZ	13,627	13,764	Floating	3.7%	4.3%	3/9/2026	72%	3
Loan 55	Multifamily	5/27/2021	Phoenix, AZ	13,604	13,800	Floating	3.1%	3.5%	6/9/2026	72%	3
Loan 56	Multifamily	2/11/2021	Provo, UT	12,143	12,287	Floating	3.8%	4.6%	3/9/2026	71%	3
Loan 57	Multifamily	2/25/2021	Louisville, KY	11,488	11,678	Floating	3.9%	4.4%	3/9/2026	74%	3
Loan 58	Multifamily	4/9/2021	Phoenix, AZ	10,518	10,650	Floating	3.6%	4.1%	4/9/2026	75%	3
Loan 59[6][7]	Other (Mixed-use)	10/17/2018	Dublin, Ireland	7,396	38,736	n/a [7]	n/a [7]	n/a [7]	12/31/2023	94%	5
Total/Weighted average senior loans				$ 2,623,964	$ 2,701,673			4.7%	1/26/2025	69%	3.4
Mezzanine loans											
Loan 60[6][7]	Other (Mixed-use)	9/1/2020	Los Angeles, CA	$ 97,881	$ 162,243	n/a [7]	n/a [7]	n/a [7]	7/9/2023	62% – 88%	5
Loan 61[6]	Multifamily	12/26/2018	Santa Clarita, CA	60,437	62,750	Fixed	7.0%	13.8%	12/26/2024	56% – 84%	3
Loan 62[6]	Multifamily	12/3/2019	Milpitas, CA	35,899	36,394	Fixed	8.0%	13.3%	12/3/2024	49% – 71%	4
Loan 63[6]	Multifamily	7/11/2019	Placentia, CA	30,130	31,097	Fixed	8.0%	13.3%	7/11/2024	51% – 84%	4
Loan 64	Hotel	9/23/2019	Berkeley, CA	27,578	29,290	Fixed	9.0%	11.5%	7/9/2025	66% – 81%	4
Loan 65	Hotel	1/9/2017	New York, NY	11,182	12,000	Floating	11.0%	11.5%	9/9/2022	63% – 76%	4
Loan 66	Multifamily	7/30/2014	Various - TX	4,348	4,503	Fixed	9.5%	9.5%	8/11/2024	45% – 68%	3
Loan 67[6]	Office	7/20/2018	Dublin, Ireland	3,841	9,941	Fixed	n/a	12.5%	12/20/2021	71% – 83%	3
Loan 68[6][7]	Other (Mixed-use)	6/29/2015	Rolling Hills Estates, CA	3,126	9,058	n/a [7]	n/a [7]	n/a [7]	6/29/2022	n/a	5
Loan 69[6][7]	Other (Mixed-use)	3/19/2013	San Rafael, CA	155	814	n/a [7]	n/a [7]	n/a [7]	3/31/2022	32% – 86%	5
Total/Weighted average mezzanine loans				$ 274,577	$ 358,090			8.2%	4/16/2024	57% - 81%	4.1
Preferred equity & other loans											
Loan 70	Office	8/22/2018	Las Vegas, NV	$ 19,254	$ 19,348	Fixed	8.0%	15.3%	9/9/2023	n/a	3
Loan 71[8]	Industrial	9/1/2016	Various - U.S.	16,200	—	n/a	n/a	n/a	9/2/2027	n/a	4
Loan 72[7]	Hotel	8/17/2020	San Jose, CA	4,686	4,686	n/a [7]	n/a [7]	n/a [7]	4/9/2022	n/a	5
Loan 73[6]	Office	7/20/2018	Dublin, Ireland	334	—	n/a	n/a	n/a	12/20/2021	n/a	3
Loan 74[8]	Hotel	10/24/2014	Austin, TX	—	—	n/a	n/a	n/a	n/a	n/a	n/a
Loan 75[6][7]	Other (Mixed-use)	6/29/2015	Rolling Hills Estates, CA	—	—	n/a [7]	n/a [7]	n/a [7]	n/a	n/a	5
Total/Weighted average preferred equity & other loans[9]				$ 40,474	$ 24,034			7.3%	2/6/2025	n/a	3.6
Total/Weighted average senior and mezzanine loans and preferred equity - Our Portfolio				$ 2,939,015	$ 3,083,797			5.1%	12/31/2024	n/a	3.5

(1) Represents carrying values at our share as of June 30, 2021.
(2) Represents the stated coupon rate for loans; for floating rate loans, does not include USD 1-month London Interbank Offered Rate ("LIBOR") which was 0.10% as of June 30, 2021.
(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 June 30, 2021 for weighted average calculations.
(4) Except for construction loans, senior loans reflect the initial loan amount divided by the as-is value as of the date the loan was originated, or the principal amount divided by the appraised value as of the date of the most recent as-is appraisal. Mezzanine loans include attachment loan-to-value and detachment loan-to-value, respectively. Attachment loan-to-value reflects initial funding of loans senior to our position divided by the as-is value as of the date the loan was originated, or the principal amount divided by the appraised value as of the date of the most recent appraisal. Detachment loan-to-value reflects the cumulative initial funding of our loan and the loans senior to our position divided by the as-is value as of the date the loan was originated, or the cumulative principal amount divided by the appraised value as of the date of the most recent appraisal.
(5) On a quarterly basis, the Company's senior and mezzanine loans and preferred equity are rated "1" through "5," from less risk to greater risk. Represents risk ranking as of June 30, 2021.

(6) Construction senior loans' loan-to-value reflect the total commitment amount of the loan divided by the as completed appraised value, or the total commitment amount of the loan divided by the projected total cost basis. Construction mezzanine loans include attachment loan-to-value and detachment loan-to-value, respectively. Attachment loan-to-value reflects the total commitment amount of loans senior to our position divided by as-completed appraised value, or the total commitment amount of loans senior to our position divided by projected total cost basis. Detachment loan-to-value reflect the cumulative commitment amount of our loan and the loans senior to our position divided by as-completed appraised value, or the cumulative commitment amount of our loan and loans senior to our position divided by projected total cost basis.
(7) Loans 2, 59, 60, 68, 69, 72 and 75 are on nonaccrual status as of June 30, 2021; as such, no income is being recognized.
(8) Represents equity participation interests related to senior loans, mezzanine loans and/or preferred equity investments.
(9) Weighted average calculation for preferred equity excludes equity participation interests.

The following table details the types of properties securing our senior and mezzanine loans and preferred equity and geographic distribution as of June 30, 2021 (dollars in thousands):

		Book value (at BRSP share)			
Collateral property type	**Count**	**Senior mortgage loans**	**Mezzanine loans and preferred equity**	**Total**	**% of Total**
Multifamily	39	$ 1,228,727	$ 130,814	$ 1,359,541	46.2 %
Office	20	834,188	23,480	857,668	29.2 %
Hotel	8	367,070	43,447	410,517	14.0 %
Other(1)	6	78,232	101,110	179,342	6.1 %
Industrial / Self Storage	2	115,747	16,200	131,947	4.5 %
Total	75	$ 2,623,964	$ 315,051	$ 2,939,015	100.0 %

		Book value (at BRSP share)			
Region	**Count**	**Senior mortgage loans**	**Mezzanine loans and preferred equity**	**Total**	**% of Total**
US West	30	$ 1,190,779	$ 279,146	$ 1,469,925	50.1 %
US Southwest	26	704,747	4,348	709,095	24.1 %
US Northeast	8	528,700	11,182	539,882	18.3 %
US Southeast	6	173,065	—	173,065	5.9 %
US Midwest	2	19,277	16,200	35,477	1.2 %
Europe	3	7,396	4,175	11,571	0.4 %
Total	75	$ 2,623,964	$ 315,051	$ 2,939,015	100.0 %

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

Due to the continued impact of COVID-19, we expect some borrowers may continue to experience difficulties making their loan payments over the next several quarters. We are particularly concerned with and focused on loans collateralized by hotels as well as mezzanine loans and preferred equity investments that are subordinate to senior loans provided by other lenders such as our Los Angeles, California Mixed-use Development mezzanine loan and preferred equity investment discussed below. Failure of our borrowers to meet their loan obligations will not only impact our financial results but may also trigger repayments under our master repurchase facilities. Our asset management team speaks with borrowers on a reasonably current basis, and seeks to identify issues and address potential value preserving solutions, which may include a loan modification.

We have seven loans on nonaccrual status as of June 30, 2021, of which we received cash interest payments from these loans of $2.8 million and applied the cash interest collected as a reduction to the loan's carrying value. Refer to loan 2, loan 59, loan 60, loan 68, loan 69, loan 72 and loan 75 in the asset level detail table above for further details. Four of the seven non-accrual loans are in process of being sold as part of the Co-Invest Portfolio Sale, as discussed below. The remaining three loans associated with two investments are our Los Angeles, California Mixed-use Project and the San Jose, California Hotel Senior Loan and Preferred Equity, both of which are discussed in further detail below.

At June 30, 2021 our current expected credit loss reserve ("CECL") calculated by our probability of default ("PD")/loss given default ("LGD") model for our outstanding loans and future loan funding commitments is $42.9 million, which is 1.4% of the aggregate commitment amount of our loan portfolio. This represents an increase of $1.2 million from $41.7 million at March 31, 2021, which is primarily driven by new loan originations during the second quarter of 2021.

Asset Specific Summaries: Senior and Mezzanine Loans and Preferred Equity

The Co-Invest Portfolio Sale

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value	Q2 Risk ranking
Loan 59	Senior	Other (Mixed-use)	10/17/2018	$ 7,396	$ 38,736	n/a	n/a	n/a	12/31/2023	94%	5
Loan 67/ 73	Mezzanine/Pref. Equity	Office	7/20/2018	4,175	9,941	Fixed/ n/a	n/a	12.5% / n/a	12/20/2021	71% – 83%	3
Loan 68/75	Mezzanine/Pref. Equity	Other (Mixed-use)	6/29/2015	3,126	9,058	n/a	n/a	n/a	6/29/2022	n/a	5
Loan 69	Mezzanine	Other (Mixed-use)	3/19/2013	155	814	n/a	n/a	n/a	3/31/2022	32% – 86%	5
Loan 74	Preferred Equity	Hotel	10/24/2014	—	—	n/a	n/a	n/a	n/a	n/a	n/a

On July 19, 2021, we reached an agreement to sell the five co-investment assets in the table above to managed by vehicles of Fortress Investment Group LLC (“Fortress”), for gross proceeds of $223 million (the “Co-Invest Portfolio Sale”). Upon closing of the transaction, which is subject to customary closing conditions, third-party consents and purchase price adjustments, we anticipate recognizing a total net realized loss of approximately $4.6 million, net of selling costs.

The Co-Invest Portfolio Sale will resolve five of six legacy co-investment assets owned alongside investment vehicles managed by DigitalBridge. The last remaining co-investment asset (which is not part of this sale) is our Los Angeles, California Mixed-Use Project (see narrative below). On June 7, 2021, DigitalBridge also announced a portfolio sale with Fortress that included its joint venture interests in the same five investments. The Co-Invest Portfolio Sale is conditioned on, and will close concurrent with, the transaction between DigitalBridge and Fortress. We anticipate closing of the Co-Invest Portfolio Sale in the fourth quarter of 2021, subject to customary closing conditions and third party consents, however we can offer no assurances that the transaction will close as expected or at all.

Per generally accepted accounting principles, we are required to value these assets at the lower of cost or fair market value. As of June 30, 2021, to reflect the cash we expect to receive from the sale, we recorded other-than-temporary impairment loss adjustments on Loan 59: $32.8 million, Loans 68 & 75: $1.4 million and Loan 69: $1.3 million, totaling a loss of $35.5 million, of which $32.0 million was allocated to our Company and $3.5 million was allocated to our partner in the “5-Investment Preferred Financing.” Refer to “Liquidity and Capital Resources” section for further discussion. Additionally, we expect to record an offsetting gain on Loans 66, 73 & 74 totaling approximately $27.4 million upon the closing of the transaction, resulting in a total net realized loss of approximately $4.6 million, net of selling costs. However, we can offer no assurances regarding the amount of any loss or gain the Company will actually realize in connection with the sale.

The Co-Invest Portfolio Sale includes four of the investments included in our “5-Investment Preferred Financing”, a COVID-19 related financing secured in June 2020 for balance sheet protective purposes. We anticipate using the proceeds from the Co-Invest Portfolio Sale to pay-off the “5-Investment Preferred Financing.”

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

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value	Q2 Risk ranking
Loan 60	Mezzanine	Other (Mixed-use)	9/1/2020	$ 97,881	$ 162,243	n/a	n/a	n/a	7/9/2023	62% – 88%	5

July 9, 2021 Maturity Default and Risk of Foreclosure (see Historical Details below)

On July 9, 2021, the borrower failed to pay the principal balance of the Upsized Mezzanine Loan and senior mortgage loan or meet other tests for extension of such maturity date. The Senior Mezzanine Lender and senior mortgage lender each delivered reservation of rights letters to the senior mezzanine borrower and borrower, respectively. The lender parties and borrower have engaged in discussions regarding the current status of the sale of the hotel and the completion of the tower condominiums and anticipated tower condominium sales projections. Since the new capital investment of $275 million was made on September 1, 2020, there have been further occurrences of additional hard and soft costs not supported by current commitments or reserves at the Mixed-use Project. Further delays are anticipated until completion of the tower condominiums and the sale of the hotel has also not yet been completed.

It is possible that due to the maturity default on July 9, 2021, the exercise of default remedies and/or foreclosure by the Senior Mezzanine Lender or mortgage lender along with the additional capital requirements and further delays in the sale of the hotel or condo units could result in further impairment or foreclosure of our interests in the B-participation investment, which has a carrying value of $97.9 million at June 30, 2021.

Historical Details

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

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

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

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

During the three months ended June 30, 2020, we placed the mezzanine loans and preferred equity investment on nonaccrual status and recorded our proportionate share of a fair value loss adjustment totaling $89.3 million. We continue to maintain the nonaccrual status and such fair value loss adjustment on our proportionate share of the CLNY Mezzanine Lender's B-participation investment.

The hotel portion of the development has been completed and the temporary certificate of occupancy was granted in October 2020. The borrower initiated a sales process for the hotel component of the mixed-use project, targeting a closing in the second half of 2021 (the proceeds of which would be used to pay down the senior mortgage loan). In addition, certain hotel and tower condominium sales have closed since December 2020, with $24 million in aggregate proceeds used to pay down the senior mortgage construction loan.

San Jose, California Hotel Senior Loan and Preferred Equity

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value	Q2 Risk ranking
Loan 2	Senior	Hotel	1/2/2018	$ 160,700	$ 173,485	n/a	n/a	n/a	1/9/2023	62%	5
Loan 72	Preferred Equity	Hotel	8/17/2020	4,686	4,686	n/a	n/a	n/a	4/9/2022	n/a	5

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

The onset of the COVID-19 pandemic in the spring of 2020 created challenges across the hospitality industry. The global reduction in business travel directly impacted operations at the San Jose Hotel, which is located in the heart of downtown San Jose. Low occupancy led to weaker financial performance. In order to continue operations in 2020 the principal of the borrower funded approximately $18.6 million to the borrower. In the fourth quarter of 2020, the borrower requested to terminate the existing hotel management agreement and pay the manager liquidated damages in accordance with the management agreement; however, the manager refused to terminate the agreement. Faced with the manager's refusal to neither terminate the management agreement nor contribute capital as requested by borrower, the borrower closed the hotel and filed for Chapter 11 bankruptcy in March 2021. We entered into a restructuring support agreement with the borrower with respect to the bankruptcy process, in our capacity as the sole secured creditor. The bankruptcy court has authorized the borrower to reject the existing hotel management agreement, and to solicit proposals for (a) subordinate financing to support the asset, and (b) a new contract with a new hotel manager to re-brand the hotel. The borrower is actively negotiating with the former manager to resolve any damages due to the former manager.

The bankruptcy proceeding and rulings, the continued impact of COVID-19 on business travel, and other risks associated with a new hotel manager may negatively impact the value of our investment interest. During the three months ended March 31, 2021, we placed the senior loan and preferred equity investment on nonaccrual status, and continued to maintain the nonaccrual status for the three months ended June 30, 2021. We currently hold the senior loan as an unencumbered asset as the borrower proceeds towards exiting bankruptcy.

Berkeley, California Hotel Senior Loan and Mezzanine Loan

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value	Q2 Risk ranking
Loan 5	Senior	Hotel	6/28/2018	$ 114,953	$ 120,000	Floating	3.2%	5.2%	7/9/2025	66%	4
Loan 64	Mezzanine	Hotel	9/23/2019	27,578	29,290	Fixed	9.0%	11.5%	7/9/2025	66% -81%	4

We originated a $109.8 million senior loan in 2018 to replace the sponsor's existing financing on a hotel located in Berkeley, California (the "Berkeley Hotel"). The hotel includes meeting space, full-service restaurants and tennis club facilities. The loan included an initial funding of $98.8 million with an additional $11.0 million of future advances. The sponsor purchased the Berkeley Hotel in 2014 for a purchase price of $89.5 million and has spent a significant amount on capital improvements. In September 2019, we upsized the senior loan to $120.0 million and provided a $29.3 million mezzanine loan to facilitate the sponsor's acquisition of a third party's equity interest in the property. Due to the COVID-19 pandemic the Berkeley Hotel was closed from April through July of 2020, during which time the loan stayed current through the combination of federal loans (Paycheck Protection Program), borrower reserves, and lender advances from the mezzanine loan.

Subsequently, the hotel partially re-opened and began generating cash flow from operations, but cash flows are currently insufficient to fully cover the debt service payment. The borrower has supported any debt service shortfalls out-of-pocket. Throughout 2021, operating performance has improved at the Berkeley Hotel. COVID-19 cases in California continue to impact occupancy, which may influence future borrower actions and support at the Berkeley Hotel and have a negative impact on performance of the asset and the value of our investment interest.

Long Island City, New York Office Senior Loans

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value	Q2 Risk ranking
Loan 13	Senior	Office	4/5/2019	$ 63,306	$ 63,979	Floating	3.3%	5.7%	4/9/2024	58%	4
Loan 15	Senior	Office	5/29/2019	61,299	65,358	Floating	3.5%	5.9%	6/9/2024	59%	4

We originated two senior mortgage loans on two transitional office properties to the same sponsorship group. However, the borrowing entities are unrelated and the loans are neither cross-collateralized nor cross defaulted.

The New York City metro office markets have experienced substantial increases in vacancy rates due to the COVID-19 pandemic. The Long Island City market has experienced further increases in vacancy as newly developed or renovated properties have become available for leasing. Additionally, the availability of significant sub-lease space in Long Island City has created additional supply at below market rents. There is increasing confidence among market participants that office demand will increase after Labor Day, as many tenants solidify their return-to-work plans. However, that timeline may not be rapid enough to remedy the negative impact on sponsor's business plans and leasing activity for these two properties. As such, the underlying individual property cash flows are insufficient to cover their respective debt service payments. In March 2021, we agreed to shift future funding advances from the tenant improvements and leasing costs account to be used for interest carry and operations shortfalls for a period of six months on Loan 13 and twelve months on Loan 15. The six-month shortfall future funding advance period expires in August 2021 for Loan 15 and borrower's willingness to support the cash flow shortfall is unknown. As such, Loan 15 was listed for sale in July 2021 with a national brokerage firm, with the expectation of a transaction closing during the third quarter of 2021. It is possible that these uncertain market conditions and borrower actions may result in a future valuation impairment or investment loss.

Student Housing Loan, Various - US

	Loan Type	Collateral type	Origination Date	Carrying value	Principal balance	Coupon type	Cash Coupon	Unlevered all-in yield	Extended maturity date	Loan-to-value	Q1 Risk ranking
Loan 8	Senior	Multifamily	4/11/2019	$ 88,348	$ 92,000	Floating	3.0%	5.8%	4/9/2024	65%	4

We originated a $92.0 million senior loan to refinance a portfolio of three cross-collateralized student housing properties. The prolonged effect of the COVID-19 pandemic has put stress on the student housing market and forced one of the three schools serviced by the portfolio to hold classes 100% remotely during the 2020-2021 academic year, drastically decreasing revenue.

We have agreed to forbear the tax and replacement reserve requirements from April 2021 to September 2021, while the borrower pursues a sale of all three properties. The borrower has provided accelerated remedies in the event of default after the forbearance period. Broker opinions of values for the three assets in aggregate indicate expected proceeds exceed the debt amount. The borrower has listed the underlying properties for sale, the proceeds of which would pay down our loan. However, it is possible that uncertain market conditions and borrower actions may result in a future valuation impairment or investment loss.

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

We have debt investments in our portfolio that contain a PIK provision. Contractual PIK interest, which represents contractually deferred interest added to the loan balance that is due at the end of the loan term, is generally recorded on an accrual basis to the extent such amounts are expected to be collected. During the three and six months ended June 30, 2021, we recorded total PIK interest of $3.7 million and $7.1 million, respectively. We will generally cease accruing PIK interest if there is insufficient value to support the accrual or management does not expect the borrower to be able to pay all principal and interest due.

CRE Debt Securities

The following table presents an overview of our CRE debt securities as of June 30, 2021 (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**
Non-investment grade rated (BB)	1	$ 4,045	— %	— %	4.8	BB | B
"B-pieces" of CMBS securitization pools	4	39,510	2.8 %	11.8 %	5.9	—
Total/Weighted Average	5	$ 43,555	2.5 %	10.7 %	5.8	—

(1) Weighted average metrics weighted by book value, except for cash coupon which is weighted by principal balance.
(2) As of June 30, 2021, all CRE debt securities consisted of CMBS.

During the second quarter of 2021, we sold our retained investments in the subordinate tranches of one securitization trust for $28.7 million in total proceeds. In connection with the sale, we recognized a realized loss of $19.5 million for the three and six months ended June 30, 2021. Additionally, we also recognized unrealized gains of $19.5 million and $28.2 million for the three and six months ended June 30, 2021, respectively. We deconsolidated the securitization trust with gross assets and liabilities of $830.9 million and $802.2 million, respectively.

Net Leased and Other Real Estate

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

As of June 30, 2021, $697.2 million or 18.9% of our assets were invested in net leased and other real estate properties and these properties were 97.1% occupied. The following table presents our net leased and other real estate investments as of June 30, 2021 (dollars in thousands):

	Count	Carrying Value[(1)]	NOI for the three months ended June 30, 2021[(2)]
Net leased real estate	9	$ 500,952	$ 9,637
Other real estate	3	196,205	4,228
Total/Weighted average net leased and other real estate	12	$ 697,157	$ 13,865

(1) Represents carrying values at our share as of June 30, 2021; includes real estate tangible assets, deferred leasing costs and other intangible assets less intangible liabilities.
(2) Please refer to "Non-GAAP Supplemental Financial Measures" for further information on NOI.

The following table provides asset-level detail of our net leased and other real estate as of June 30, 2021:

	Collateral type	City, State	Number of Properties	Number of Buildings	Rentable square feet ("RSF") / units/keys[(1)]	Weighted average % leased[(2)]	Weighted average lease term (yrs)[(3)]
Net leased real estate							
Net lease 1	Office	Stavenger, Norway	1	26	1,290,926 RSF	100%	9.5
Net lease 2	Industrial	Various - U.S.	2	2	781,803 RSF	100%	17.1
Net lease 3	Office	Aurora, CO	1	1	183,529 RSF	100%	1.4
Net lease 4	Office	Indianapolis, IN	1	1	338,000 RSF	100%	9.5
Net lease 5	Retail	Various - U.S.	7	7	319,600 RSF	100%	2.6
Net lease 6	Office	Rockaway, NJ	1	1	121,038 RSF	100%	1.6
Net lease 7	Retail	Keene, NH	1	1	45,471 RSF	100%	7.6
Net lease 8	Retail	Fort Wayne, IN	1	1	50,000 RSF	100%	3.2
Net lease 9	Retail	South Portland, ME	1	1	52,900 RSF	100%	2.2
Total/Weighted average net leased real estate			16	41	3,183,294 RSF	100%	9.4
Other real estate							
Other real estate 1	Office	Creve Coeur, MO	7	7	847,604 RSF	93%	3.5
Other real estate 2	Office	Warrendale, PA	5	5	496,414 RSF	82%	4.4
Other real estate 3	Hotel	Coraopolis, PA	1	1	318 Keys	n/a	—
Total/Weighted average other real estate			13	13	n/a	88%	3.8
Total/Weighted average net leased and other real estate			29	54			

(1) Rentable square feet based on carry value at our share as of June 30, 2021.
(2) Represents the percent leased as of June 30, 2021. Weighted average calculation based on carrying value at our share as of June 30, 2021.
(3) Based on in-place leases (defined as occupied and paying leases) as of June 30, 2021 and assumes that no renewal options are exercised. Weighted average calculation based on carrying value at our share as of June 30, 2021.

Stavenger, Norway Office Net Lease

	Collateral type	City, State	Number of Properties	Number of Buildings	Rentable square feet ("RSF") / units/keys	Weighted average % leased	Weighted average lease term (yrs)
Net lease 1	Office	Stavenger, Norway	1	26	1,290,926 RSF	100%	9.5

In July 2018, we acquired a class A office campus in Stavenger, Norway (the "Norway Net Lease") for $320 million. The office campus consists of 26 buildings, which includes rentable square footage of 1.3 million feet. This property is 100% occupied by a single tenant that is rated investment grade AA-/Aa2 from S&P and Moody's, respectively. The property serves as their global headquarters. The Norway Net Lease requires the tenant to pay for all real estate related expenses, including operational expenditures, capital expenditures and municipality taxes. The Net Lease has a weighted average remaining lease term of 9.7 years and the tenant has the option to extend for two 5-year periods at the same terms with rent adjusted to market rent. The Net Lease also has annual rent increases based on the Norwegian CPI Index. Our tenant has injected a significant amount of capital into improvements of the property over the past 10 years. Financing on the Norway Net Lease consists of a mortgage payable of

$170.1 million with a fixed rate of 3.91%, which matures in June 2025. The tenant has made all rent payments and is current on all its financial obligations under the lease. Both the lease payments and mortgage debt service are NOK denominated currency. During the second quarter of 2021, we entered into a series of USD-NOK forward swaps for the total notional amount of 274 million NOK in order to minimize our foreign currency cash flow risk. These quarterly forward swaps are over the next three years through May 2024, where we have agreed to sell NOK and buy USD at a locked in forward curve rate.

Results of Operations

The following table summarizes our results of operations for the three months ended June 30, 2021 and March 31, 2021 (dollars in thousands):

	Three Months Ended June 30,	Three Months Ended March 31,	Increase (Decrease)	
	2021	2021	Amount	%
Net interest income				
Interest income	$ 37,921	$ 34,374	$ 3,547	10.3 %
Interest expense	(12,993)	(12,495)	(498)	4.0 %
Interest income on mortgage loans held in securitization trusts	11,390	19,689	(8,299)	(42.2)%
Interest expense on mortgage obligations issued by securitization trusts	(10,111)	(17,336)	7,225	(41.7)%
Net interest income	26,207	24,232	1,975	8.2 %
Property and other income				
Property operating income	24,799	25,722	(923)	(3.6)%
Other income	1,110	45	1,065	n.m.
Total property and other income	25,909	25,767	142	0.6 %
Expenses				
Management fee expense	2,338	7,258	(4,920)	(67.8)%
Property operating expense	6,758	8,111	(1,353)	(16.7)%
Transaction, investment and servicing expense	644	2,288	(1,644)	(71.9)%
Interest expense on real estate	7,777	8,633	(856)	(9.9)%
Depreciation and amortization	9,994	9,539	455	4.8 %
Provision for loan losses	1,200	3,225	(2,025)	(62.8)%
Administrative expense	14,053	12,595	1,458	11.6 %
Restructuring charges	150	109,171	(109,021)	— %
Total expenses	42,914	160,820	(8,885)	(73.3)%
Other income (loss)				
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	19,516	8,638	10,878	125.9 %
Realized loss on mortgage loans and obligations held in securitization trusts, net	(19,516)	—	(19,516)	n.m.
Other gain, net	836	8,367	(7,531)	(90.0)%
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	10,038	(93,816)	(5,167)	n.m.
Equity in earnings (loss) of unconsolidated ventures	(33,788)	(2,478)	(31,310)	n.m.
Income tax benefit	134	1,801	(1,667)	(92.6)%
Net loss	$ (23,616)	$ (94,493)	$ 70,877	(75.0)%

Comparison for Three Months Ended June 30, 2021 and Three Months Ended March 31, 2021

Net Interest Income

Interest income

Interest income increased by $3.5 million to $37.9 million for the three months ended June 30, 2021, as compared to the three months ended March 31, 2021. The increase was primarily due to $4.6 million related to loan originations partially offset by $0.7 million related to loan payoffs and $1.0 million from one loan placed on non-accrual status during the first quarter of 2021.

Interest expense

Interest expense increased by $0.5 million to $13.0 million for the three months ended June 30, 2021, as compared to the three months ended March 31, 2021. The increase is primarily due to financing of $1.1 million related to new loan originations partially offset by $0.3 million related to loan paydowns and $0.4 million related to deferred financing costs.

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

Net interest income on mortgage loans and obligations held in securitization trusts, net decreased by $1.1 million for the three months ended June 30, 2021, as compared to the three months ended March 31, 2021. This was due to the sale of the retained interest of a securitization trust during the second quarter of 2021.

Property and other income

Property operating income

Property operating income decreased by $0.9 million to $24.8 million for the three months ended June 30, 2021, as compared to the three months ended March 31, 2021. The decrease was primarily due to the sale of an industrial portfolio during the first quarter of 2021.

Other income

Other income increased by $1.1 million for the three months ended June 30, 2021, as compared to the three months ended March 31, 2021, primarily due to a one-time reimbursement received on a previously resolved transaction.

Expenses

Management fee expense

Management fee expense decreased by $4.9 million for the three months ended June 30, 2021 as compared to the three months ended March 31, 2021 due to the termination of our Management Agreement with our previous Manager in April 2021.

Property operating expense

Property operating expense decreased by $1.4 million to $6.8 million for the three months ended June 30, 2021, as compared to the three months ended March 31, 2021. The decrease was primarily due to the sale of an industrial portfolio during the first quarter of 2021 and lower seasonal expenses at an office property.

Transaction, investment and servicing expense

Transaction, investment and servicing expense decreased by $1.6 million to $0.6 million for the three months ended June 30, 2021 as compared to the three months ended March 31, 2021. This was primarily due to franchise taxes incurred relating to the sale of an industrial portfolio during the first quarter of 2021.

Interest expense on real estate

Interest expense on real estate decreased by $0.9 million to $7.8 million for the three months ended June 30, 2021, as compared to the three months ended March 31, 2021, primarily due to a $0.8 million decrease due to the sale of an industrial portfolio during the first quarter of 2021.

Depreciation and amortization

Depreciation and amortization expense increased by $0.5 million to $10.0 million for the three months ended June 30, 2021, as compared to the three months ended March 31, 2021. This was primarily due to fixed asset additions during the three months ended June 30, 2021.

Provision for loan losses

Provision for loan losses was $1.2 million and $3.2 million for the three months ended June 30, 2021 and March 31, 2021, respectively. The increase in reserves over both periods was primarily driven by new loan originations.

Administrative expense

Administrative expense increased by $1.5 million to $14.1 million for the three months ended June 30, 2021, as compared to the three months ended March 31, 2021. This was due to higher stock compensation expense of $1.2 million and higher cash compensation expense of $0.8 million. The higher cash compensation is a result of our internalization of management operations as of May 1, 2021.

Restructuring charges

During the three months ended June 30, 2021, we recorded $0.2 million in additional professional fees related to the Internalization. During the three months ended March 31, 2021, we recorded $109.2 million in restructuring costs related to the termination of our Management Agreement with our previous Manager. This consisted of a one-time cash payment of $102.3 million to our previous Manager paid on April 30, 2021 and $7.0 million in additional restructuring costs consisting primarily of fees paid for legal and investment banking advisory services.

Other income (loss)

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

During the three months ended June 30, 2021, we recorded a $19.5 million unrealized gain on mortgage loans and obligations held in securitization trusts, net related to the sale of the retained investments in the subordinate tranches of one securitization trust. Upon the sale in the second quarter of 2021, the accumulated unrealized losses relating to the retained investments were reversed and subsequently recorded to realized loss on mortgage loans and obligations held in securitization trusts, net

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

During the three months ended June 30, 2021, we recorded a $19.5 million realized loss on mortgage loans and obligations held in securitization trusts, net. This was due to the realized loss upon sale of the retained investments in the subordinate tranches of one securitization trust in the second quarter of 2021.

Other gain, net

Other gain, net decreased by $7.5 million for the three months ended June 30, 2021, as compared to the three months ended March 31, 2021. The other gain, net of $8.4 million during the three months ended March 31, 2021 was primarily the result of a realized gain of $11.8 million recorded on the sale of one industrial portfolio partially offset by a realized loss of $1.0 million recorded on one CMBS CRE security, in which the fair value dropped below the amortized cost basis.

Equity in earnings (loss) of unconsolidated ventures

Equity in earnings of unconsolidated ventures decreased by $31.3 million to a loss of $33.8 million for the three months ended June 30, 2021, as compared to the three months ended March 31, 2021. This was primarily due to recording our proportionate share of a $35.5 million fair value loss adjustment to reflect expected proceeds from the Co-Investment portfolio sale. See “The Co-Invest Portfolio Sale” in “Our Portfolio” for further details.

Income tax benefit

Income tax benefit decreased by $1.7 million to a benefit of $0.1 million for the three months ended June 30, 2021, as compared to the three months ended March 31, 2021, driven by a one-time benefit from a tax capital loss carryback on private equity investments realized during the three months ended March 31, 2021.

The following table summarizes our portfolio results of operations for the six months ended June 30, 2021 and 2020 (dollars in thousands):

	Six Months Ended June 30,		Increase (Decrease)	
	2021	2020	Amount	%
Net interest income				
Interest income	$ 72,295	$ 85,612	$ (13,317)	(15.6)%
Interest expense	(25,488)	(37,489)	12,001	(32.0)%
Interest income on mortgage loans held in securitization trusts	31,079	41,094	(10,015)	(24.4)%
Interest expense on mortgage obligations issued by securitization trusts	(27,447)	(36,423)	8,976	(24.6)%
Net interest income	50,439	52,794	(2,355)	(4.5)%
Property and other income				
Property operating income	50,521	96,235	(45,714)	(47.5)%
Other income	1,155	1,049	106	10.1 %
Total property and other income	51,676	97,284	(45,608)	(46.9)%
Expenses				
Management fee expense	9,596	15,152	(5,556)	(36.7)%
Property operating expense	14,869	38,842	(23,973)	(61.7)%
Transaction, investment and servicing expense	2,932	6,041	(3,109)	(51.5)%
Interest expense on real estate	16,410	24,896	(8,486)	(34.1)%
Depreciation and amortization	19,533	31,996	(12,463)	(39.0)%
Provision for loan losses	4,425	69,881	(65,456)	(93.7)%
Impairment of operating real estate	—	30,061	(30,061)	n.m.
Administrative expense	26,648	13,789	12,859	93.3 %
Restructuring charges	109,321	—	109,321	n.m.
Total expenses	203,734	230,658	(26,924)	(11.7)%
Other income (loss)				
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	28,154	(28,427)	56,581	n.m.
Realized loss on mortgage loans and obligations held in securitization trusts, net	(19,516)	—	(19,516)	n.m.
Other gain (loss), net	9,203	(139,795)	148,998	n.m.
Loss before equity in earnings of unconsolidated ventures and income taxes	(83,778)	(248,802)	165,024	(66.3)%
Equity in earnings (loss) of unconsolidated ventures	(36,266)	(68,110)	31,844	n.m.
Income tax benefit (expense)	1,935	(3,813)	5,748	n.m.
Net loss	$ (118,109)	$ (320,725)	$ 202,616	(63.2)%

Comparison of Six Months Ended June 30, 2021 and Six Months Ended June 30, 2020

Net Interest Income

Interest income

Interest income decreased by $13.3 million to $72.3 million for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020. The decrease was primarily due to $22.4 million related to the repayment and sale of loans and CMBS throughout 2020 and 2021 and $3.8 million related to one loan placed on non-accrual status during the first quarter of 2021. This activity was offset by a $12.8 million increase due to loan originations and increased fundings on loans during late 2020 and through 2021.

Interest expense

Interest expense decreased by $12.0 million to $25.5 million for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020. The decrease was primarily due to $5.2 million related to paydowns of financing on our Bank Credit Facility and Master Repurchase Facilities as well as $5.1 million due to fully paying down our CMBS Credit Facilities.

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

Net interest income on mortgage loans and obligations held in securitization trusts, net decreased by $1.0 million for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. This was due to the sale of the retained interest of a securitization trust during the second quarter of 2021.

Property and other income

Property operating income

Property operating income decreased by $45.7 million to $50.5 million for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. The decrease was primarily due to real estate properties sold throughout 2020 and the sale of an industrial portfolio during the first quarter of 2021.

Other income

Other income of $1.2 million was recorded for the six months ended June 30, 2021. This primarily consisted of a one-time reimbursement received on a previously resolved transaction.

Expenses

Management fee expense

Management fee expense decreased by $5.6 million for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020 due to the termination of the management agreement with the Manager (the “Management Agreement”) in April 2021.

Property operating expense

Property operating expense decreased by $24.0 million to $14.9 million for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. The decrease was primarily due to real estate properties sold throughout 2020 and the sale of an industrial portfolio during the first quarter of 2021.

Transaction, investment and servicing expense

Transaction, investment and servicing expense decreased by $3.1 million to $2.9 million for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, primarily due to higher legal costs of $2.4 million associated with exploring the internalization of management of the Company in the first quarter of 2020. The decrease was partially offset by higher franchise taxes of $0.7 million related to the taxable gain on sale of an industrial portfolio in 2021.

Interest expense on real estate

Interest expense on real estate decreased by $8.5 million to $16.4 million for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. The decrease was primarily due to real estate properties sold throughout 2020 and the sale of an industrial portfolio during the first quarter of 2021.

Depreciation and amortization

Depreciation and amortization expense decreased by $12.5 million to $19.5 million for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. The decrease was primarily due to real estate properties sold throughout 2020 and the sale of an industrial portfolio during the first quarter of 2021.

Provision for loan losses

Provision for loan losses decreased by $65.5 million for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. During the six months ended June 30, 2020, we recorded $68.3 million of specific reserves on three loans to three separate borrowers.

Impairment of operating real estate

Impairment of operating real estate was $30.1 million for the six months ended June 30, 2020. The impairment resulted from a reduction in the estimated holding period of certain properties sold during the period.

Administrative expense

Administrative expense increased by $12.9 million to $26.6 million for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. This increase was primarily due to higher stock compensation expense of $7.9 million and cash compensation of $6.9 million partially offset by lower indirect costs reimbursed to our previous Manager of $2.2 million. The higher cash compensation is a result of our internalization of management operations as of May 1, 2021.

Restructuring charges

During the six months ended June 30, 2021, we recorded $109.3 million in restructuring costs related to the termination of our Management Agreement with our previous Manager. This consisted of a one-time cash payment of $102.3 million to our previous Manager paid on April 30, 2021 and $7.0 million in additional restructuring costs consisting primarily of fees paid for legal and investment banking advisory services.

Other income (loss)

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

During the six months ended June 30, 2021, we recorded a $28.2 million unrealized gain on mortgage loans and obligations held in securitization trusts, net related to the sale of the retained investments in the subordinate tranches of one securitization trust. Upon the sale in the second quarter of 2021, the accumulated unrealized losses relating to the retained investments were reversed and subsequently recorded to realized loss on mortgage loans and obligations held in securitization trusts, net.

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

During the six months ended June 30, 2021, we recorded a $19.5 million realized loss on mortgage loans and obligations held in securitization trusts, net. This was due to the realized loss upon sale of the retained investments in the subordinate tranches of one securitization trust. in the second quarter of 2021.

Other gain (loss), net

During the six months ended June 30, 2021, we recorded other gain, net of $9.2 million primarily due to a realized gain of $11.8 million on the sale of an industrial portfolio. During the six months ended June 30, 2020, we recorded other loss, net of $139.8 million primarily due to a $86.2 million realized loss on the sale of 27 CRE securities and the realization of the fair value marks on our remaining CRE securities portfolio in addition to a $38.0 million provision for loan loss recorded on one hospitality loan.

Equity in earnings (loss) of unconsolidated ventures

Equity in earnings (losses) of unconsolidated ventures decreased by $31.8 million for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. This was primarily due to the Company recording its proportionate share of a $35.5 million fair value loss adjustment to reflect expected proceeds from the Co-Investment portfolio sale. See “The Co-Invest Portfolio Sale” in “Our Portfolio” for further details.

Income tax benefit (expense)

Income tax benefit (expense) increased by $5.7 million to an income tax benefit of $1.9 million for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. This was primarily due to a $1.8 million benefit from a tax capital loss carryback on private equity investments, a $1.5 million reduction in the current income tax expense on private equity investments and a $2.4 million reduction in the deferred income tax expense on one of the net lease portfolios acquired in 2018.

Book Value Per Share

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

	June 30, 2021	March 31, 2021
Stockholders' Equity excluding noncontrolling interests in investment entities	$ 1,560,311	$ 1,592,886
Shares		
Class A common stock	129,759	129,849
OP units	3,076	3,076
Total outstanding	132,835	132,925
GAAP book value per share	$ 11.75	$ 11.98

Non-GAAP Supplemental Financial Measures

Distributable Earnings

We present Distributable Earnings, which is a non-GAAP supplemental financial measure of our performance. We believe that Distributable Earnings provides meaningful information to consider in addition to our net income and cash flow from operating activities determined in accordance with U.S. GAAP, and this metric is a useful indicator for investors in evaluating and comparing our operating performance to our peers and our ability to pay dividends. We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, beginning with our taxable year ended December 31, 2018. As a REIT, we are required to distribute substantially all of our taxable income and we believe that dividends are one of the principal reasons investors invest in credit or commercial mortgage REITs such as our company. Over time, Distributable Earnings has been a useful indicator of our dividends per share and we consider that measure in determining the dividend, if any, to be paid. This supplemental financial measure also helps us to evaluate our performance excluding the effects of certain transactions and U.S. GAAP adjustments that we believe are not necessarily indicative of our current portfolio and operations. For information on the fees we paid the Manager, see Note 10, “Related Party Arrangements” to our consolidated financial statements included in this Form 10-Q.

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

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

The following table presents a reconciliation of net income (loss) attributable to our common stockholders to Distributable Earnings attributable to our common stockholders and noncontrolling interest of the Operating Partnership (dollars and share amounts in thousands, except per share data) for the three and six months ended June 30, 2021:

	Three Months Ended June 30, 2021	Six Months Ended June 30, 2021
Net loss attributable to BrightSpire Capital, Inc. common stockholders	$ (19,720)	$ (112,034)
Adjustments:		
Net loss attributable to noncontrolling interest of the Operating Partnership	(437)	(2,390)
Non-cash equity compensation expense	5,443	9,705
Transaction costs	150	109,321
Depreciation and amortization	9,801	19,559
Net unrealized loss (gain):		
Other unrealized gain on investments	(23,310)	(31,682)
CECL reserves	1,201	4,426
Gains on sales of real estate and preferred equity	—	(9,782)
Adjustments related to noncontrolling interests	(192)	(367)
Distributable Earnings (Loss) attributable to BrightSpire Capital, Inc. common stockholders and noncontrolling interest of the Operating Partnership	$ (27,064)	$ (13,244)
Distributable Earnings (Loss) per share[(1)]	$ (0.20)	$ (0.10)
Weighted average number of common shares and OP units[(1)]	132,788	132,755

(1) We calculate Distributable Earnings (Loss) per share, a non-GAAP financial measure, based on a weighted-average number of common shares and OP units (held by members other than us or our subsidiaries). For the three and six months ended June 30, 2021, weighted average number of common shares includes 3.1 million OP units.

NOI

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

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

The following tables present a reconciliation of net income (loss) on our net leased and other real estate portfolios attributable to our common stockholders to NOI attributable to our common stockholders (dollars in thousands) for the three and six months ended June 30, 2021:

		Three Months Ended June 30, 2021	Six Months Ended June 30, 2021
et income (loss) attributable to BrightSpire Capital, Inc. common stockholders[1]	$	1,446	10,544
ljustments:			
et loss attributable to noncontrolling interests in investment entities		23	(109)
nortization of above- and below-market lease intangibles		(208)	(25)
terest income		9	18
terest expense on real estate		7,777	16,410
her income		36	2
ansaction, investment and servicing expense		63	51
epreciation and amortization		9,949	19,488
lministrative expense		61	92
her gain on investments, net		(1,237)	(10,733)
come tax benefit		(86)	(111)
)I attributable to noncontrolling interest in investment entities		(3,968)	(7,966)
al NOI, at share	$	13,865	27,661

(1) Net income (loss) attributable to BrightSpire Capital, Inc. common stockholders excludes $21.2 million and $122.6 million of net loss attributable to non-net leased and other real estate investments for the three and six months ended June 30, 2021, respectively. The total net loss attributable to BrightSpire Capital, Inc.'s common stockholders was $19.7 million and $112.0 million for the three and six months ended June 30, 2021.

Liquidity and Capital Resources

Overview

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

Our primary sources of liquidity include cash on hand, cash generated from our operating activities and cash generated from asset sales and investment maturities. However, subject to maintaining our qualification as a REIT and our Investment Company Act exclusion, we may use several sources to finance our business, including bank credit facilities (including term loans and revolving facilities), master repurchase facilities and securitizations, as described below. In addition to our current sources of liquidity, there may be opportunities from time to time to access liquidity through public offerings of debt and equity securities. We also invested in a number of our assets through co-investments with other investment vehicles managed by third parties, which has and may allow us to pool capital to access larger transactions and diversify investment exposure.

Financing Strategy

We have a multi-pronged financing strategy that includes an up to $300 million as of June 30, 2021, secured revolving credit facility, up to approximately $2.1 billion in secured revolving repurchase facilities, $840 million in non-recourse securitization financing, $700 million in commercial mortgages and $65 million in other asset-level financing structures. In addition, we may use other forms of financing, including additional warehouse facilities, public and private secured and unsecured debt issuances and equity or equity-related securities issuances by us or our subsidiaries. We may also finance a portion of our investments through the syndication of one or more interests in a whole loan. We will seek to match the nature and duration of the financing with the underlying asset's cash flow, including using hedges, as appropriate.

Debt-to-Equity Ratio

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

	June 30, 2021	December 31, 2020
Debt-to-equity ratio[(1)]	1.3x	1.0x

(1) Represents (i) total outstanding secured debt less cash and cash equivalents of $210.2 million and $474.8 million at June 30, 2021 and December 31, 2020, respectively to (ii) total equity, in each case, at period end.

Potential Sources of Liquidity

The COVID-19 pandemic has had a significant impact on our business, and we have taken actions since its onset to protect our liquidity. However, the pandemic's impact on the financial condition of our borrowers and their ability to make their monthly mortgage payments and remain in compliance with loan covenants and terms is uncertain, and the failure of our borrowers to meet their loan obligations may trigger repayments under our Bank Credit Facility and Master Repurchase Facilities.

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

Bank Credit Facilities

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

On February 1, 2018, the OP (together with certain subsidiaries of the OP from time to time party thereto as borrowers, collectively, the "Borrowers") entered into a credit agreement (the "Bank Credit Facility") with JPMorgan Chase Bank, N.A., as administrative agent, and the several lenders from time to time party thereto (the "Lenders"), pursuant to which the Lenders agreed to provide a revolving credit facility.

On April 5, 2021, we entered into a fourth amendment to the Bank Credit Facility to: (i) permit the OP to consummate the Internalization; (ii) reduce the minimum tangible net worth covenant requirement from $1.5 billion to $1.35 billion upon consummation of the Internalization; (iii) increase our ability to make restricted payments including additional dividends and stock buybacks and the removal all material restrictions on new investments, in each case, so long as no default exists and the OP is in compliance with the financial covenants; (iv) increase the maximum amount available for borrowing from 90% to 100% of borrowing base value; and (v) reduce the aggregate amount of lender commitments from $450 million to $300 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) $1.35 billion and (ii) 75% of the proceeds received by the OP from any offering of its common equity and of the proceeds from any offering by the Company of its common equity to the extent such proceeds are contributed to the OP, excluding any such proceeds that are contributed to the OP within ninety (90) days of receipt and applied to acquire capital stock of the OP; (b) the OP's earnings before interest, income tax, depreciation, and amortization plus lease expenses to fixed charges for any period of four (4) consecutive fiscal quarters must be not less than 1.50 to 1.00; (c) the OP's interest coverage ratio must be not less than 3.00 to 1.00; and (d) the OP's ratio of consolidated total debt to consolidated total assets must be not more than 0.70 to 1.00. The Bank Credit Facility also includes customary events of default, including, among other things, failure to make payments when due, breach of covenants or representations, cross default to material indebtedness or material judgment defaults, bankruptcy matters involving any Borrower or any Guarantor and certain change of control events. 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.

During the first quarter of 2021, we entered into an amendment under our Master Repurchase Facility with Bank 3 and Bank 7 to extend the maturity date by two years and three years, respectively.

During the second quarter of 2021, we entered into an amendment under our Master Repurchase Facility with Bank 1 and Bank 8 to extend the maturity date by three years and two years, respectively.

Additionally, during the second quarter of 2021, we entered into amendments under our six Master Repurchase Facilities to: (i) permit the guarantor to consummate the Internalization; and (ii) reduce the minimum tangible net worth covenant requirement from $1.5 billion to $1.35 billion upon consummation of the Internalization.

As of June 30, 2021 we had entered into eight master repurchase agreements (collectively the “CMBS Credit Facilities”) to finance CMBS investments. The CMBS Credit Facilities are on a recourse basis and contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. The CMBS Credit Facilities were undrawn at June 30, 2021.

The following table presents a summary of our Master Repurchase and Bank Credit Facilities as of June 30, 2021 (dollars in thousands):

	Maximum Facility Size	Current Borrowings	Weighted Average Final Maturity (Years)	Weighted Average Interest Rate
Master Repurchase Facilities				
Bank 1	$ 400,000	$ 133,373	4.8	LIBOR + 1.95%
Bank 2	21,353	—	1.3	-
Bank 3	600,000	239,313	1.8	LIBOR + 2.12%
Bank 7	500,000	205,336	3.8	LIBOR + 2.01%
Bank 8	250,000	181,975	1.9	LIBOR + 1.90%
Bank 9	300,000	242,792	2.3	LIBOR + 1.80%
Total Master Repurchase Facilities	2,071,353	1,002,789		
Bank Credit Facility	300,000	—	1.8	LIBOR + 2.25%
Total Facilities	$ 2,371,353	$ 1,002,789		

Subsequent to June 30, 2021 we repaid approximately $575.8 million under our master repurchase facilities.

Securitizations

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

In October 2019, we executed a securitization transaction through our subsidiaries, CLNC 2019-FL1, Ltd. and CLNC 2019-FL1, LLC, 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% (before transaction expenses) and is collateralized by a pool of 24 senior loan investments, which we originated.

CLNC 2019-FL1 includes a two-year reinvestment feature that allows us to contribute existing or newly originated loan investments in exchange for proceeds from repayments or repurchases of loans held in CLNC 2019-FL1, subject to the satisfaction of certain conditions set forth in the indenture. In addition to existing eligible loans available for reinvestment, the continued origination of securitization eligible loans is required to ensure that we reinvest the available proceeds within CLNC 2019-FL1. During the three months ended June 30, 2021 and through August 4, 2021, two loans held in CLNC 2019-FL1 were fully repaid, totaling $114.9 million. Additionally, during the three months ended June 30, 2021 a loan investment held in CLNC 2019-FL1 was removed as a result of the loan defaulting, totaling $100.0 million. We replaced the repaid and defaulted loans by contributing existing loan investments of equal value.

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

In July 2021, we executed a securitization transaction through our subsidiaries BRSP 2021-FL1 Ltd. and BRSP 2021-FL1, LLC, which resulted in the sale of $800 million of investment grade notes. The securitization reflects an advance rate of 83.75% at a weighted costs of funds of LIBOR plus 1.49% (before transaction expenses) and is collateralized by a pool of 31 floating-rate mortgages secured by 41 properties. The asset collateral is located across 11 states and primarily consists of multifamily properties, with the remainder collateralized by office and self-storage.

BRSP 2021-FL1 includes a two-year reinvestment feature that allows us to contribute existing or newly originated loan investments in exchange for proceeds from repayments or repurchases of loans held in BRSP 2021-FL1, subject to the satisfaction of certain conditions set forth in the indenture. In addition to existing eligible loans available for reinvestment, the continued origination of securitization eligible loans is required to ensure that we reinvest the available proceeds within BRSP 2021-FL1.

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

5-Investment Preferred Financing

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

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

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

The following table presents a summary of the five assets included in the portfolio financing as of June 30, 2021 (dollars in thousands):

City, State	Collateral	Asset Type / #[(1)]	GS[(2)]	BRSP[(2)]	Total
Dublin, Ireland	Mixed Use	Loan 59	$ 90,049	$ 7,396	$ 97,445
Various, US	Industrial	Net Leased 2	53,639	20,911	74,550
Rolling Hills, CA	Single Family Development	Loan 68 and 75	37,433	3,074	40,507
Dublin, Ireland	Office	Loans 67 and 73	50,832	4,175	55,007
San Rafael, CA	Mixed Use	Loan 69	1,883	155	2,038
Total Net Assets			$ 233,836	$ 35,711	$ 269,547

(1) For further details on each asset included in the portfolio financing please refer to “Our Portfolio” in the section titled “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”
(2) The portfolio financing recognized $0.2 million in expenses for the period ended June 30, 2021 that are excluded from the assets shown in the table above.

We and our affiliates control the continuing investment and portfolio management of such investments and such investments are consolidated on our consolidated balance sheet at June 30, 2021. The preferred financing provides for a disproportionate allocation of profits and losses and the share of income or loss is determined using a balance sheet approach known as the hypothetical liquidation at book value (“HLBV”) method. Under the HLBV method, earnings and losses are recognized based on how an entity would allocate and distribute its cash if it were to sell all of its assets and settle its liabilities for their carrying amounts and liquidate at the reporting date. Under the HLBV method, we could record, in any period, more or less income than may be generated in the case of an actual liquidation. The preferred financing resulted in a reallocation of a portion of stockholders equity to noncontrolling interest, resulting in a $69 million day one reduction in stockholders equity. The noncontrolling interest in investment entities on our consolidated balance sheet includes $233.7 million representing GS’s investment at June 30, 2021 under the HLBV method.

The following table presents a summary of the members' capital for the period ended June 30, 2021 (dollars in thousands):

	GS	BRSP	Total
Beginning Balance - January 1, 2021	$ 259,524	$ 71,085	$ 330,609
Contributions[(1)]	1,791	1,620	3,411
Distributions[(2)]	(23,676)	—	(23,676)
Profit / (Loss) allocation[(3)]	(3,975)	(37,015)	(40,990)
Ending Balance - June 30, 2021	$ 233,664	$ 35,690	$ 269,354

(1) Future advances on Loan 55 and Loan 62.
(2) Distribution from Net Lease 2 totaled $4.3 million, Loan 67 and Loan 73 totaled $15.8 million and Loan 69 totaled $3.5 million.
(3) Losses during the period were driven by the $35.5 million fair value adjustment, of which $32.0 million was allocated to BRSP and $3.5 million was allocated to GS, substantially all related to our Dublin, Ireland mixed use loan 59.

We anticipate using the proceeds from the Co-Invest Portfolio Sale to pay-off the 5-Investment Preferred Financing. See "Our Portfolio" above for further information on the Co-Invest Portfolio Sale.

Other potential sources of financing

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

Cash Flows

The following presents a summary of our consolidated statements of cash flows for the six months ended June 30, 2021 and 2020 (dollars in thousands):

	Six Months Ended June 30,		
Cash flow provided by (used in):	**2021**	**2020**	**Change**
Operating activities	$ (128,611)	$ 29,567	$ (158,178)
Investing activities	(277,213)	449,827	(727,040)
Financing activities	155,876	(152,159)	308,035

Operating Activities

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

Our operating activities used net cash outflows of $128.6 million and provided net cash flows of $29.6 million for the six months ended June 30, 2021 and 2020, respectively. Net cash provided by operating activities decreased $158.2 million for the six months ended June 30, 2021 compared to the six months ended June 30, 2020, primarily due to lower net property operating income and net interest income earned resulting from sales of real estate properties and loans throughout 2020.

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

Investing Activities

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

Investing activities used net cash outflows of $277.2 million for the six months ended June 30, 2021. Net cash used in investing activities in 2021 resulted primarily from originations and future advances on our loans and preferred equity held for investment, net of $822.8 million partially offset by proceeds from sales of real estate of $332.0 million, repayments on loan and preferred equity held for investment of $124.2 million and proceeds from sales of mortgage loans held in securitization trusts of $28.7 million.

Investing activities generated net cash inflows of $449.8 million for the six months ended June 30, 2020, respectively. Net cash provided by investing activities in 2020 resulted primarily from proceeds from sale of real estate of $161.8 million, repayment on loan and preferred equity held for investment of $160.1 million, proceeds from sale of investments in unconsolidated ventures of $100.0 million, proceeds from sale of real estate securities, available for sale of $89.7 million, and proceeds from sale of loans held for sale of $32.6 million, partially offset by originations and future advances on our loans and preferred equity held for investment, net of $66.7 million, and contributions to investments in unconsolidated ventures of $47.5 million.

Financing Activities

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

Financing activities provided net cash of $155.9 million for the six months ended June 30, 2021. Net cash provided by financing activities in 2021 resulted primarily from borrowings from credit facilities in the amount of $675.4 million, partially offset by repayment of mortgage notes of $263.3 million, repayment of credit facilities of $208.0 million, and distributions to noncontrolling interests in the amount of $23.9 million.

Financing activities used net cash of $152.2 million for the six months ended June 30, 2020. Net cash used in financing activities resulted primarily from repayment of credit facilities of $454.2 million, repayment of mortgage notes of $77.9 million, distributions paid on common stock to noncontrolling interests of $52.6 million and distributions to noncontrolling interests in the amount of $14.2 million. This was partially offset by borrowings from credit facilities in the amount of $255.1 million, contributions to the 5-Investment Preferred Financing of $200.0 million, and borrowings from mortgage notes in the amount of $13.3 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)]	$ 1,680	$ 1,050	$ 630	$ —	$ —
Secured debt[(2)]	2,012,858	256,541	697,240	703,054	356,023
Securitization bonds payable[(3)]	904,850	41,617	863,233	—	—
Ground lease obligations[(4)]	31,432	3,081	5,811	4,250	18,290
Office lease	5,786	798	1,596	1,596	1,796
	$ 2,956,606	$ 303,087	$ 1,568,510	$ 708,900	$ 376,109
Lending commitments[(5)]	205,694				
Total	$ 3,162,300				

(1) Future interest payments were estimated based on the applicable index at June 30, 2021 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 June 30, 2021.
(3) The timing of future principal payments was estimated based on expected future cash flows of underlying collateral loans. Repayments are estimated to be earlier than contractual maturity only if proceeds from underlying loans are repaid by the borrowers.
(4) The Company assumed noncancelable operating ground leases as lessee or sublessee in connection with net lease properties acquired through the CLNY Contributions. The amounts represent minimum future base rent commitments through initial expiration dates of the respective leases, excluding any contingent rent payments. Rents paid under ground leases are recoverable from tenants.
(5) Future lending commitments may be subject to certain conditions that borrowers must meet to qualify for such fundings. Commitment amount assumes future fundings meet the terms to qualify for such fundings.

Our Investment Strategy

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

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

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

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

Underwriting, Asset and Risk Management

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

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

Our asset management team engages in a proactive and comprehensive on-going review of the credit quality of each asset it manages. In particular, for debt investments on at least an annual basis, the asset management team will evaluate the financial wherewithal of individual borrowers to meet contractual obligations as well as review the financial stability of the assets securing such debt investments. Further, there is ongoing review of borrower covenant compliance including the ability of borrowers to meet certain negotiated debt service coverage ratios and debt yield tests. For equity investments, the asset management team, with the assistance of third-party property managers, monitors and reviews key metrics such as occupancy, same store sales, tenant payment rates, property budgets and capital expenditures. If through this analysis of credit quality, the asset management team encounters declines in credit 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.

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, 2020.

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 Statement.”

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, with each risk heightened as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic. As stated in the “Impact of COVID-19” section in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” we are taking steps to mitigate certain risks associated with COVID-19, however the extent to which the COVID-19 pandemic impacts us, our business, our borrowers and our tenants will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic efforts of the pandemic and containment measures, among others.

Interest Rate Risk

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

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

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

As of June 30, 2021, a hypothetical 100 basis point increase in the applicable interest rate benchmark on our loan portfolio would decrease interest income by $9.5 million annually, net of interest expense.

Prepayment risk

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

Extension risk

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

Credit risk

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

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

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

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

Real estate market risk

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

Capital markets risk

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

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

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

We continue to explore similar solutions with financing counterparties to strengthen our financing arrangements, with the understanding that any existing or future amendments may not be sufficient to fully address the impacts of COVID-19 on our business or financing arrangements.

Foreign Currency Risk

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

At June 30, 2021, we had approximately NOK 766.2 million and €151.4 million or a total of $269.1 million, in net investments in our European subsidiaries. A 1.0% change in these foreign currency rates would result in a $2.7 million increase or decrease in translation gain or loss included in other comprehensive income in connection with our European subsidiaries.

A summary of the foreign exchange contracts in place at June 30, 2021, including notional amount and key terms, is included in Note 15, “Derivatives,” to Part I, Item 1, “Financial Statement.” The maturity dates of these instruments approximate the projected dates of related cash flows for specific investments. Termination or maturity of currency hedging instruments may result in an obligation for payment to or from the counterparty to the hedging agreement. We are exposed to credit loss in the event of non-performance by counterparties for these contracts. To manage this risk, we select major international banks and financial institutions as counterparties and perform a quarterly review of the financial health and stability of our trading counterparties. Based on our review at June 30, 2021, we do not expect any counterparty to default on its obligations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2021, 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 the 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

In addition to the other information in this Quarterly Report on Form 10-Q, you should carefully consider the risks described in our Annual Report on Form 10-K for the year ended December 31, 2020, in Part I, Item 1A, Risk Factors, and in our other filings with the SEC. These factors may materially affect our business, financial condition and operating results. Except as described below, there have been no material changes to the risk factors relating to the Company disclosed in our Form 10-K for the year ended December 31, 2020.

In addition, in considering the forward-looking statements contained in this Form 10-Q and elsewhere, you should refer to the qualifications and limitations on our forward-looking statements that are described in Forward Looking Statements at the beginning of Part I, Item 2 of this Form 10-Q.

We terminated our relationship with our manager, which could delay or hinder implementation of our investment strategy, adversely affect our results of operations and financial condition and/or limit our ability to realize some or all of the targeted benefits of the Internalization.

On April 30, 2021, we completed the Internalization of our management and operating functions and terminated the management agreement with our external manager. Pursuant to the Internalization, we extended offers of employment to certain employees of our external manager who, prior to the Internalization, had contributed substantially to our investment, underwriting, portfolio and asset management, loan servicing, financial reporting, treasury, legal, tax, credit, risk and compliance responsibilities employment, which offers were accepted, and entered into an employment agreement with Mr. Michael J. Mazzei, our Chief Executive Officer and President. Our executive team consists of individuals who were previously employed by, but are no longer affiliated with, the manager, specifically: Michael J. Mazzei, Chief Executive Officer and President; Andrew E. Witt, Chief Operating Officer and Executive Vice President; Frank V. Saracino, Chief Financial Officer and Executive Vice President; and David A. Palamé, General Counsel, Secretary and Executive Vice President. Accordingly, we believe that our success depends significantly upon the experience, skill, resources, relationships and contacts of the executive officers and key personnel. The departure of any of these persons from our management team could have a material adverse effect on our performance. Taken together, our ability to achieve our stated objectives and to realize the expected cost savings through the Internalization may be impacted by increased overhead costs and/or management's ability to focus on operating our business.

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

There were no sales of unregistered securities of our Company during the six months ended June 30, 2021, other than those previously disclosed in filings with the SEC.

The Company did not purchase any of its Class A common stock during the three months ended June 30, 2021.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT INDEX

hibit Number	Description of Exhibit
.	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)
.*	Articles of Amendment and Restatement of BrightSpire Capital, Inc., dated as of June 23, 2021
!	Fourth Amended and Restated Bylaws of BrightSpire Capital, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (No. 001-38377) filed on June 24, 2021)
.1	Sixth Omnibus Amendment, dated as of April 20, 2021, by and among MS Loan NT-I, LLC, MS Loan NT-II, LLC, CLNC Credit 1, LLC, CLNC Credit 2, LLC, CLNC Credit 1EU, LLC, CLNC Credit 1UK, LLC, Credit RE Operating Company, LLC and Morgan Stanley Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (No.001-38377) filed on May 6, 2021)**
.2	Amendment No. 1 to Master Repurchase and Securities Contract, dated as of November 1, 2019, by and between CLNC Credit 8, LLC and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (No.001-38377) filed on May 6, 2021)
.3	Amendment No. 2 to Master Repurchase and Securities Contract, dated as of May 4, 2021, by and between CLNC Credit 8, LLC and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (No. 001-38377 filed on May 6, 2021)
.4	Termination Agreement, dated April 4, 2021, by and among Colony Credit Real Estate, Inc., Credit RE Operating Company, LLC, CLNC Manager, LLC, and solely for the purposes of Section 8.15 thereof, Colony Capital Investment Advisors, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 5, 2021)
.5	Fourth Amendment dated as of April 5, 2021, among Credit RE Operating Company, LLC, the several lenders from time to time parties thereto and JP Morgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 7, 2021)
.6	First Amendment to Amended and Restated Master Repurchase Agreement, dated as of April 14, 2021, by and among NSREIT CB Loan, LLC, CB Loan NT-II, LLC, CLNC Credit 3, LLC, CLNC Credit 4, LLC, CLNC Credit 3EU, LLC, CLNC Credit 3UK, LLC, Credit RE Operating Company, LLC and Citibank, N.A. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 19, 2021)
.7	Second Amendment to Guaranty, dated as of April 14, 2021, by Credit RE Operating Company, LLC for the benefit of Citibank, N.A. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 19, 2021)
.8	Second Amendment to Guaranty, dated as of April 14, 2021, by Credit RE Operating Company, LLC for the benefit of Barclays Bank PLC (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 19, 2021)
.9	Second Amendment to Master Repurchase Agreement and other Transaction Documents, dated as of April 14, 2021, by and between CLNC Credit 6, LLC, Credit RE Operating Company, LLC and Goldman Sachs Bank USA (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 19, 2021)**
.10	Reaffirmation of Guarantor, dated as of April 14, 2021, by Credit RE Operating Company, LLC, for the benefit of Goldman Sachs Bank USA (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 19, 2021)
.11	Second Amendment to Guaranty, dated as of April 14, 2021, by Credit RE Operating Company, LLC for the benefit of Goldman Sachs Bank USA (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 19, 2021)
.12	Second Amendment to Guaranty, dated as of April 14, 2021, by Credit RE Operating Company, LLC for the benefit of Deutsche Bank AG, Cayman Islands Branch (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 19, 2021)
.13	Second Amendment to Guarantee, dated as of April 13, 2021, by Credit RE Operating Company, LLC for the benefit of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 19, 2021)
.14	Fifth Omnibus Amendment, dated as of April 14, 2021, by and among MS Loan NT-I, LLC, MS Loan NT-II, LLC, CLNC Credit 1, LLC, CLNC Credit 2, LLC, CLNC Credit 1EU, LLC, CLNC Credit 1UK, LLC, Credit RE Operating Company, LLC and Morgan Stanley Bank, N.A. (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 19, 2021)
.15	Amended and Restated Stockholders Agreement, dated April 30, 2021, by and between Colony Credit Real Estate, Inc. and Capital Operating Company, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on May 3, 2021)
.16	Employment Agreement by and between Michael Mazzei and CLNC US, LLC, as amended April 30, 2021 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 001-38377) filed on May 3, 2021)

hibit Number	Description of Exhibit
.17	Form of Executive Employment Letter (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (No. 001-38377) filed on May 3, 2021)
.18	Second Amended and Restated Limited Liability Company Agreement of BrightSpire Capital Operating Company, LLC dated as of June 24, 2021 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on June 24, 2021)
.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
.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
.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
.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
1.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
1.SCH*	Inline XBRL Taxonomy Extension Schema Document
1.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
1.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
1.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
1.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
4	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

** Certain portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K. The Company agrees to furnish to the Securities and Exchange Commission a copy of any omitted portions of the exhibit upon request.

SIGNATURES

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

Dated: August 5, 2021

BRIGHTSPIRE CAPITAL, INC.

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

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

Exhibit 3.1

COLONY CREDIT REAL ESTATE, INC.

ARTICLES OF AMENDMENT

THIS IS TO CERTIFY THAT:

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

ARTICLE II

NAME

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

BrightSpire Capital, Inc.

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

THIRD: These Articles of Amendment shall become effective as of 12:01 a.m. Eastern time on June 24, 2021.

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

(signature page follows)

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to be signed in its name and on its behalf by its Chief Executive Officer and President and attested to by its Secretary on this 23rd day of June, 2021.

ATTEST:	COLONY CREDIT REAL ESTATE, INC.
/s/ David A. Palamé	By: /s/ Michael J. Mazzei
Name: David A. Palamé	Name: Michael J. Mazzei
Title: Secretary	Title: Chief Executive Officer & President

COLONY NORTHSTAR CREDIT REAL ESTATE, INC.

ARTICLES OF AMENDMENT

THIS IS TO CERTIFY THAT:

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

ARTICLE II

NAME

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

Colony Credit Real Estate, Inc.

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

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

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

(signature page follows)

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

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

[CLNC - Signature Page to Articles of Amendment]

COLONY NORTHSTAR CREDIT REAL ESTATE, INC.

ARTICLES OF AMENDMENT AND RESTATEMENT

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

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

ARTICLE I

INCORPORATOR

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

ARTICLE II

NAME

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

Colony NorthStar Credit Real Estate, Inc.

ARTICLE III

PURPOSE

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

ARTICLE IV

PRINCIPAL OFFICE IN STATE AND RESIDENT AGENT

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

ARTICLE V

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

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

Richard B. Saltzman

Catherine D. Rice

Vernon B. Schwartz

Darren J. Tangen

Kevin P. Traenkle

John Westerfield

Winston W. Wilson

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

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

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

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

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

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

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

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

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

Section 5.9 Corporate Opportunities.

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VI

STOCK

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VII

RESTRICTION ON TRANSFER AND OWNERSHIP OF SHARES

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

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

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

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

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

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

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

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

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

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

Initial Date. The term "Initial Date" shall mean January 31, 2018.

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

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

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

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

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

Transfer. The term "Transfer" shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event, condition or set of circumstances that causes any Person to acquire or have Beneficial Ownership or Constructive Ownership, or any agreement to take any such actions or cause any such events, of Capital Stock or the right to vote or receive dividends or other distributions on shares of Capital Stock, including (a) a change in the capital structure of the Corporation or in the relative values of different classes or series of Capital Stock, (b) a change in the relationship between two or more Persons that causes a change in Beneficial Ownership or Constructive Ownership, (c) the granting or exercise of any option or warrant (or any acquisition or disposition of any option or warrant), pledge, security interest, or similar right to acquire shares of Capital Stock, (d) any acquisition or disposition of any securities or rights convertible into or exchangeable for Capital Stock or any interest in Capital Stock or any exercise of any such conversion or exchange right and (e) Transfers of interests in other entities that result in changes in Beneficial Ownership or Constructive Ownership of Capital Stock; in each case, whether voluntary or involuntary, whether owned of record, Constructively Owned or Beneficially Owned and whether by operation of law or otherwise. The terms "Transferring" and "Transferred" shall have the correlative meanings.

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

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

Section 7.2 Capital Stock.

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

(a) Basic Restrictions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 7.2.7 Exceptions.

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

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

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

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

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

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

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

> The shares represented by this certificate are subject to restrictions on Beneficial Ownership and Constructive Ownership and Transfer for the purpose, among others, of the Corporation's maintenance of its status as a Real Estate Investment Trust under the Code. Subject to certain further restrictions and except as expressly provided in the Corporation's Charter, (i) no Person may Beneficially Own or Constructively Own shares of the Corporation's Common Stock in excess of the Common Stock Ownership Limit unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (ii) no Person may Beneficially Own or Constructively Own shares of Capital Stock of the Corporation in excess of the Aggregate Stock Ownership Limit, unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (iii) no Person may Beneficially Own or Constructively Own Capital Stock that would result in the Corporation being "closely held" under Section 856(h) of the Code or otherwise cause the Corporation to fail to qualify as a REIT; and (iv) no Person may

Transfer shares of Capital Stock if such Transfer would result in the Capital Stock of the Corporation being owned by fewer than 100 Persons. Any Person who Beneficially Owns or Constructively Owns or attempts to Beneficially Own or Constructively Own shares of Capital Stock that causes or will cause a Person to Beneficially Own or Constructively Own shares of Capital Stock in excess or in violation of the above limitations must immediately notify the Corporation. If any of the restrictions on transfer or ownership provided in (i), (ii) or (iii) above are violated, the shares of Capital Stock in excess or in violation of the above limitations will be automatically transferred to a Trustee of a Trust for the benefit of one or more Charitable Beneficiaries. In addition, the Corporation may redeem shares upon the terms and conditions specified by the Board of Directors in its sole and absolute discretion if the Board of Directors determines that ownership or a Transfer or other event may violate the restrictions described above. Furthermore, if the ownership restrictions provided in (iv) above would be violated or upon the occurrence of certain events, attempted Transfers in violation of the restrictions described above may be void ab initio. All capitalized terms in this legend have the meanings defined in the Charter of the Corporation, as the same may be amended from time to time, a copy of which, including the restrictions on transfer and ownership, will be furnished to each holder of Capital Stock of the Corporation on request and without charge. Requests for such a copy may be directed to the Secretary of the Corporation at its principal office.

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

Section 7.3 Transfer of Capital Stock in Trust.

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

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

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

Section 7.3.4 Sale of Shares by Trustee. Within twenty (20) days of receiving notice from the Corporation that shares of Capital Stock have been transferred to the Trust, the Trustee of the Trust shall sell the shares held in the Trust to a person, designated by the Trustee, whose ownership of the shares will not violate the ownership limitations set forth in Section 7.2.1(a). Upon such sale, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and to the Charitable Beneficiary as provided in this Section 7.3.4. The Prohibited Owner shall receive the lesser of (i) the price paid by the Prohibited Owner for the shares or, if the Prohibited Owner did not give value for the shares in connection with the event causing the shares to be held in the Trust (*e.g.*, in the case of a gift, devise or other such transaction), the Market Price of the shares on the day of the event causing the shares to be held in the Trust and (ii) the price per share received by the Trustee (net of any commissions and other expenses of sale) from the sale or other disposition of the shares held in the Trust. The Trustee may reduce the amount payable to the Prohibited Owner by the amount of dividends and other distributions that have been paid to the Prohibited Owner and are owed by the Prohibited Owner to the Trustee pursuant to Section 7.3.3 of this Article VII. Any net sales proceeds in excess of the amount payable to the Prohibited Owner shall be immediately paid to the Charitable Beneficiary. If, prior to the discovery by the Corporation that shares of Capital Stock have been transferred to the Trustee, such shares are sold by a Prohibited Owner, then (i) such shares shall be deemed to have been sold on behalf of the Trust and (ii) to the extent that the Prohibited Owner received an amount for such shares that exceeds the amount that such Prohibited Owner was entitled to receive pursuant to this Section 7.3.4, such excess shall be paid to the Trustee upon demand.

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

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

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

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

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

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

ARTICLE VIII

AMENDMENTS

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

ARTICLE IX

LIMITATION OF LIABILITY

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

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

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

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

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

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

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

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

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

[SIGNATURE PAGE FOLLOWS]

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

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

Exhibit 31.1

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

I, Michael J. Mazzei, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: /s/ Michael J. Mazzei

Michael J. Mazzei
Chief Executive Officer and President

Date: August 5, 2021

Exhibit 31.2

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

I, Frank V. Saracino, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: /s/ Frank V. Saracino
Frank V. Saracino
Chief Financial Officer
Date: August 5, 2021

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of BrightSpire Capital, Inc. (the “Company”) for the three months ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael J. Mazzei, as Chief Executive Officer and President of the Company, hereby certify, pursuant to 18 U.S.C. Section §1350, as adopted pursuant to Section §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

By: /s/ Michael J. Mazzei

Michael J. Mazzei
Chief Executive Officer and President

Date: August 5, 2021

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

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of BrightSpire Capital, Inc. (the “Company”) for the three months ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Frank V. Saracino, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section §1350, as adopted pursuant to Section §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

By: /s/ Frank V. Saracino
Frank V. Saracino
Chief Financial Officer
Date: August 5, 2021

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.