
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2020
OR

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

Commission File Number: 001-38377

COLONY CREDIT REAL ESTATE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

38-4046290
(I.R.S. Employer
Identification No.)

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

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

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

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

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

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

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

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

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

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

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

As of November 5, 2020, Colony Credit Real Estate, Inc. had 128,582,965 shares of Class A common stock, par value \$0.01 per share, outstanding

EXPLANATORY NOTE

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

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

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

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

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

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

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

In addition to the financial statements contained herein, you should read and consider the audited financial statements and accompanying notes thereto of the Company for the year ended December 31, 2019 included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the “SEC”) on February 28, 2020.

COLONY CREDIT REAL ESTATE, INC.

FORM 10-Q

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Special Note Regarding Forward-Looking Statements

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

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, and the direct and indirect economic effects of the pandemic and containment measures, among others. Moreover, investors are cautioned to interpret many of the risks identified under the section titled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 as being heightened as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic.

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;
- uncertainties regarding the ongoing impact of COVID-19, the severity of the disease, the duration of the COVID-19 outbreak, actions that may be taken by governmental authorities to contain the COVID-19 outbreak or to treat its impact, the potential negative impacts of COVID-19 on the global economy and its adverse impact on the real estate market, the economy and our investments, financial condition and business operations;
- defaults by borrowers in paying debt service on outstanding indebtedness and borrowers’ abilities to manage and stabilize properties;
- 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;
- the fair value of our investments may be subject to uncertainties;
- our use of leverage could hinder our ability to make distributions and may significantly impact our liquidity position;
- given our dependence on our external manager, an affiliate of Colony Capital, Inc., any adverse changes in the financial health or otherwise of our manager or Colony Capital, Inc. could hinder our operating performance and return on stockholder’s investment;
- the ability to realize substantial efficiencies as well as anticipated strategic and financial benefits, including, but not limited to expected returns on equity and/or yields on investments;
- adverse impacts on our 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, or our ability to continue to generate liquidity from sales of legacy, non-strategic assets;
- our ability to liquidate our legacy, non-strategic assets within the projected timeframe or at the projected values;
- the timing of and ability to deploy available capital;
- our ability to pay, maintain or grow the dividend in the future;
- the timing of and ability to complete repurchases of our stock;
- our ability to refinance certain mortgage debt on similar terms to those currently existing or at all;
- whether Colony Capital will continue to serve as our external manager or whether we will pursue a strategic transaction related thereto;
- the impact of legislative, regulatory and competitive changes and the actions of governmental authorities, including the current U.S. presidential administration, 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, 2019, the section entitled

“Risk Factors” in our Form 10-Q for the quarter ended March 31, 2020 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

Item 1. Financial Statements

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

	September 30, 2020 (Unaudited)	December 31, 2019
Assets		
Cash and cash equivalents	\$ 461,990	\$ 69,619
Restricted cash	73,059	126,065
Loans and preferred equity held for investment	2,143,938	2,848,956
Allowance for loan losses	(40,524)	(272,624)
Loans and preferred equity held for investment, net	2,103,414	2,576,332
Real estate securities, available for sale, at fair value	36,250	252,824
Real estate, net	1,133,318	1,484,796
Investments in unconsolidated ventures (\$7,093 and \$10,283 at fair value, respectively)	424,557	595,305
Receivables, net	80,674	46,456
Deferred leasing costs and intangible assets, net	85,881	112,762
Assets held for sale	203,466	189,470
Other assets	69,658	87,707
Mortgage loans held in securitization trusts, at fair value	1,839,390	1,872,970
Total assets	\$ 6,511,657	\$ 7,414,306
Liabilities		
Securitization bonds payable, net	\$ 834,621	\$ 833,153
Mortgage and other notes payable, net	1,102,999	1,256,112
Credit facilities	608,632	1,099,233
Due to related party (Note 10)	9,192	11,016
Accrued and other liabilities	111,525	140,424
Intangible liabilities, net	8,443	22,149
Liabilities related to assets held for sale	10,787	294
Escrow deposits payable	37,642	74,497
Dividends payable	—	13,164
Mortgage obligations issued by securitization trusts, at fair value	1,770,924	1,762,914
Total liabilities	4,494,765	5,212,956
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 September 30, 2020 and December 31, 2019, respectively	—	—
Common stock, \$0.01 par value per share		
Class A, 950,000,000 shares authorized, 128,582,965 and 128,538,703 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	1,286	1,285
Additional paid-in capital	2,842,892	2,909,181
Accumulated deficit	(1,181,747)	(819,738)
Accumulated other comprehensive income	40,954	28,294
Total stockholders' equity	1,703,385	2,119,022
Noncontrolling interests in investment entities	272,803	31,631
Noncontrolling interests in the Operating Partnership	40,704	50,697
Total equity	2,016,892	2,201,350
Total liabilities and equity	\$ 6,511,657	\$ 7,414,306

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

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED BALANCE SHEETS
(in Thousands)

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

	September 30, 2020 (Unaudited)	December 31, 2019
Assets		
Cash and cash equivalents	\$ 20,471	\$ 14,109
Restricted cash	22,009	25,646
Loans and preferred equity held for investment, net	915,738	1,016,781
Real estate, net	415,452	381,608
Investments in unconsolidated ventures	303,347	—
Receivables, net	27,005	26,044
Deferred leasing costs and intangible assets, net	54,392	36,323
Assets held for sale	175,902	102,397
Other assets	23,598	26,463
Mortgage loans held in securitization trusts, at fair value	1,839,390	1,872,970
Total assets	<u>\$ 3,797,304</u>	<u>\$ 3,502,341</u>
Liabilities		
Securitization bonds payable, net	\$ 834,621	\$ 833,153
Mortgage and other notes payable, net	500,439	341,480
Credit facilities	6,828	23,882
Accrued and other liabilities	111,924	124,969
Intangible liabilities, net	8,018	20,230
Liabilities related to assets held for sale	10,787	251
Escrow deposits payable	5,652	10,485
Mortgage obligations issued by securitization trusts, at fair value	1,770,924	1,762,914
Total liabilities	<u>\$ 3,249,193</u>	<u>\$ 3,117,364</u>

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

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net interest income				
Interest income	\$ 36,391	\$ 46,991	\$ 122,003	\$ 127,473
Interest expense	(13,426)	(23,167)	(50,915)	(63,505)
Interest income on mortgage loans held in securitization trusts	20,462	22,586	61,556	99,718
Interest expense on mortgage obligations issued by securitization trusts	(18,204)	(20,299)	(54,627)	(91,690)
Net interest income	25,223	26,111	78,017	71,996
Property and other income				
Property operating income	41,678	63,492	137,913	191,393
Other income (loss)	30	820	1,079	1,431
Total property and other income	41,708	64,312	138,992	192,824
Expenses				
Management fee expense	7,083	11,355	22,235	34,070
Property operating expense	15,277	29,756	54,119	86,076
Transaction, investment and servicing expense	1,627	1,433	7,668	3,013
Interest expense on real estate	12,205	14,281	37,101	41,786
Depreciation and amortization	14,770	25,934	46,766	82,853
Provision for loan losses	10,404	110,314	80,285	220,572
Impairment of operating real estate	3,451	272,722	33,512	282,846
Administrative expense (including \$1,376, \$2,910, \$3,267 and \$7,466 of equity-based compensation expense, respectively)	5,780	7,732	19,569	22,395
Total expenses	70,597	473,527	301,255	773,611
Other income (loss)				
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	(13,162)	(1,976)	(41,589)	4,602
Realized gain on mortgage loans and obligations held in securitization trusts, net	—	2,724	—	2,772
Other gain (loss), net	9,680	(2,688)	(130,115)	(13,829)
Loss before equity in earnings of unconsolidated ventures and income taxes	(7,148)	(385,044)	(255,950)	(515,246)
Equity in earnings (loss) of unconsolidated ventures	(1,779)	(15,905)	(69,889)	17,962
Income tax benefit (expense)	15,357	(1,046)	11,544	(544)
Net income (loss)	6,430	(401,995)	(314,295)	(497,828)
Net (income) loss attributable to noncontrolling interests:				
Investment entities	(1,222)	37,445	6,362	38,623
Operating Partnership	(201)	8,519	7,109	10,741
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	\$ 5,007	\$ (356,031)	\$ (300,824)	\$ (448,464)
Net income (loss) per common share - basic and diluted (Note 18)	\$ 0.04	\$ (2.77)	\$ (2.34)	\$ (3.51)
Weighted average shares of common stock outstanding - basic and diluted (Note 18)	128,583	128,541	128,537	128,341

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

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in Thousands)
(Unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net income (loss)	\$ 6,430	\$ (401,995)	\$ (314,295)	\$ (497,828)
Other comprehensive income (loss)				
Unrealized gain (loss) on real estate securities, available for sale	4,291	5,102	(12,228)	22,723
Change in fair value of net investment hedges	—	12,791	21,764	21,124
Foreign currency translation gain (loss)	12,656	(14,445)	4,315	(13,832)
Total other comprehensive income (loss)	16,947	3,448	13,851	30,015
Comprehensive income (loss)	23,377	(398,547)	(300,444)	(467,813)
Comprehensive (income) loss attributable to noncontrolling interests:				
Investment entities	(2,138)	37,445	5,189	38,623
Operating Partnership	(519)	8,439	7,091	10,040
Comprehensive income (loss) attributable to common stockholders	<u>\$ 20,720</u>	<u>\$ (352,663)</u>	<u>\$ (288,164)</u>	<u>\$ (419,150)</u>

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

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

	Common Stock				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
	Class A		Class B-3								
	Shares	Amount	Shares	Amount							
Balance as of December 31, 2018	83,410	\$ 834	44,399	\$ 444	\$ 2,899,353	\$ (193,327)	\$ (399)	\$ 2,706,905	\$ 72,683	\$ 65,614	\$ 2,845,202
Contributions	—	—	—	—	—	—	—	—	24	—	24
Distributions	—	—	—	—	—	—	—	—	(394)	—	(394)
Conversion of Class B-3 common stock to Class A common stock	44,399	444	(44,399)	(444)	—	—	—	—	—	—	—
Issuance and amortization of equity-based compensation	800	8	—	—	1,835	—	—	1,843	—	—	1,843
Other comprehensive loss	—	—	—	—	—	—	13,519	13,519	—	324	13,843
Dividends and distributions declared (\$0.44 per Class A share and \$0.15 per Class B-3 share)	—	—	—	—	—	(55,726)	—	(55,726)	—	(1,340)	(57,066)
Shares canceled for tax withholding on vested stock awards	(96)	(1)	—	—	(1,496)	—	—	(1,497)	—	—	(1,497)
Reallocation of equity	—	—	—	—	(23)	—	—	(23)	—	23	—
Net income (loss)	—	—	—	—	—	14,908	—	14,908	(298)	347	14,957
Balance as of March 31, 2019	<u>128,513</u>	<u>\$ 1,285</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 2,899,669</u>	<u>\$ (234,145)</u>	<u>\$ 13,120</u>	<u>\$ 2,679,929</u>	<u>\$ 72,015</u>	<u>\$ 64,968</u>	<u>\$ 2,816,912</u>
Contributions	—	—	—	—	—	—	—	—	11	—	11
Distributions	—	—	—	—	—	—	—	—	(1,198)	—	(1,198)
Issuance and amortization of equity-based compensation	32	—	—	—	2,713	—	—	2,713	—	—	2,713
Other comprehensive income	—	—	—	—	—	—	12,427	12,427	—	297	12,724
Dividends and distributions declared (\$0.44 per share)	—	—	—	—	—	(55,912)	—	(55,912)	—	(1,342)	(57,254)
Reallocation of equity	—	—	—	—	744	—	—	744	—	(744)	—
Net income (loss)	—	—	—	—	—	(107,341)	—	(107,341)	(880)	(2,569)	(110,790)
Balance as of June 30, 2019	<u>128,545</u>	<u>\$ 1,285</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 2,903,126</u>	<u>\$ (397,398)</u>	<u>\$ 25,547</u>	<u>\$ 2,532,560</u>	<u>\$ 69,948</u>	<u>\$ 60,610</u>	<u>\$ 2,663,118</u>
Contributions	—	—	—	—	—	—	—	—	17	—	17
Distributions	—	—	—	—	—	—	—	—	(1,110)	—	(1,110)
Issuance and amortization of equity-based compensation	—	—	—	—	2,910	—	—	2,910	—	—	2,910
Other comprehensive income	—	—	—	—	—	—	3,368	3,368	—	80	3,448
Dividends and distributions declared (\$0.44 per share)	—	—	—	—	—	(55,915)	—	(55,915)	—	(1,338)	(57,253)
Shares canceled for tax withholding on vested stock awards	(6)	—	—	—	(80)	—	—	(80)	—	—	(80)
Reallocation of equity	—	—	—	—	(50)	—	—	(50)	—	50	—
Net income (loss)	—	—	—	—	—	(356,031)	—	(356,031)	(37,445)	(8,519)	(401,995)
Balance at September 30, 2019	<u>128,539</u>	<u>\$ 1,285</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 2,905,906</u>	<u>\$ (809,344)</u>	<u>\$ 28,915</u>	<u>\$ 2,126,762</u>	<u>\$ 31,410</u>	<u>\$ 50,883</u>	<u>\$ 2,209,055</u>

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

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

	Common Stock				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
	Class A		Class B-3								
	Shares	Amount	Shares	Amount							
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	—
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
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)
Investment by JV partner in consolidated JV and equity reallocation related 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
Contributions	—	—	—	—	—	—	—	—	27	—	27
Distributions	—	—	—	—	—	—	—	—	(8,724)	—	(8,724)
Issuance and amortization of equity-based compensation	—	—	—	—	1,376	—	—	1,376	—	—	1,376
Other comprehensive income	—	—	—	—	—	—	15,713	15,713	916	318	16,947
Shares canceled for tax withholding on vested stock awards	—	—	—	—	(1)	—	—	(1)	—	—	(1)
Reallocation of equity	—	—	—	—	(296)	—	—	(296)	—	296	—
Costs of noncontrolling equity	—	—	—	—	—	—	—	—	—	—	—
Investment by JV partner in consolidated JV and equity reallocation related to that partner's return (see Note 2)	—	—	—	—	1,679	—	—	1,679	(1,679)	—	—
Net income (loss)	—	—	—	—	—	5,007	—	5,007	1,222	201	6,430
Balance as of September 30, 2020	128,583	\$ 1,286	—	\$ —	\$ 2,842,892	\$ (1,181,747)	\$ 40,954	\$ 1,703,385	\$ 272,803	\$ 40,704	\$ 2,016,892

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

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

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income (loss)	\$ (314,295)	\$ (497,828)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in (earnings) losses of unconsolidated ventures	69,889	(17,962)
Depreciation and amortization	46,766	82,853
Straight-line rental income	(3,100)	(5,049)
Amortization of above/below market lease values, net	(409)	(2,401)
Amortization of premium/accretion of discount and fees on investments and borrowings, net	(7,823)	(9,239)
Amortization of deferred financing costs	9,522	6,803
Amortization of right-of-use lease assets and operating lease liabilities	74	73
Paid-in-kind interest added to loan principal, net of interest received	3,856	(5,634)
Distributions of cumulative earnings from unconsolidated ventures	13,429	53,509
Unrealized (gain) loss on mortgage loans and obligations held in securitization trusts, net	41,589	(4,602)
Realized loss on mortgage loans and obligations held in securitization trusts, net	—	(2,772)
Realized loss on securities from write-down to fair value	32,606	—
Realized loss on sale of real estate securities, available for sale	51,889	—
Realized gain on sale of real estate	(9,240)	—
Realized loss on sale of loans receivable	1,457	—
Provision for loan losses	80,285	220,572
Impairment of operating real estate	33,512	282,846
Amortization of equity-based compensation	3,265	7,466
Mortgage notes above/below market value amortization	(628)	276
Deferred income tax (benefit) expense	(397)	(3,298)
Other (gain) loss, net	23,524	—
Changes in assets and liabilities:		
Receivables, net	(30,907)	(1,097)
Deferred costs and other assets	7,169	718
Due to related party	(1,824)	(792)
Other liabilities	(5,347)	8,763
Net cash provided by operating activities	44,862	113,205
Cash flows from investing activities:		
Acquisition, origination and funding of loans and preferred equity held for investment, net	(122,424)	(1,250,018)
Repayment on loans and preferred equity held for investment	334,208	426,438
Repayment on loans held for sale	137,132	—
Proceeds from sale of real estate	300,469	—
Cash and restricted cash received related to foreclosure of loans held for investment	—	3,436
Acquisition of and additions to real estate, related intangibles and leasing commissions	(19,749)	(16,773)
Investments in unconsolidated ventures	(47,541)	(28,344)
Proceeds from sale of investments in unconsolidated ventures	99,985	115,298
Distributions in excess of cumulative earnings from unconsolidated ventures	25,011	202,732
Repayment of real estate securities, available for sale, from sales	118,586	—
Repayment of real estate securities, available for sale, from cost recovery	3,020	—
Repayment of principal in mortgage loans held in securitization trusts	19,816	—
Proceeds from sale of mortgage loans held in securitization trusts	—	39,848
Net receipts on settlement of derivative instruments	19,637	27,699
Deposit on investments	—	(372)
Change in escrow deposits	(36,855)	20,817
Net cash provided (used in) by investing activities	831,295	(459,239)
Cash flows from financing activities:		
Distributions paid on common stock	(51,705)	(167,452)
Distributions paid on common stock to noncontrolling interests	(922)	(4,020)
Shares canceled for tax withholding on vested stock awards	(1,768)	(1,576)
Borrowings from mortgage notes	15,026	85,660
Repayment of mortgage notes	(156,066)	(4,448)
Borrowings from credit facilities	255,128	1,830,412
Repayment of credit facilities	(745,729)	(1,288,773)
Repayment of securitization bonds	—	(81,372)
Repayment of mortgage obligations issued by securitization trusts	(19,816)	—
Payment of deferred financing costs	(6,943)	(7,413)
Contributions from noncontrolling interests	200,028	52
Distributions to noncontrolling interests	(22,893)	(2,702)
Net cash provided by (used in) financing activities	(535,660)	358,368
Effect of exchange rates on cash, cash equivalents and restricted cash	(1,132)	84
Net increase (decrease) in cash, cash equivalents and restricted cash	339,365	12,418
Cash, cash equivalents and restricted cash - beginning of period	195,684	187,463
Cash, cash equivalents and restricted cash - end of period	\$ 535,049	\$ 199,881

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

COLONY CREDIT REAL ESTATE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in Thousands)

	Nine Months Ended September 30,	
	2020	2019
Reconciliation of cash, cash equivalents, and restricted cash to consolidated balance sheets		
Beginning of the period		
Cash and cash equivalents	\$ 69,619	\$ 77,317
Restricted cash	126,065	110,146
Total cash, cash equivalents and restricted cash, beginning of period	<u>\$ 195,684</u>	<u>\$ 187,463</u>
End of the period		
Cash and cash equivalents	\$ 461,990	\$ 60,332
Restricted cash	73,059	139,549
Total cash, cash equivalents and restricted cash, end of period	<u>\$ 535,049</u>	<u>\$ 199,881</u>
	Nine Months Ended September 30,	
	2020	2019
Supplemental disclosure of non-cash investing and financing activities:		
Consolidation of securitization trust (VIE asset/liability additions)	\$ —	\$ 59,126
Deconsolidation of securitization trust (VIE asset/liability reductions)	—	(1,239,627)
Accrual of distribution payable	(13,164)	19,087
Foreclosure of loans held for investment, net of provision for loan losses	—	127,356
Right-of-use lease assets and operating lease liabilities	(730)	26,781
Assets transferred to held for sale (Note 7)	—	183,895
Liabilities related to assets held for sale (Note to 7)	—	5,487
Conversion of Class B-3 common stock to Class A common stock	—	444

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

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

1. Business and Organization

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

The Company was organized in the state of Maryland on August 23, 2017. On January 31, 2018, the Company completed the transactions contemplated by that certain Master Combination Agreement, dated as of August 25, 2017, as amended and restated on November 20, 2017 (the “Combination Agreement,” as further discussed below). The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”), beginning with its taxable year ended December 31, 2018. Effective June 25, 2018, the Company changed its name from Colony NorthStar Credit Real Estate, Inc. to Colony Credit Real Estate, Inc. Also on June 25, 2018, Colony NorthStar, Inc. changed its name to Colony Capital, Inc. The Company conducts all of its activities and holds substantially all of its assets and liabilities through its operating subsidiary, Credit RE Operating Company, LLC (the “Operating Partnership” or “OP”). At September 30, 2020, the Company owned 97.7% of the OP, as its sole managing member. The remaining 2.3% is owned by an affiliate of the Company as noncontrolling interests.

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

The Combination

Pursuant to the Combination Agreement, (i) CLNY OP contributed and conveyed to the Company a select portfolio of assets and liabilities (the “CLNY OP Contributed Portfolio”) of CLNY OP (the “CLNY OP Contribution”), (ii) NRF RED REIT Corp., a Maryland corporation and indirect subsidiary of CLNY OP (“RED REIT”) contributed and conveyed to the OP a select portfolio of assets and liabilities (the “RED REIT Contributed Portfolio” and, together with the CLNY OP Contributed Portfolio, the “CLNY Contributed Portfolio”) of RED REIT (the “RED REIT Contribution” and, together with the CLNY OP Contribution, the “CLNY Contributions”), (iii) NorthStar Real Estate Income Trust, Inc. (“NorthStar I”), a publicly registered non-traded REIT sponsored and managed by a subsidiary of Colony Capital, merged with and into the Company, with the Company surviving the merger (the “NorthStar I Merger”), (iv) NorthStar Real Estate Income II, Inc. (“NorthStar II”), a publicly registered non-traded REIT sponsored and managed by a subsidiary of Colony Capital, merged with and into the Company, with the Company surviving the merger (the “NorthStar II Merger” and, together with the NorthStar I Merger, the “Mergers”), and (v) immediately following the Mergers, the Company contributed and conveyed to the OP the CLNY OP Contributed Portfolio and the equity interests of each of NorthStar Real Estate Income Trust Operating Partnership, LP, a Delaware limited partnership and the operating partnership of NorthStar I, and NorthStar Real Estate Income Operating Partnership II, LP, a Delaware limited partnership and the operating partnership of NorthStar II, then-owned by the Company in exchange for units of membership interest in the OP (the “Company Contribution” and, collectively with the Mergers and the CLNY Contributions, the “Combination”).

On January 18, 2018, the Combination was approved by the stockholders of NorthStar I and NorthStar II. The Combination closed on January 31, 2018 (the “Closing Date”) and the Company’s Class A common stock, par value \$0.01 per share (the “Class A common stock”), began trading on the New York Stock Exchange (“NYSE”) on February 1, 2018 under the symbol “CLNC.”

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

The Combination is accounted for under the acquisition method for business combinations pursuant to Accounting Standards Codification (“ASC”) Topic 805, *Business Combinations*, with the Company as the accounting acquirer.

Segment Realignment

During the third quarter of 2019, the Company realigned the business and reportable segment information to reflect how the Chief Operating Decision Makers (“CODM”) regularly review and manage the business. Refer to Note 17, “Segment Reporting” for further detail.

Impact of COVID-19

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

The sharp decline and 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 and Loans Held for Sale,” 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 accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented. However, the results of operations for the interim period presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2020, or for any other future period. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in, or presented as exhibits to, the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

The Combination

The Combination is accounted for under the acquisition method for business combinations pursuant to ASC Topic 805, *Business Combinations*. In the Combination, the Company was considered to be the accounting acquirer so all of its assets and liabilities immediately prior to the closing of the Combination are reflected at their historical carrying values. The consideration transferred by the Company established a new accounting basis for the assets acquired, liabilities assumed and noncontrolling interests of NorthStar I and NorthStar II, which were measured at their respective fair values on the Closing Date.

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

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

Principles of Consolidation

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

The Company consolidates entities in which it has a controlling financial interest by first considering if an entity meets the definition of a 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 September 30, 2020, the Company has identified certain consolidated and unconsolidated VIEs. Assets of each of the VIEs, other than the OP, may only be used to settle obligations of the respective VIE. Creditors of each of the VIEs have no recourse to the general credit of the Company.

Consolidated VIEs

The Company’s operating subsidiary, the OP, is a limited liability company that has governing provisions that are the functional equivalent of a limited partnership. The Company holds the majority of membership interest in the OP, is the managing member of the OP and exercises full responsibility, discretion and control over the day-to-day management of the OP. The

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

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

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

Investing VIEs

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

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

As of September 30, 2020, the Company held subordinate tranches of securitization trusts in two Investing VIEs for which the Company has determined it is the primary beneficiary because it has the power to direct the activities that most significantly impact the economic performance of the securitization trusts. The Company's subordinate tranches of the securitization trusts, which represent the retained interest and related interest income, are eliminated in consolidation. As a result, all of the assets, liabilities (obligations to the certificate holders of the securitization trusts, less the Company's retained interest from the subordinate tranches of the securitization trusts), income and expenses of the Investing VIEs are presented in the consolidated financial statements of the Company although the Company legally owns the subordinate tranches of the securitization trusts only. Regardless of the presentation, the Company's consolidated financial statements of operations ultimately reflect the net income attributable to its retained interest in the subordinate tranches of the securitization trusts. Refer to Note 5, "Real Estate Securities, Available for Sale" for further discussion.

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

The Company has adopted guidance issued by the Financial Accounting Standards Board ("FASB"), allowing the Company to measure both the financial assets and liabilities of a qualifying collateralized financing entity ("CFE"), such as its Investing VIEs, using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable. A CFE is a VIE that holds financial assets, issues beneficial interests in those assets and has no more than nominal equity, and the beneficial interests have contractual recourse only to the related assets of the CFE. As the liabilities of the Company's Investing VIEs are marketable securities with observable trade data, their fair value is more observable and is referenced to determine fair value of the assets of its Investing VIEs. Refer to Note 14, "Fair Value" for further discussion.

Unconsolidated VIEs

As of September 30, 2020, the Company identified unconsolidated VIEs related to its securities investments, indirect interests in real estate through real estate private equity funds ("PE Investments") and CRE debt investments. Based on management's

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

analysis, the Company determined that it is not the primary beneficiary of the above VIEs. Accordingly, the VIEs are not consolidated in the Company's financial statements as of September 30, 2020.

Assets of each of the VIEs may only be used to settle obligations of the respective VIE. Creditors of each of the VIEs have no recourse to the general credit of the Company.

The following table presents the Company's classification, carrying value and maximum exposure of unconsolidated VIEs as of September 30, 2020 (dollars in thousands):

	Carrying Value	Maximum Exposure to Loss
Real estate securities, available for sale	\$ 36,250	\$ 31,959
Investments in unconsolidated ventures	349,635	374,279
Loans and preferred equity held for investment, net	13,638	13,638
Total assets	<u>\$ 399,523</u>	<u>\$ 419,876</u>

The Company did not provide financial support to the unconsolidated VIEs during the nine months ended September 30, 2020. As of September 30, 2020, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to the unconsolidated VIEs. The maximum exposure to loss of real estate securities, available for sale was determined as the amortized cost as of September 30, 2020. See Note 5, "Real Estate Securities, Available for Sale" for further discussion on fair value of the real estate securities. The maximum exposure to loss of investments in unconsolidated ventures and loans and preferred equity held for investment, net was determined as the carrying value plus any future funding commitments. Refer to Note 3, "Loans and Preferred Equity Held for Investment, net and Loans Held for Sale" 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 Combination, such interests held by private funds managed by Colony Capital. Allocation of net income or loss is generally based upon relative ownership interests held by equity owners in each investment entity, or based upon contractual arrangements that may provide for disproportionate allocation of economic returns among equity interests, including using a hypothetical liquidation at book value ("HLBV") basis, where applicable and substantive. HLBV uses a balance sheet approach, which measures each party's capital account at the end of a period assuming that the subsidiary was liquidated or sold at book value. Each party's share of the subsidiary's earnings or loss is calculated by measuring the change in the party's capital account from the beginning of the period in question to the end of period, adjusting for effects of distributions and new investments.

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

Comprehensive Income (Loss)

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

Fair Value Measurement

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

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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 September 30, 2020 or December 31, 2019. The Company's cash is held with major financial institutions and may at times exceed federally insured limits.

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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. 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 September 30, 2020, the Company had no loans classified as held for sale.

Acquisition, Development and Construction ("ADC") Arrangements

The Company provides loans to third party developers for the acquisition, development and construction of real estate. Under an ADC arrangement, the Company participates in the expected residual profits of the project through the sale, refinancing or other use of the property. The Company evaluates the characteristics of each ADC arrangement, including its risks and rewards, to determine whether they are more similar to those associated with a loan or an investment in real estate. ADC arrangements with characteristics implying loan classification are presented as loans held for investment and result in the recognition of interest income. ADC arrangements with characteristics implying real estate joint ventures are presented as investments in

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unconsolidated joint ventures and are accounted for using the equity method. The classification of each ADC arrangement as either loan receivable or real estate joint venture involves significant judgment and relies on various factors, including market conditions, amount and timing of expected residual profits, credit enhancements in the form of guaranties, estimated fair value of the collateral, and significance of borrower equity in the project, among others. The classification of ADC arrangements is performed at inception, and periodically reassessed when significant changes occur in the circumstances or conditions described above.

Operating Real Estate

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

Real Estate Held for Investment

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

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

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

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

Impairment—The Company evaluates its real estate held for investment for impairment periodically or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company evaluates real estate for impairment generally on an individual property basis. If an impairment indicator exists, the Company evaluates the undiscounted future net cash flows that are expected to be generated by the property, including any estimated proceeds from the eventual disposition of the property. If multiple outcomes are under consideration, the Company may apply a probability-weighted approach to the impairment analysis. Based upon the analysis, if the carrying value of a property exceeds its undiscounted future net cash flows, an impairment loss is recognized for the excess of the carrying value of the property over the estimated fair value of the property. In evaluating and/or measuring impairment, the Company considers, among other things, current and estimated future cash flows associated with each property, market information for each sub-market, including, where applicable, competition levels, foreclosure levels, leasing trends, occupancy trends, lease or room rates, and the market prices of similar properties recently sold or currently being offered for sale, and other quantitative and qualitative factors. Another key consideration in this assessment is the Company's assumptions about the highest and best use of its real estate investments and its intent and ability to hold them for a reasonable period that would allow for the recovery of their carrying values. If such assumptions change and the Company shortens its expected hold period, this may result in the recognition of impairment losses. During the three months ended September 30, 2020, the Company recorded impairment related to its operating real estate of \$3.5 million to reflect the net proceeds expected to be received based on executed purchase and sale agreements. See Note 6, "Real Estate, net and Real Estate Held for Sale" and Note 14, "Fair Value" for further detail.

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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 September 30, 2020, the Company classified several of its properties in its Legacy, Non-Strategic Portfolio as held for sale. See Note 6, "Real Estate, net and Real Estate Held for Sale," Note 17, "Segment Reporting" and Note 19, "Subsequent Events" for further detail.

Foreclosed Properties

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

Real Estate Securities

The Company classifies its CRE securities investments as available for sale on the acquisition date, which are carried at fair value. Unrealized gains (losses) are recorded as a component of accumulated OCI in the consolidated statements of equity. However, the Company has elected the fair value option for the assets and liabilities of its consolidated Investing VIEs, and as a result, any unrealized gains (losses) on the consolidated Investing VIEs are recorded in unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations. As of September 30, 2020, the Company held subordinate tranches of two securitization trusts, which represent the Company's retained interest in the securitization trusts, which the Company consolidates under U.S. GAAP. Refer to Note 5, "Real Estate Securities, Available for Sale" for further discussion.

Impairment

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

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

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During the three and nine months ended September 30, 2020, the Company recorded an impairment loss of \$3.4 million and \$32.6 million, respectively, related to its CRE securities. The impairment loss is included in other loss, net in the Company's consolidated statements of operations. Refer to Note 5, "Real Estate Securities, Available for Sale" for further discussion.

Investments in Unconsolidated Ventures

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

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

Equity Method Investments

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

At September 30, 2020 and December 31, 2019, the Company's investments in unconsolidated joint ventures consisted of investments in PE Investments, senior loans, mezzanine loans and preferred equity held in joint ventures, as well as ADC arrangements accounted for as equity method investments.

Impairment

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

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

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

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

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

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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.

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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

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

Foreign Currency

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

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

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

Equity-Based Compensation

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

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

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Earnings Per Share

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

Income Taxes

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

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

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

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

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

The Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was passed on March 27, 2020. Among other things, the CARES Act temporarily removed the 80% limitation on the amount of taxable income that can be offset with a net operating loss (“NOL”) for 2019 and 2020 and allowed for a carryback of net operating losses generated in years 2018 through 2020 to each of the preceding five years. During the three months ended September 30, 2020 the Company completed its analysis of the impact of the CARES Act on its NOLs and recorded a de minimis adjustment in the consolidated statement of operations.

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For the three months ended September 30, 2020 and September 30, 2019, the Company recorded income tax benefit of \$15.4 million and income tax expense of \$1.0 million, respectively. For the nine months ended September 30, 2020 and 2019, the Company recorded income tax benefit of \$11.5 million and income tax expense of \$0.5 million, respectively. The tax benefit reflected for both the three and nine months ended September 30, 2020 is primarily the result of the Company finalizing its 2019 federal tax return and determining it would be able to carryback certain tax capital losses to prior years resulting in a projected refund of \$12.9 million.

Accounting Standards Adopted in 2020

Credit Losses - In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments–Credit Losses, which amends the credit impairment model for financial instruments. The Company adopted ASU 2016-13 using the modified retrospective method on January 1, 2020.

The existing incurred loss model has been replaced with a lifetime current expected credit loss (“CECL”) model for financial instruments carried at amortized cost and off-balance sheet credit exposures, such as loans, loan commitments, held-to-maturity (“HTM”) debt securities, financial guarantees, net investment in leases, reinsurance and trade receivables, which will generally result in earlier recognition of allowance for losses. For available-for-sale (“AFS”) debt securities, unrealized credit losses are recognized as allowances rather than reductions in amortized cost basis and elimination of the OTTI concept will result in more frequent estimation of credit losses. The accounting model for purchased credit impaired loans and debt securities has been simplified, including elimination of some of the asymmetrical treatment between credit losses and credit recoveries, to be consistent with the CECL model for originated and purchased non-credit impaired assets. The existing model for beneficial interests that are not of high credit quality was amended to conform to the new impairment models for HTM and AFS debt securities.

Upon adoption of ASU 2016-13 on January 1, 2020 the Company recorded the following (dollars in thousands):

	Impact of ASU 2016-13 Adoption
Assets:	
CECL reserve on Loans and preferred equity held for investment, net	\$ 21,093
Liabilities:	
CECL reserve on Accrued and other liabilities	2,093
Total Impact of ASU 2016-13 adoption on Accumulated deficit	\$ 23,186

The following discussion highlights changes to the Company’s accounting policies as a result of this adoption.

CECL reserve

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

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

In measuring the CECL reserve for financial instruments that share similar risk characteristics, the Company primarily applies a probability of default (“PD”)/loss given default (“LGD”) model for instruments that are collectively assessed, whereby the CECL reserve is calculated as the product of PD, LGD and exposure at default (“EAD”). The Company’s model principally utilizes historical loss rates derived from a commercial mortgage backed securities database with historical losses from 1998 through September 2020 provided by a third party, Trepp LLC, forecasting the loss parameters using a scenario-based statistical approach over a reasonable and supportable forecast period of twelve months, followed by a straight-line reversion period of twelve-months back to average historical losses.

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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 rating of each loan and preferred equity as a key credit quality indicator. The risk ratings 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 and Loans Held for Sale” 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

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rate reductions, principal forgiveness, forbearance, or other actions designed to maximize the Company's collection on the financial instrument. The Company determines the CECL reserve for financial instruments that are TDRs individually.

Fair Value Disclosures—In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurements*. The ASU requires new disclosures of changes in unrealized gains and losses in other comprehensive income for recurring Level 3 fair value measurements of instruments held at the balance sheet date, as well as the range and weighted average or other quantitative information, if more relevant, of significant unobservable inputs for recurring and nonrecurring Level 3 fair values. Certain previously required disclosures are eliminated, specifically around the valuation process required for Level 3 fair values, policy for timing of transfers between levels of the fair value hierarchy, as well as amounts and reason for transfers between Levels 1 and 2. Additionally, the new guidance clarifies or modifies certain existing disclosures, including clarifying that information about measurement uncertainty of Level 3 fair values should be as of the reporting date and requiring disclosures of the timing of liquidity events for investments measured under the NAV practical expedient, but only if the investee has communicated this information or has announced it publicly. The provisions on new disclosures and modification to disclosure of Level 3 measurement uncertainty are to be applied prospectively, while all other provisions are to be applied retrospectively. The Company adopted ASU No. 2018-13 on January 1, 2020.

Related Party Guidance for VIEs—In November 2018, the FASB issued ASU No. 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*. The ASU amends the VIE guidance to align, throughout the VIE model, the evaluation of a decision maker's or service provider's fee held by a related party whether or not they are under common control, in both the assessment of whether a fee qualifies as a variable interest and the determination of a primary beneficiary. Specifically, a decision maker or service provider considers interests in a VIE held by a related party under common control only if it has a direct interest in the related party under common control and considers such indirect interest in the VIE held by the related party under common control on a proportionate basis, rather than its entirety. Transition is generally on a modified retrospective basis, with the cumulative effect adjusted to retained earnings at the beginning of the earliest period presented. The Company adopted ASU No. 2018-17 on January 1, 2020, with no transitional impact upon adoption.

Reference Rate Reform—In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The guidance in Topic 848 is optional, the election of which provides temporary relief for the accounting effects on contracts, hedging relationships and other transactions impacted by the transition from interbank offered rates (such as London Interbank Offered Rate, or LIBOR) that are expected to be discontinued by the end of 2021 to alternative reference rates (such as Secured Overnight Financing Rate, or SOFR). Modification of contractual terms to effect the reference rate reform transition on debt, leases, derivatives and other contracts is eligible for relief from modification accounting and accounted for as a continuation of the existing contract. Topic 848 is effective upon issuance through December 31, 2022, and may be applied retrospectively to January 1, 2020. The Company has elected to apply the hedge accounting expedients related to probability and assessment of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives, which preserves existing derivative treatment and presentation. The Company may elect other practical expedients or exceptions as applicable over time as reference rate reform activities occur.

Future Application of Accounting Standards

Income Tax Accounting—In December 2019, the FASB issued ASU No. 2019-12, *Simplifying Accounting for Income Taxes*. The ASU simplifies accounting for income taxes by eliminating certain exceptions to the general approach in ASC 740, *Income Taxes*, and clarifies certain aspects of the guidance for more consistent application. The simplifications relate to intraperiod tax allocations when there is a loss in continuing operations and a gain outside of continuing operations, accounting for tax law or tax rate changes and year-to-date losses in interim periods, recognition of deferred tax liability for outside basis difference when investment ownership changes, and accounting for franchise taxes that are partially based on income. The ASU also provides new guidance that clarifies the accounting for transactions resulting in a step-up in tax basis of goodwill, among other changes. Transition is generally prospective, other than the provision related to outside basis difference which is on a modified retrospective basis with the cumulative effect adjusted to retained earnings at the beginning of the period adopted, and franchise tax provision which is on either full or modified retrospective. ASU No. 2019-12 is effective January 1, 2021, with early adoption permitted in an interim period, to be applied to all provisions. The Company is currently evaluating the impact of this new guidance.

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

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measurement alternative is transitioned into equity method and vice versa, an equity method investment is transitioned into measurement alternative, the investment is to be remeasured immediately before and after the transaction, respectively. The ASU also clarifies that certain forward contracts or purchased options to acquire equity securities that are not deemed to be derivatives or in-substance common stock will generally be measured using the fair value principles of ASC 321 before settlement or exercise, and that an entity should not be considering how it will account for the resulting investments upon eventual settlement or exercise. ASU No. 2020-01 is to be applied prospectively, effective January 1, 2021, with early adoption permitted in an interim period. The Company is currently evaluating the impact of this new guidance.

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

- The guidance eliminates the requirement to separate embedded conversion features in convertible instruments, except for (1) a convertible instrument that contains features requiring bifurcation as a derivative under ASC 815 or (2) a convertible debt instrument that was issued at a substantial premium.
- Under the new guidance, certain conditions under Subtopic ASC 815-40 that may result in contracts being settled in cash rather than shares and therefore preclude (1) equity classification for contracts on an entity's own equity; and (2) embedded derivatives from qualifying for the derivative scope exception, have been removed; for example, the requirement that equity contracts permit settlement in unregistered shares unless such contracts explicitly require settlement in cash if registered shares are unavailable. The guidance also clarifies that freestanding contracts on an entity's own equity that do not qualify for equity classification under the indexation criteria (ASC 815-4015) or settlement criteria (ASC 815-40-25) are to be measured at fair value through earnings, even if they do not meet the definition of a derivative under ASC 815.
- The ASU also amends certain guidance on computation of diluted EPS for convertible instruments and contracts on an entity's own equity that results in a more dilutive EPS, including (1) requiring the if converted method to be applied for all convertible instruments (the treasury stock method is no longer available), and (2) removing the ability to rebut the presumption of share settlement for contracts that may be settled in cash or stock and that are not liability classified share based payments.
- Expanded disclosures are required, including but not limited to, (1) terms and features of convertible instruments and contracts on entity's own equity; and (2) information about events, conditions, and circumstances that could affect amount or timing of future cash flows related to these instruments or contracts; and in the period of adoption (3) nature of and reason for the change in accounting principle; and (4) effects of the change on EPS.

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

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

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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):

	September 30, 2020				December 31, 2019			
	Unpaid Principal Balance	Carrying Value	Weighted Average Coupon ⁽¹⁾	Weighted Average Maturity in Years	Unpaid Principal Balance	Carrying Value	Weighted Average Coupon ⁽¹⁾	Weighted Average Maturity in Years
Fixed rate								
Mezzanine loans	\$ 150,335	\$ 149,678	12.8 %	4.2	\$ 223,395	\$ 222,503	12.8 %	4.2
Preferred equity interests	18,350	18,350	15.0 %	2.9	115,384	115,313	12.5 %	6.9
Other loans ⁽²⁾	13,692	13,607	15.0 %	3.7	12,572	12,448	15.0 %	4.4
	<u>182,377</u>	<u>181,635</u>			<u>351,351</u>	<u>350,264</u>		
Variable rate								
Senior loans	974,207	971,963	5.5 %	3.4	1,462,467	1,457,738	6.0 %	3.8
Securitized loans ⁽³⁾	972,687	970,473	5.1 %	3.6	1,006,495	1,002,696	5.2 %	4.2
Mezzanine loans	18,178	18,298	9.4 %	2.2	38,110	38,258	11.4 %	2.0
Preferred equity interests	1,569	1,569	5.3 %	0.3	—	—	—	—
	<u>1,966,641</u>	<u>1,962,303</u>			<u>2,507,072</u>	<u>2,498,692</u>		
Loans and preferred equity held for investment	2,149,018	2,143,938			2,858,423	2,848,956		
Allowance for loan losses	NA	(40,524)			NA	(272,624)		
Loans and preferred equity held for investment, net	<u>\$ 2,149,018</u>	<u>\$ 2,103,414</u>			<u>\$ 2,858,423</u>	<u>\$ 2,576,332</u>		

(1) Calculated based on contractual interest rate.

(2) Includes one corporate term loan secured by the borrower's limited partnership interests in a fund at September 30, 2020 and December 31, 2019.

(3) Represents loans transferred into securitization trusts that are consolidated by the Company.

As of September 30, 2020, the weighted average maturity, including extensions, of loans and preferred equity investments was 3.6 years.

The Company had \$7.6 million and \$9.8 million of interest receivable related to its loans and preferred equity held for investment, net as of September 30, 2020 and December 31, 2019, respectively. This is included in receivables, net on the Company's consolidated balance sheets.

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

	Carrying Value
Balance at January 1, 2020	\$ 2,576,332
Acquisitions/originations/additional funding	121,309
Loan maturities/principal repayments	(373,285)
Transfer to loans held for sale	(154,370)
Discount accretion/premium amortization	6,047
Capitalized interest	(3,856)
Provision for loan losses ⁽¹⁾	(86,329)
Effect of CECL adoption ⁽²⁾	(21,093)
Charge-off	38,659
Balance at September 30, 2020	<u>\$ 2,103,414</u>

(1) Provision for loan losses includes \$5.2 million for a loan that was subsequently transferred to held for sale during the second quarter of 2020 and the net provision recorded upon loan repayment totaling \$1.8 million during the nine months ended September 30, 2020. Additionally, provision for loan losses excludes \$1.0 million determined by the Company's PD/LGD model for unfunded commitments reported on the consolidated statement of operations, with a corresponding offset to other liabilities recorded on the Company's consolidated balance sheets.

(2) Calculated by the Company's PD/LGD model upon CECL adoption on January 1, 2020. See Note 2, "Summary of Significant Accounting Policies" for further details.

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Nonaccrual and Past Due Loans and Preferred Equity

Loans and preferred equity that are 90 days or more past due as to principal or interest, or where reasonable doubt exists as to timely collection, are generally considered nonperforming and placed on nonaccrual status. At September 30, 2020, all loans and preferred equity held for investment remained current on interest payments.

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

Within its Legacy, Non-Strategic Portfolio, the Company previously held other loans secured by regional malls that were sold during the nine months ended September 30, 2020:

- The Company placed one loan secured by a regional mall ("Midwest Regional Mall") on nonaccrual status during 2019 as collectability of the principal was uncertain; as such, interest collected is recognized using the cost recovery method by applying interest collected as a reduction to loan carrying value. The Company recorded \$10.6 million of impairment related to Midwest Regional Mall and transferred the loan to held for sale during 2019. During the three months ended June 30, 2020 the Midwest Regional Mall was sold. The Company received \$8.3 million in gross proceeds and recognized a gain of \$3.7 million.
- During 2018, the Company recorded \$8.8 million of provision for loan losses on one loan secured by a regional mall ("Northeast Regional Mall B") to reflect the estimated fair value of the collateral. During 2019, the Company recognized additional provision for loan losses of \$10.5 million on Northeast Regional Mall B. The additional provisions were based on then-current and prospective leasing activity to reflect the estimated fair value of the collateral. During the three months ended March 31, 2020, the Northeast Regional Mall was sold. The Company received \$9.2 million in gross proceeds and recognized a gain of \$1.8 million.
- Also, during 2019, the Company separately recognized provision for loan losses of \$18.5 million on two loans secured by one regional mall ("West Regional Mall") to reflect the estimated fair value of the collateral. During the three months ended June 30, 2020 the West Regional Mall loan was sold. The Company received \$23.5 million in gross proceeds and recognized a gain of \$6.5 million.
- Furthermore, during 2019, the Company recognized a \$26.7 million provision for loan losses on three loans to two separate borrowers ("South Regional Mall A" and "South Regional Mall B") to reflect the estimated fair value of the collateral. During the three months ended March 31, 2020, the Company accepted a discounted payoff of South Regional Mall A. The Company received \$22.0 million in gross proceeds and recognized a loss of \$1.6 million. Additionally, during the three months ended March 31, 2020, South Regional Mall B was sold. The Company received \$13.5 million in gross proceeds and recognized a gain of \$8.7 million.

Within its Core Portfolio:

- The Company placed one loan secured by a hotel in Bloomington, Minnesota ("Midwest Hospitality") on nonaccrual status due to a borrower default during the fourth quarter of 2019. During the three months ended March 31, 2020 the Company recognized a \$2.3 million provision for loan loss on the Midwest Hospitality loan to reflect the estimated fair value of the collateral, which was based on feedback from the sales process and the estimated value to be recovered from the borrower following a potential sale. The Company had been sweeping cash from the hotel to amortize the unpaid principal balance of the loan. During the three months ended September 30, 2020 the hotel property securing this loan was sold and the Company received \$24.5 million in gross proceeds and concurrently provided a bridge loan in the amount of \$19.5 million to a new borrower, secured by Midwest Hospitality.
- Additionally, the Company had a total \$20.9 million allowance for loan losses recorded as of March 31, 2020, which included an \$8.8 million allowance for loan losses resulting from CECL adoption and an additional \$12.1 million provision for loan losses recognition during the three months ended March 31, 2020, on one loan secured by six

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suburban office buildings (“Northeast Office Portfolio”). During the three months ended September 30, 2020 the Company received gross proceeds of \$80.7 million in a discounted payoff of the Northeast Office Portfolio which was equal to the carrying value of the loan, net of current provision for loan losses. As such, no additional provision for loan losses were required at September 30, 2020.

- Also, during the three months ended June 30, 2020 the Company classified one loan secured by a hospitality asset in San Diego, California (“West Hospitality”) as held for sale and recognized a net loss of \$32.8 million to reflect the expected proceeds to be collected in a sale of the loan. The Company had recorded a \$5.2 million allowance for loan losses as of March 31, 2020, which included a \$2.6 million allowance for loan losses resulting from CECL adoption and an additional \$2.6 million provision for loan losses recognized for West Hospitality during the three months ended March 31, 2020. In connection with transferring the loan to held for sale during the current quarter, the Company reversed out the \$5.2 million from provision for loan losses line item and recorded a \$38.0 million in other loss, net. During the three months ended September 30, 2020 the West Hospitality loan was sold. The Company received \$105.2 million in gross proceeds and will recognize an additional loss of \$1.5 million.
- Furthermore, the Company had a total \$1.6 million allowance for loan losses recorded as of September 30, 2020, which included a \$0.1 million allowance for loan losses resulting from CECL adoption and an additional \$1.5 million provision for loan losses recognition recorded during the first and second quarters of 2020, on one loan secured by the borrowers limited partner interests in a fund (“Corporate Term loan”). Subsequent to September 30, 2020 the Company received gross proceeds of \$12.1 million in a discounted payoff of the Corporate Term loan which was equal to the carrying value of the loan, net of current provision for loan losses. As such, no additional provision for loan losses were required at September 30, 2020.

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

	Current or Less Than 30 Days Past Due	30-59 Days Past Due ⁽¹⁾	60-89 Days Past Due	90 Days or More Past Due ⁽²⁾	Total Loans
September 30, 2020	\$ 2,143,938	\$ —	\$ —	\$ —	\$ 2,143,938
December 31, 2019	2,558,505	32,322	—	258,129	2,848,956

(1) At December 31, 2019, 30-59 days past due includes one loan (Midwest Hospitality) that was placed on nonaccrual status during the fourth quarter of 2019 following a borrower default. During the three months ended September 30, 2020, Midwest Hospitality was repaid in a discounted payoff at which time the Company provided a bridge loan totaling \$19.5 million to a new borrower.

(2) At December 31, 2019, 90 days or more past due loans includes four NY hospitality loans to the same borrower and secured by the same collateral with combined carrying value before allowance for loan losses of \$258.1 million on nonaccrual status. All other loans in this table remain current on interest payments. The Company completed a discounted payoff of the four NY hospitality loans in April 2020.

Impaired Loans - 2019

Loans are identified as impaired when it is no longer probable that interest or principal will be collected according to the contractual terms of the original loan agreement. Impaired loans include predominantly loans under nonaccrual, performing and nonperforming TDRs, as well as loans in maturity default. The following table presents impaired loans at December 31, 2019 (dollars in thousands):

	Gross Carrying Value				Allowance for Loan Losses
	Unpaid Principal Balance ⁽¹⁾	With Allowance for Loan Losses ⁽²⁾	Without Allowance for Loan Losses	Total ⁽²⁾	
December 31, 2019	\$ 408,058	\$ 377,421	\$ 32,322	\$ 409,743	\$ 272,624

(1) Includes four NY hospitality loans to the same borrower and secured by the same collateral with combined unpaid principal balance of \$257.2 million and gross carrying value of \$258.1 million on nonaccrual status. All other loans included in this table remain current on interest payments. The Company completed a discounted payoff of the four NY hospitality loans in April 2020.

(2) Includes unpaid principal balance plus any applicable exit fees less net deferred loan fees.

Upon adoption of ASU 2016-13 the incurred loss model has been replaced with a lifetime current expected credit loss model for the Company’s loans carried at amortized cost, and as such all loans in the Company’s portfolio maintain an allowance for loan losses at September 30, 2020. See Note 2 “Summary of Significant Accounting Policies—Accounting Standards Adopted in 2020—Credit Losses” for further details.

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The average carrying value and interest income recognized on impaired loans for the three and nine months ended September 30, 2019 were as follows (dollars in thousands):

	<u>Three Months Ended September 30,</u> 2019	<u>Nine Months Ended September 30,</u> 2019
Average carrying value before allowance for loan losses	\$ 356,753	\$ 426,195
Interest income	2,737	8,282

Allowance for Loan Losses

As of December 31, 2019, the allowance for loan losses was \$272.6 million related to \$409.7 million in carrying value of loans.

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

	<u>Nine Months Ended September 30,</u>	
	2020	2019
Allowance for loan losses at beginning of period	\$ 272,624	\$ 109,328
Effect of CECL adoption ⁽¹⁾	21,093	—
Provision for loan losses ⁽²⁾	86,329	220,572
Charge-off	(38,659)	(46,692)
Transfer to loans held for sale	(300,863)	—
Allowance for loan losses at end of period ⁽³⁾	<u>\$ 40,524</u>	<u>\$ 283,208</u>

(1) Calculated by the Company's PD/LGD model upon CECL adoption on January 1, 2020. See Note 2, "Summary of Significant Accounting Policies" for further details.

(2) Provision for loan losses includes \$5.2 million for a loan that was subsequently transferred to held for sale during the second quarter of 2020 and net provision recorded upon loan repayment totaling \$1.8 million during the nine months ended September 30, 2020. Additionally, provision for loan losses excludes \$1.0 million determined by the Company's PD/LGD model for unfunded commitments reported on the consolidated statement of operations, with a corresponding offset to other liabilities recorded on the Company's consolidated balance sheets.

(3) At September 30, 2020, includes \$38.9 million related to the Company's PD/LGD model and \$1.6 million related to the corporate term loan, which was evaluated individually. See further discussion in "Nonaccrual and Past Due Loans and Preferred Equity."

Loans and Preferred Equity Held for Sale

The following table summarizes the Company's assets held for sale related to loans and preferred equity (dollars in thousands):

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Assets		
Loans and preferred equity held for investment, net	\$ —	\$ 5,016
Total assets held for sale	<u>\$ —</u>	<u>\$ 5,016</u>

At September 30, 2020, the Company did not classify any of its loans as held for sale. There were no assets held for sale that constituted discontinued operations as of September 30, 2020 and December 31, 2019.

Credit Quality Monitoring

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

As of September 30, 2020, there were no loans and preferred equity investments past due and all loans were performing in accordance with the contractual terms of their governing documents and were categorized as performing loans. There were five loans held for investment with contractual payments past due as of December 31, 2019. For the nine months ended September 30, 2020, no debt investment contributed more than 10.0% of interest income.

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

	2020	2019	2018	2017	2016	Prior	Total
Senior loans							
Risk Rankings:							
3	\$ 19,500	\$ 371,654	\$ 279,223	\$ 33,660	\$ —	\$ —	\$ 704,037
4	—	835,205	403,194	—	—	—	1,238,399
Total Senior loans	<u>19,500</u>	<u>1,206,859</u>	<u>682,417</u>	<u>33,660</u>	<u>—</u>	<u>—</u>	<u>1,942,436</u>
Mezzanine loans							
Risk Rankings:							
4	—	95,848	55,484	12,120	—	4,524	167,976
Total Mezzanine loans	<u>—</u>	<u>95,848</u>	<u>55,484</u>	<u>12,120</u>	<u>—</u>	<u>4,524</u>	<u>167,976</u>
Preferred equity interests and other							
Risk Rankings:							
4	1,569	—	18,350	—	—	—	19,919
5	—	13,607	—	—	—	—	13,607
Total Preferred equity interests and other	<u>1,569</u>	<u>13,607</u>	<u>18,350</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>33,526</u>
Total Loans and preferred equity held for investment	<u>\$ 21,069</u>	<u>\$ 1,316,314</u>	<u>\$ 756,251</u>	<u>\$ 45,780</u>	<u>\$ —</u>	<u>\$ 4,524</u>	<u>\$ 2,143,938</u>

The Company considers several risk factors when assigning risk ratings each quarter. Beginning with the quarter ended March 31, 2020, average risk ranking was impacted by the current and potential future effects of the COVID-19 pandemic, resulting in a number of assets moving from average risk (3) to high risk (4).

For the three months ended September 30, 2020, the Company believes the extended impact of the COVID-19 pandemic remains uncertain, and therefore continues to represent a significant risk to our portfolio. As such, the current period average rating is 3.7, which is consistent with the first half of 2020.

Lending Commitments

The Company has lending commitments to borrowers pursuant to certain loan agreements in which the borrower may submit a request for funding contingent on achieving certain criteria, which must be approved by the Company as lender, such as leasing, performance of capital expenditures and construction in progress with an approved budget. At September 30, 2020, assuming the terms to qualify for future fundings, if any, had been met, total gross unfunded lending commitments were \$173.2 million. Refer to Note 16, "Commitments and Contingencies" for further details. At September 30, 2020, the Company recorded a \$1.2 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.

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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):

	September 30, 2020	December 31, 2019
Equity method investments	\$ 417,464	\$ 585,022
Investments under fair value option	7,093	10,283
Investments in Unconsolidated Ventures	\$ 424,557	\$ 595,305

Equity Method Investments

Investment Ventures

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

The assets of the equity method investment entities may only be used to settle the liabilities of these entities and there is no recourse to the general credit of the Company nor the other investors for the obligations of these investment entities. Neither the Company nor the other investors are required to provide financial or other support in excess of their capital commitments. The Company's exposure to the investment entities is limited to its equity method investment balance as of September 30, 2020 and December 31, 2019, respectively.

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

Investments	Description	Carrying Value	
		September 30, 2020	December 31, 2019
ADC investments ⁽¹⁾⁽²⁾⁽³⁾	Interests in three acquisition, development and construction loans in which the Company participates in residual profits from the projects, and the risk and rewards of the arrangements are more similar to those associated with investments in joint ventures	\$ 57,452	\$ 59,576
Other investment ventures ⁽¹⁾⁽⁴⁾	Interests in eight investments, each with less than \$189.7 million carrying value at September 30, 2020	360,012	525,446

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

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

(3) Includes two investments with a carrying value of \$57.4 million that were contributed to a preferred financing arrangement. See Note 13, "Noncontrolling Interests," for further information.

(4) Includes five investments with a carrying value of \$245.9 million that were contributed to a preferred financing arrangement. See Note 13, "Noncontrolling Interests," for further information.

Impairment

Within the Company's Legacy, Non-Strategic Portfolio:

- During 2019, the Company recognized its proportionate share of impairment loss totaling \$14.7 million on one senior loan secured by a regional mall ("Southeast Regional Mall"). Southeast Regional Mall was sold during the three months ended March 31, 2020 and the Company received \$13.4 million in gross sales proceeds and recognized a gain of \$1.6 million.

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- Also during 2019, the Company recorded its proportionate share of impairment loss totaling \$16.1 million on two loans and an equity partnership interest secured by residential development projects as a result of revised property sales expectations.

Within the Company's Core Portfolio:

During 2019 the Company recorded a \$17.6 million impairment loss related to an equity participation interest in a joint venture to reflect the estimated fair value of the collateral. During the three months ended June 30, 2020 the Company sold the related preferred equity investment at par and included one-third of the Company's equity participation in the sale and recognized a loss of \$10.1 million.

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

Fair Value Measurement

At January 1, 2020, for loans and preferred equity investments included in the Company's equity method investments, the fair value option was elected. Under the fair value option, loans and preferred equity investments are measured each reporting period based on their exit values in an orderly transaction. Fair value adjustments recorded on each of these investments is included in equity in earnings of unconsolidated ventures on the Company's consolidated statements of operations.

Within the Company's Core Portfolio:

- The Company's mezzanine loan and preferred equity investment in a development project in Los Angeles County, which includes a hospitality and retail renovation and a new condominium tower construction (the "Mixed-use Project"), was converted into a mezzanine participation during the three months ended September 30, 2020. The Company's investment was made through a joint venture with affiliates of our Manager (the "Colony Mezzanine Lender") in the form of a \$574.0 million commitment to the Mixed-use Project, of which the Company's proportionate share of the commitment is \$189.0 million. The Mixed-use Project's total interest income recorded for the nine months ended September 30, 2020 and September 30, 2019 was \$13.8 million and \$31.1 million, respectively. The Company recognized its proportionate share of interest income for the nine months ended September 30, 2020 and September 30, 2019 of \$2.4 million and \$11.5 million, respectively. In connection with the refinancing, the Colony Mezzanine Lender is no longer subject to future funding requirements.

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, the Company and its affiliates made two protective advances to the senior mortgage lender totaling \$67.7 million, of which the Company's proportionate share was \$28.5 million. During the three months ended June 30, 2020, the Company placed the mezzanine loan and preferred equity investment on nonaccrual status.

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

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

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For the three months ended September 30, 2020, the Company continues to maintain the nonaccrual status and there was no change to the Company's fair value loss adjustment on its proportionate share of the Colony Mezzanine Lender's B-participation investment.

- Also, during the three months ended June 30, 2020, the Company recognized its proportionate share of fair value losses totaling \$7.0 million on one mezzanine loan secured by a mixed-use development project ("West Mixed-use"). West Mixed-use's decrease in fair value is a result of revised sale expectations. The Company previously placed West Mixed-use on nonaccrual status in January 2020.
- Additionally, the Company holds a \$189.6 million co-lender interest (61%) in a senior mortgage loan in the amount of \$310.9 million. The senior mortgage loan is also held by private investment vehicles managed by Colony Capital. The senior mortgage is Euro-denominated and is for a fully entitled land acquisition for a mixed-use development project in Dublin, Ireland. Project delays, permitting processes and uncertain market conditions as a result of COVID-19 (including adverse impacts on demand for office and residential space), may have a negative impact on the senior lender's investment interest and may result in a future valuation impairment or investment loss. Given the delays and potential negative impact of COVID-19 on market conditions the loan was placed on nonaccrual status for the quarter ended September 30, 2020. The loan's initial maturity date is December 31, 2020, and the borrower is unlikely to meet the conditions required for an automatic extension. The Company is working with the borrower and evaluating options.

Investments under Fair Value Option

Private Funds

The Company elected to account for its limited partnership interests, which range from 0.1% to 16.1%, in PE Investments under the fair value option. The Company records equity in earnings for these investments based on a change in fair value of its share of projected future cash flows.

During the nine months ended September 30, 2020, the Company received the final \$1.8 million in proceeds related to the sale of its PE Investments.

Investments in Unconsolidated Ventures Held for Sale

During the nine months ended September 30, 2020, the Company classified one investment in an unconsolidated venture in its Legacy, Non-Strategic Portfolio with a carrying value of \$11.0 million as held for sale.

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 September 30, 2020 and December 31, 2019 (dollars in thousands):

<u>As of Date:</u>	<u>Count</u>	<u>Principal Amount⁽¹⁾</u>	<u>Total Discount</u>	<u>Amortized Cost</u>	<u>Cumulative Unrealized on Investments</u>		<u>Fair Value</u>	<u>Weighted Average</u>	
					<u>Gain</u>	<u>(Loss)</u>		<u>Coupon⁽²⁾</u>	<u>Unleveraged Current Yield⁽³⁾</u>
September 30, 2020	11	\$ 67,334	\$ (35,375)	\$ 31,959	\$ 4,291	\$ —	\$ 36,250	3.47 %	— %
December 31, 2019	43	292,284	(55,981)	236,303	17,084	(563)	252,824	3.19 %	7.12 %

(1) CRE securities serve as collateral for financing transactions including carrying value of \$18.4 million as of September 30, 2020 for the CMBS Credit Facilities (refer to Note 9, "Debt," for further detail). The remainder is unleveraged.

(2) All CMBS are fixed rate.

(3) The Company placed all of its CRE securities on cost recovery status as of April 1, 2020.

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During the three months ended September 30, 2020, the Company sold five CRE securities for a total gross sales price of \$28.8 million and recognized a gain of \$5.2 million. The gain is recorded in other gain (loss), net on the Company's consolidated statements of operations. During the nine months ended September 30, 2020, the Company sold 32 CRE securities for a total gross sales price of \$118.5 million and recognized a net loss of \$51.8 million. The loss is recorded in other gain (loss), net on the Company's consolidated statements of operations. In connection with these sales, the Company repaid \$79.2 million of debt on its CMBS Credit Facility. See Note 19, "Subsequent Events," for additional details regarding CRE securities sales.

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. Although the market at September 30, 2020 experienced a slight rebound in some securities from the marks taken at June 30, 2020, the Company believes bond prices will remain volatile over the next six to twelve months reflecting changes in the macro environment as well as individual credit events within individual bonds. While the Company will evaluate selling its investment grade and non-investment grade rated CRE securities over the next twelve months, it is more likely than not that the Company will sell before recovery. This impairment loss was a result of writing down the Company's amortized cost basis to equal fair value. The loss is recorded in other gain (loss), net on the Company's consolidated statements of operations. Additionally, the Company has placed its investment grade and non-investment grade rated CRE securities on cost recovery and as a result, has ceased accretion of any discounts to expected maturity and applied any cash interest received against the CRE securities' carrying value. This decision was made given the inability to project future cash flows from the Company's CRE securities. To the extent that the carrying value of any CRE security is reduced to zero, any cash subsequently received would be recorded as interest income.

The Company recorded an unrealized gain in OCI of \$4.3 million and an unrealized loss of \$12.2 million for the three and nine months ended September 30, 2020 and an unrealized gain in OCI of \$5.1 million and \$22.7 million for the three and nine months ended September 30, 2019. For securities in which the fair value dropped below the amortized cost basis during the three and nine months ended September 30, 2020, the Company wrote down through earnings the amortized cost basis of the securities to fair value as of September 30, 2020, realizing a loss for the three and nine months ended September 30, 2020 of \$3.4 million and \$32.6 million, respectively. As of September 30, 2020, the Company did not hold any securities in an unrealized loss position.

As of September 30, 2020, the weighted average contractual maturity of CRE securities was 28.6 years with an expected maturity of 5.5 years.

The Company had \$0.7 million of interest receivable related to its real estate securities, available for sale as of December 31, 2019. This is included in receivables, net on the Company's consolidated balance sheets.

Investments in Investing VIEs

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

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

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

As of September 30, 2020, the mortgage loans and the related mortgage obligations held in the securitization trusts had an unpaid principal balance of \$1.8 billion and \$1.6 billion, respectively. As of December 31, 2019, the mortgage loans and the related mortgage obligations held in the securitization trusts had an unpaid principal balance of \$1.8 billion and \$1.6 billion, respectively. As of September 30, 2020, across the two consolidated securitization trusts, the underlying collateral consisted of 115 underlying commercial mortgage loans, with a weighted average coupon of 4.5% and a weighted average loan to value ratio of 56.8%.

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The following table presents the assets and liabilities recorded on the consolidated balance sheets attributable to the securitization trust as of September 30, 2020 and December 31, 2019 (dollars in thousands):

	September 30, 2020	December 31, 2019
Assets		
Mortgage loans held in a securitization trust, at fair value	\$ 1,839,390	\$ 1,872,970
Receivables, net	7,272	7,020
Total assets	<u>\$ 1,846,662</u>	<u>\$ 1,879,990</u>
Liabilities		
Mortgage obligations issued by a securitization trust, at fair value	\$ 1,770,924	\$ 1,762,914
Accrued and other liabilities	6,307	6,267
Total liabilities	<u>\$ 1,777,231</u>	<u>\$ 1,769,181</u>

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 \$68.5 million and \$110.1 million as of September 30, 2020 and December 31, 2019, respectively, and approximates the fair value of the Company's retained investments in the subordinate tranches of the securitization trusts, which are eliminated in consolidation. Refer to Note 14, "Fair Value" for a description of the valuation techniques used to measure fair value of assets and liabilities of the Investing VIEs.

The below table presents net income attributable to the Company's common stockholders for the nine months ended September 30, 2020 and 2019 generated from the Company's investments in the subordinate tranches of the securitization trusts (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Statement of Operations				
Interest expense	\$ (75)	\$ (220)	\$ (420)	\$ (761)
Interest income on mortgage loans held in securitization trusts	20,462	22,586	61,556	99,718
Interest expense on mortgage obligations issued by securitization trusts	(18,204)	(20,299)	(54,627)	(91,690)
Net interest income	2,183	2,067	6,509	7,267
Administrative expense	(274)	(225)	(969)	(915)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	(13,162)	(1,976)	(41,589)	4,602
Realized gain on mortgage loans and obligations held in securitization trusts, net	—	2,724	—	2,772
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	<u>\$ (11,253)</u>	<u>\$ 2,590</u>	<u>\$ (36,049)</u>	<u>\$ 13,726</u>

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

The following table presents the Company's net lease portfolio, net, as of September 30, 2020, and December 31, 2019 (dollars in thousands):

	September 30, 2020	December 31, 2019
Land and improvements	\$ 181,409	\$ 209,693
Buildings, building leaseholds, and improvements	762,433	899,889
Tenant improvements	20,491	25,077
Construction-in-progress	3,144	415
Subtotal	<u>\$ 967,477</u>	<u>\$ 1,135,074</u>
Less: Accumulated depreciation	(74,055)	(63,995)
Less: Impairment ⁽¹⁾	—	(23,911)
Net lease portfolio, net	<u>\$ 893,422</u>	<u>\$ 1,047,168</u>

(1) See Note 14, "Fair Value," for discussion of impairment of real estate.

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The following table presents the Company's portfolio of real estate included in its Legacy, Non-Strategic Portfolio, including foreclosed properties, as of September 30, 2020 and December 31, 2019 (dollars in thousands):

	September 30, 2020	December 31, 2019
Land and improvements	\$ 59,523	\$ 91,997
Buildings, building leaseholds, and improvements	341,197	536,046
Tenant improvements	25,128	38,230
Furniture, fixtures and equipment	3,791	3,183
Construction-in-progress	1,806	6,325
Subtotal	\$ 431,445	\$ 675,781
Less: Accumulated depreciation	(35,677)	(46,079)
Less: Impairment ⁽¹⁾	(155,872)	(192,074)
Other portfolio, net	\$ 239,896	\$ 437,628

(1) See Note 14, "Fair Value," for discussion of impairment of real estate.

For the nine months ended September 30, 2020, the Company had no single property with rental and other income equal to or greater than 10.0% of total revenue.

At September 30, 2020 and December 31, 2019, the Company held foreclosed properties which are included in real estate, net with a carrying value of \$25.6 million and \$50.7 million, respectively. At September 30, 2020 and December 31, 2019, the Company held foreclosed properties in assets held for sale of \$42.4 million and \$57.9 million, respectively.

Depreciation Expense

Depreciation expense on real estate was \$10.6 million and \$18.1 million for the three months ended September 30, 2020 and September 30, 2019, respectively. Depreciation expense on real estate was \$32.0 million and \$58.7 million for the nine months ended September 30, 2020 and 2019, respectively.

Property Operating Income

For the nine months ended September 30, 2020 and 2019, the components of property operating income were as follows (dollars in thousands):

	Three Months Ended September 30, 2020		Nine Months Ended September 30,	
	2020	2019	2020	2019
Lease revenues ⁽¹⁾				
Minimum lease revenue	\$ 35,529	\$ 45,555	\$ 114,691	\$ 135,198
Variable lease revenue	5,390	6,304	18,080	18,478
	\$ 40,919	\$ 51,859	\$ 132,771	\$ 153,676
Hotel operating income	910	10,802	4,728	35,324
	\$ 41,829	\$ 62,661	\$ 137,499	\$ 189,000

(1) Excludes net amortization expense related to above and below-market leases of \$0.2 million and income of \$0.4 million for the three and nine months ended September 30, 2020, respectively.

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Minimum Future Rents

Minimum rental amounts due under leases are generally either subject to scheduled fixed increases or adjustments. The following table presents approximate future minimum rental income under noncancellable operating leases, excluding variable lease revenue of tenant reimbursements, to be received over the next five years and thereafter as of September 30, 2020 (dollars in thousands):

Remainder of 2020	\$	25,288
2021		98,543
2022		92,488
2023		78,687
2024		69,665
2025 and thereafter		467,422
Total ⁽¹⁾	\$	832,093

(1) Excludes minimum future rents for real estate that is classified as held for sale totaling \$40.4 million through 2050.

The following table presents approximate future minimum rental income under noncancellable operating leases to be received over the next five years and thereafter as of December 31, 2019 (dollars in thousands):

2020	\$	120,967
2021		113,170
2022		102,314
2023		85,367
2024		71,714
2025 and thereafter		448,812
Total	\$	942,344

The rental properties owned at September 30, 2020 are leased under noncancellable operating leases with current expirations ranging from 2020 to 2038, with certain tenant renewal rights. For certain properties, the tenants pay the Company, in addition to the contractual base rent, their pro rata share of real estate taxes and operating expenses. Certain lease agreements provide for periodic rental increases and others provide for increases based on the consumer price index.

Lease Concessions Related to COVID-19

As a result of the COVID-19 crisis, some tenants sought more flexible payment terms and the Company is currently engaged with affected tenants on a case-by-case basis to evaluate and respond to the current environment. For lease concessions resulting directly from the impact of COVID-19 that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee, for example, where total payments required by the modified contract will be substantially the same as or less than the original contract, the Company made a policy election to account for the concessions as though the enforceable rights and obligations for those concessions existed in the lease contracts, under a relief provided by the FASB. Under the relief, the concessions will not be treated as lease modifications that are accounted for over the remaining term of the respective leases, as the Company believes this would not accurately reflect the temporary economic effect of the concessions. Instead, (i) rent deferrals that meet the criteria will be treated as if no changes were made to the lease contract, with continued recognition of lease income and receivable 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 nine months ended September 30, 2020 was \$0.8 million and \$2.4 million, respectively. Ground rent expense for the three and nine months ended September 30, 2019 was \$0.8 million and \$2.3 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 September 30, 2020.

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Real Estate Asset Acquisitions

The following table summarizes the Company's real estate asset acquisitions for the year ended December 31, 2019 (dollars in thousands):

Acquisition Date	Property Type and Location	Number of Buildings	Purchase Price ⁽¹⁾	Purchase Price Allocation					
				Land and Improvements ⁽²⁾	Building and Improvements ⁽²⁾	Furniture, Fixtures and Equipment	Lease Intangible Assets ⁽²⁾	Other Assets	Other Liabilities
Year Ended December 31, 2019									
June	Retail - Massachusetts ⁽³⁾	3	\$ 21,919	\$ 9,294	\$ 6,598	\$ —	\$ 5,256	\$ 1,538	\$ (767)
January	Various - in U.S. ⁽³⁾	28	105,437	38,145	66,413	—	879	3,223	(3,223)
			<u>\$ 127,356</u>	<u>\$ 47,439</u>	<u>\$ 73,011</u>	<u>\$ —</u>	<u>\$ 6,135</u>	<u>\$ 4,761</u>	<u>\$ (3,990)</u>

- (1) Dollar amounts of purchase price and allocation to assets acquired and liabilities assumed are translated using foreign exchange rate as of the respective dates of acquisitions, where applicable.
- (2) Useful life of real estate acquired is 4 to 33 years for buildings, 1 to 20 years for site improvements, 1 to 27 years for tenant improvements, 5 to 7 years for furniture, fixtures and equipment, and 1 to 27 years for lease intangibles.
- (3) Represents assets acquired by the Company through foreclosure.

The Company did not have any real estate acquisitions in 2020.

Real Estate Held for Sale

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

	September 30, 2020	December 31, 2019
Assets		
Real estate, net	\$ 182,356	\$ 178,564
Deferred leasing costs and intangible assets, net	10,109	5,890
Total assets held for sale	<u>\$ 192,465</u>	<u>\$ 184,454</u>
Liabilities		
Intangible liabilities, net	\$ 10,787	\$ 294
Total liabilities related to assets held for sale	<u>\$ 10,787</u>	<u>\$ 294</u>

During the three months ended September 30, 2020, the Company classified several properties in its Net Leased Real Estate and Legacy, Non-Strategic Portfolio as held for sale.

There were no assets held for sale that constituted discontinued operations as of September 30, 2020 and December 31, 2019.

Real Estate Sales

During the nine months ended September 30, 2020, the Company completed the sale of eleven properties. Sales included five offices, one hotel, two multifamily, one retail and one manufactured housing property included in the Company's Legacy, Non-Strategic Portfolio for a total gross sales price of \$185.7 million and a total loss on sale of \$2.1 million. In addition, there was one sale of an industrial property in the Company's Core Portfolio for a total gross sales price of \$131.4 million and a total gain on sale of \$9.0 million.

The real estate sold during the nine months ended September 30, 2020 did not constitute discontinued operations.

Refer to Note 19, "Subsequent Events" for further detail on additional real estate sales.

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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 September 30, 2020 and December 31, 2019 are as follows (dollars in thousands):

	September 30, 2020		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Deferred Leasing Costs and Intangible Assets			
In-place lease values	\$ 94,440	\$ (35,816)	\$ 58,624
Deferred leasing costs	37,642	(15,035)	22,607
Above-market lease values	11,733	(7,083)	4,650
	<u>\$ 143,815</u>	<u>\$ (57,934)</u>	<u>\$ 85,881</u>
Intangible Liabilities			
Below-market lease values	<u>\$ 17,591</u>	<u>\$ (9,148)</u>	<u>\$ 8,443</u>
	December 31, 2019		
	Carrying Amount	Accumulated Amortization	Net Carrying Amount
Deferred Leasing Costs and Intangible Assets			
In-place lease values	\$ 115,139	\$ (39,093)	\$ 76,046
Deferred leasing costs	42,345	(13,637)	28,708
Above-market lease values	14,318	(6,310)	8,008
	<u>\$ 171,802</u>	<u>\$ (59,040)</u>	<u>\$ 112,762</u>
Intangible Liabilities			
Below-market lease values	<u>\$ 32,652</u>	<u>\$ (10,503)</u>	<u>\$ 22,149</u>

The following table summarizes the amortization of deferred leasing costs, intangible assets and intangible liabilities for the three and nine months ended September 30, 2020 and 2019 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Above-market lease values	\$ (451)	\$ (1,300)	\$ (1,944)	\$ (3,189)
Below-market lease values	294	2,130	2,353	5,612
Net increase (decrease) to property operating income	<u>\$ (157)</u>	<u>\$ 830</u>	<u>\$ 409</u>	<u>\$ 2,423</u>
In-place lease values	\$ 2,588	\$ 5,468	\$ 9,685	\$ 16,922
Deferred leasing costs	1,428	2,281	4,669	6,828
Other intangibles	118	120	381	359
Amortization expense	<u>\$ 4,134</u>	<u>\$ 7,869</u>	<u>\$ 14,735</u>	<u>\$ 24,109</u>

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The following table presents the amortization of deferred leasing costs, intangible assets and intangible liabilities, excluding those related to assets and liabilities held for sale, for each of the next five years and thereafter as of September 30, 2020 (dollars in thousands):

	Remainder of 2020	2021	2022	2023	2024	2025 and thereafter	Total
Above-market lease values	\$ 437	\$ 1,533	\$ 1,248	\$ 640	\$ 471	\$ 321	\$ 4,650
Below-market lease values	(432)	(1,599)	(1,531)	(1,415)	(1,382)	(2,084)	(8,443)
Net increase (decrease) to property operating income	<u>\$ 5</u>	<u>\$ (66)</u>	<u>\$ (283)</u>	<u>\$ (775)</u>	<u>\$ (911)</u>	<u>\$ (1,763)</u>	<u>\$ (3,793)</u>
In-place lease values	\$ 2,025	\$ 8,374	\$ 7,321	\$ 5,762	\$ 4,933	\$ 30,209	\$ 58,624
Deferred leasing costs	1,272	4,619	3,846	2,963	2,345	7,562	22,607
Amortization expense	<u>\$ 3,297</u>	<u>\$ 12,993</u>	<u>\$ 11,167</u>	<u>\$ 8,725</u>	<u>\$ 7,278</u>	<u>\$ 37,771</u>	<u>\$ 81,231</u>

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

The following table presents a summary of restricted cash as of September 30, 2020 and December 31, 2019 (dollars in thousands):

	September 30, 2020	December 31, 2019
Restricted cash:		
Borrower escrow deposits	\$ 37,642	\$ 74,496
Real estate escrow reserves	18,469	18,020
Working capital and other reserves	6,850	4,198
Capital expenditure reserves	6,653	8,882
Margin pledged as collateral	2,633	19,536
Tenant lockboxes	812	933
Total	<u>\$ 73,059</u>	<u>\$ 126,065</u>

The following table presents a summary of other assets as of September 30, 2020 and December 31, 2019 (dollars in thousands):

	September 30, 2020	December 31, 2019
Other assets:		
Prepaid taxes, tax receivable and deferred tax assets	\$ 27,995	\$ 21,989
Right-of-use lease asset	23,228	25,480
Deferred financing costs, net - credit facilities	7,833	8,382
Prepaid expenses	7,139	5,311
Derivative asset	1,981	4,122
Investment deposits and pending deal costs	781	20,779
Other assets	701	1,644
Total	<u>\$ 69,658</u>	<u>\$ 87,707</u>

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The following table presents a summary of accrued and other liabilities as of September 30, 2020 and December 31, 2019 (dollars in thousands):

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Accrued and other liabilities:		
Current and deferred tax liability	\$ 29,240	\$ 31,510
Accounts payable, accrued expenses and other liabilities	25,781	28,278
Operating lease liability	23,318	25,495
Interest payable	15,938	16,259
Prepaid rent and unearned revenue	14,382	16,744
Tenant security deposits	1,627	3,005
Unfunded CECL loan allowance	1,202	—
Derivative liability	37	19,133
Total	<u>\$ 111,525</u>	<u>\$ 140,424</u>

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9. Debt

The following table presents debt as of September 30, 2020 and December 31, 2019 (dollars in thousands):

	Capacity (\$)	Recourse vs. Non-Recourse ⁽¹⁾	Final Maturity	Contractual Interest Rate	September 30, 2020		December 31, 2019	
					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	\$ 834,621	\$ 840,423	\$ 833,153
Subtotal securitization bonds payable, net					840,423	834,621	840,423	833,153
Mortgage and other notes payable, net								
Net lease 6 ⁽⁴⁾		Non-recourse	Oct-27	4.45%	23,780	23,780	24,117	24,117
Net lease 5 ⁽⁵⁾		Non-recourse	Nov-26	4.45%	3,373	3,290	3,422	3,329
Net lease 4 ⁽⁵⁾		Non-recourse	Nov-26	4.45%	7,272	7,094	7,384	7,184
Net lease 3 ⁽⁵⁾		Non-recourse	Jun-21	4.00%	12,308	12,268	12,450	12,368
Net lease 6 ⁽⁵⁾		Non-recourse	Jul-23	LIBOR + 2.15%	1,439	1,405	1,658	1,615
Net lease 5 ⁽⁴⁾		Non-recourse	Aug-26	4.08%	31,439	31,189	31,821	31,539
Net lease 1 ⁽⁵⁾⁽⁶⁾		Non-recourse	Nov-26	4.45%	18,315	17,866	18,579	18,076
Net lease 1 ⁽⁷⁾		Non-recourse	Mar-28	4.38%	12,077	11,639	12,221	11,758
Net lease 4 ⁽⁴⁾⁽⁸⁾		Non-recourse	Apr-21	LIBOR + 2.50%	—	—	74,916	74,845
Net lease 1 ⁽⁴⁾		Non-recourse	Jul-25	4.31%	250,000	247,270	250,000	246,961
Net lease 2 ⁽⁴⁾⁽⁹⁾		Non-recourse	Jun-25	3.91%	170,112	172,524	181,952	184,532
Net lease 3 ⁽⁴⁾		Non-recourse	Sep-33	4.77%	200,000	198,583	200,000	198,521
Other real estate 4 ⁽⁵⁾		Non-recourse	Dec-23	4.84%	42,383	42,853	42,925	43,407
Other real estate 2 ⁽⁵⁾⁽¹⁰⁾		Non-recourse	Dec-23	4.94%	—	—	42,443	42,851
Other real estate 8 ⁽⁵⁾		Non-recourse	Jun-30	3.53%	22,880	22,648	15,819	16,324
Other real estate 10 ⁽⁵⁾⁽¹¹⁾		Non-recourse	Jun-30	3.53%	12,480	12,306	11,744	11,939
Other real estate 9 ⁽⁵⁾		Non-recourse	Nov-26	3.98%	23,543	22,791	23,885	23,133
Other real estate 1 ⁽⁵⁾		Non-recourse	Oct-24	4.47%	107,317	107,915	108,719	109,475
Other real estate 3 ⁽⁵⁾		Non-recourse	Jan-25	4.30%	74,134	73,548	75,256	74,554
Other real estate 5 ⁽⁵⁾⁽¹⁰⁾		Non-recourse	Apr-23	LIBOR + 4.00%	—	—	33,498	32,801
Other real estate 6 ⁽⁵⁾⁽¹²⁾		Non-recourse	Apr-24	LIBOR + 2.95%	22,788	22,282	21,500	20,825
Loan 9 ⁽¹³⁾		Non-recourse	Jun-24	LIBOR + 3.00%	71,748	71,748	65,958	65,958
Subtotal mortgage and other notes payable, net					1,107,388	1,102,999	1,260,267	1,256,112
Bank credit facility								
Bank credit facility	\$ 450,000	Recourse	Feb-23 ⁽¹⁴⁾	LIBOR + 2.25%	—	—	113,500	113,500
Subtotal bank credit facility					—	—	113,500	113,500
Master repurchase facilities								
Bank 1 facility 3	\$ 400,000	Limited Recourse ⁽¹⁵⁾	Apr-23 ⁽¹⁶⁾	LIBOR + 1.91% ⁽¹⁷⁾	103,622	103,622	106,309	106,309
Bank 2 facility 3 ⁽¹⁸⁾	200,000	Limited Recourse ⁽¹⁵⁾	Oct-22	LIBOR + 2.50% ⁽¹⁷⁾	21,353	21,353	22,750	22,750
Bank 3 facility 3	600,000	Limited Recourse ⁽¹⁵⁾	Apr-22	LIBOR + 2.14% ⁽¹⁷⁾	202,952	202,952	265,633	265,633
Bank 7 facility 1	500,000	Limited Recourse ⁽¹⁵⁾	Apr-22 ⁽¹⁹⁾	LIBOR + 2.01% ⁽¹⁷⁾	124,704	124,704	221,421	221,421
Bank 8 facility 1	250,000	Limited Recourse ⁽¹⁵⁾	Jun-21 ⁽²⁰⁾	LIBOR + 1.98% ⁽¹⁷⁾	130,769	130,769	164,098	164,098
Bank 9 facility 1	300,000	⁽²¹⁾	Nov-23 ⁽²²⁾	⁽²³⁾ ⁽¹⁷⁾	—	—	—	—
Subtotal master repurchase facilities	\$ 2,250,000				583,400	583,400	780,211	780,211

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	Capacity (\$)	Recourse vs. Non-Recourse ⁽¹⁾	Final Maturity	Contractual Interest Rate	September 30, 2020		December 31, 2019		
					Principal Amount ⁽²⁾	Carrying Value ⁽²⁾	Principal Amount ⁽²⁾	Carrying Value ⁽²⁾	
CMBS credit facilities									
Bank 1 facility 1		Recourse	(24)	NA	(25)	—	—	20,375	20,375
Bank 1 facility 2		Recourse	(24)	NA	(25)	—	—	18,834	18,834
Bank 3 facility		Recourse	(24)	NA	(25)	—	—	—	—
Bank 4 facility		Recourse	(24)	NA	(25)	—	—	—	—
Bank 5 facility 1		Recourse	(24)	NA	(25)	—	—	—	—
Bank 5 facility 2		Recourse	(24)	NA	(25)	—	—	—	—
Bank 6 facility 1		Recourse	(24)	4.25%		13,165	13,165	83,584	83,584
Bank 6 facility 2		Recourse	(24)	4.25%		12,067	12,067	82,729	82,729
Subtotal CMBS credit facilities						<u>25,232</u>	<u>25,232</u>	<u>205,522</u>	<u>205,522</u>
Subtotal credit facilities						<u>608,632</u>	<u>608,632</u>	<u>1,099,233</u>	<u>1,099,233</u>
Total						<u>\$ 2,556,443</u>	<u>\$ 2,546,252</u>	<u>\$ 3,199,923</u>	<u>\$ 3,188,498</u>

- (1) Subject to customary non-recourse carveouts.
- (2) Difference between principal amount and carrying value of securitization bonds payable, net and mortgage and other notes payable, net is attributable to deferred financing costs, net and premium/discount on mortgage notes payable.
- (3) The Company, through indirect Cayman subsidiaries, securitized commercial mortgage loans originated by the Company. Senior notes issued by the securitization trusts were generally sold to third parties and subordinated notes retained by the Company. These securitizations are accounted for as secured financing with the underlying mortgage loans pledged as collateral. Principal payments from underlying collateral loans must be applied to repay the notes until fully paid off, irrespective of the contractual maturities on the notes. Underlying collateral loans have initial terms of two to three years.
- (4) Represents a mortgage note collateralized by an investment in the Company's Core Portfolio.
- (5) Represents a mortgage note collateralized by an investment in the Company's Legacy, Non-Strategic Portfolio.
- (6) Payment terms are periodic payment of principal and interest for debt on two properties and periodic payment of interest only with principal at maturity (except for principal repayments to release collateral properties disposed) for debt on one property.
- (7) Represents a mortgage note collateralized by three properties in the Company's Legacy, Non-Strategic Portfolio.
- (8) Represents a mortgage note that was repaid during the third quarter of 2020 in connection with the sale of the collateralized property.
- (9) As of September 30, 2020, the outstanding principal of the mortgage payable was NOK 1.6 billion, which translated to \$170.1 million.
- (10) Represents a mortgage note that was repaid during the first quarter of 2020 in connection with the sale of the collateralized properties.
- (11) Represents two separate senior mortgage notes with a weighted average maturity of December 2020 and weighted average interest rate of 3.53%.
- (12) The current maturity of the mortgage payable is April 2022, with two one-year extensions available at the Company's option, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
- (13) The current maturity of the note payable is June 2021, with three one-year extensions available at the Company's option, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents. The loan is included in the Company's Core Portfolio.
- (14) The ability to borrow additional amounts terminates on February 1, 2022 at which time the Company may, at its election, extend the termination date for two additional six-month terms.
- (15) Recourse solely with respect to 25.0% of the financed amount.
- (16) The next maturity date is April 2021, with two one-year extensions available at the option of the Company, which may be exercised upon the satisfaction of certain customary conditions set forth in the governing documents.
- (17) Represents the weighted average spread as of September 30, 2020. The contractual interest rate depends upon asset type and characteristics and ranges from one-month London Interbank Offered Rates ("LIBOR") plus 1.50% to 2.60%.
- (18) The next maturity date is October 2020, with two one-year extension options available, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents. Subsequent to September 30, 2020, the Company exercised a one-year extension option to October 2021 and reduced the capacity of Bank 2 Facility 3 to \$21.4 million.
- (19) The next maturity date is April 2021, with a one-year extension available, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
- (20) The next maturity date is June 2021, with a one-year extension available, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
- (21) Recourse is either 25.0% or 50.0% depending on loan metrics.
- (22) The next maturity date is November 2021, with two one-year extension options available, which may be subject to the satisfaction of certain customary conditions set forth in the governing documents.
- (23) The interest rate will be determined by the lender in its sole discretion.
- (24) The maturity dates on the CMBS Credit Facilities are dependent upon asset type and will typically range from one to six months.
- (25) CMBS Credit Facilities are undrawn and fully available.

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Future Minimum Principal Payments

The following table summarizes future scheduled minimum principal payments at September 30, 2020 based on initial maturity dates or extended maturity dates to the extent criteria are met and the extension option is at the borrower's discretion (dollars in thousands):

	Total	Securitization Bonds Payable, Net	Mortgage Notes Payable, Net ⁽¹⁾	Credit Facilities ⁽¹⁾
Remainder of 2020	\$ 25,904	\$ —	\$ 672	\$ 25,232
2021	145,401	—	14,632	130,769
2022	351,529	—	2,520	349,009
2023	148,532	—	44,910	103,622
2024	204,072	—	204,072	—
2025 and thereafter	1,681,005	840,423	840,582	—
Total	\$ 2,556,443	\$ 840,423	\$ 1,107,388	\$ 608,632

(1) Includes \$101.3 million of future minimum principal payments related to assets held for sale.

Bank Credit Facility

On February 1, 2018, the Company, through subsidiaries, including the OP, entered into a credit agreement with several lenders to provide a revolving credit facility in the aggregate principal amount of up to \$400.0 million (the "Bank Credit Facility"). On December 17, 2018, the aggregate amount of revolving commitments was increased to \$525.0 million and on February 4, 2019, the aggregate amount of revolving commitments was increased to \$560.0 million. On May 6, 2020 these commitments were reduced to \$450.0 million. The Bank Credit Facility will mature on February 1, 2022, unless the OP elects to extend the maturity date for up to two additional six-month terms.

The maximum amount available for borrowing at any time under the Bank Credit Facility is limited to a borrowing base valuation of certain investment assets, with the valuation of such investment assets generally determined according to a percentage of adjusted net book value. At September 30, 2020, the borrowing base valuation was sufficient to support the borrowing of up to \$195.0 million.

Advances under the Bank Credit Facility accrue interest at a per annum rate equal to, at the applicable borrower's election, either a LIBOR rate plus a margin of 2.25%, or a base rate determined according to a prime rate or federal funds rate plus a margin of 1.25%. The Company pays a commitment fee of 0.25% or 0.35% per annum of the unused amount (0.35%) at September 30, 2020, depending upon the amount of facility utilization.

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

The Bank Credit Facility contains various affirmative and negative covenants including financial covenants that require the Company to maintain minimum tangible net worth, liquidity levels and financial ratios, as specified in the Bank Credit Facility. On May 6, 2020, the Company amended the Bank Credit Facility to, among other things, (i) reduce the minimum tangible net worth covenant to \$1.5 billion, providing portfolio management flexibilities as a result of any disruptions in investments caused by COVID-19 or other factors; (ii) reduce the facility size to \$450.0 million, (iii) limit dividends in line with taxable income and restrict stock repurchases, each for liquidity preservation purposes, and (iv) focus new investments on senior mortgages. At September 30, 2020, the Company was in compliance with all of the financial covenants.

Securitization Financing Transactions

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

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In October 2019, the Company executed a securitization transaction, through wholly-owned subsidiaries, CLNC 2019-FL1, Ltd. and CLNC 2019-FL1, LLC (collectively, "CLNC 2019-FL1"), which resulted in the sale of \$840.4 million of investment grade notes. The securitization reflects an advance rate of 83.5% at a weighted average cost of funds of LIBOR plus 1.59%, and is collateralized by a pool of 21 senior loans originated by the Company.

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

As of September 30, 2020, the Company had \$1.0 billion carrying value of CRE debt investments financed with \$840.4 million of securitization bonds payable, net.

Master Repurchase Facilities

As of September 30, 2020, the Company, through subsidiaries, had entered into repurchase agreements with multiple global financial institutions to provide an aggregate principal amount of up to \$2.3 billion to finance the origination of first mortgage loans and senior loan participations secured by CRE debt investments ("Master Repurchase Facilities"). The Company agreed to guarantee certain obligations under the Master Repurchase Facilities, which contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. The Master Repurchase Facilities act as revolving loan facilities that can be paid down as assets are repaid or sold and re-drawn upon for new investments. As of September 30, 2020, the Company was in compliance with all of its financial covenants under the Master Repurchase Facilities.

As of September 30, 2020, the Company had \$869.0 million carrying value of CRE debt investments financed with \$583.4 million under the master repurchase facilities.

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

In May, the Company entered into agreements to modify 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 are scheduled to expire 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.

Subsequent to September 30, 2020, the Company exercised a one-year extension option on Bank 2 Facility 3, extending the maturity to October 2021. The Company additionally reduced the capacity from \$200.0 million to \$21.4 million.

CMBS Credit Facilities

As of September 30, 2020, the Company had entered into eight master repurchase agreements (collectively the "CMBS Credit Facilities") to finance CMBS investments. The CMBS Credit Facilities are on a recourse basis and contain representations, warranties, covenants, conditions precedent to funding, events of default and indemnities that are customary for agreements of this type. As of September 30, 2020, the Company had \$36.3 million carrying value of CRE securities financed with \$18.4

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million under its CMBS Credit Facilities. As of September 30, 2020, the Company had \$21.6 million carrying value of underlying investments in the subordinate tranches of the securitization trusts financed with \$6.8 million under its CMBS Credit Facilities.

During the first quarter, the Company received and paid margin calls on its CMBS Credit Facilities of \$48.9 million. During the second quarter, the Company consolidated its CMBS Credit Facilities borrowings with one existing counterparty bank. In connection with the consolidation, the Company paid down the CMBS Credit Facilities borrowing advance rate to a blended borrowing advance rate of 62% and extended the repurchase date on all such borrowings first to June 30, 2020 and then to December 31, 2020. This \$73.9 million paydown allowed for a 15% additional loss on a bond specific basis before further margin calls. As of November 5, 2020, the Company had \$18.6 million outstanding under its CMBS Credit Facilities. The consolidated facility bears a fixed interest rate of 4.25%. Refer to Note 19 “Subsequent Events” for further details on CMBS sales and repayment of the CMBS Credit Facility.

10. Related Party Arrangements

Management Agreement

On January 31, 2018, the Company and the OP entered into a management agreement (the “Management Agreement”) with the Manager, pursuant to which the Manager manages the Company’s assets and its day-to-day operations. The Manager is responsible for, among other matters, (1) the selection, origination, acquisition, management and sale of the Company’s portfolio investments, (2) the Company’s financing activities and (3) providing the Company with investment advisory services. The Manager is also responsible for the Company’s day-to-day operations and will perform (or will cause to be performed) such services and activities relating to the Company’s investments and business and affairs as may be appropriate. The Management Agreement requires the Manager to manage the Company’s business affairs in conformity with the investment guidelines and other policies that are approved and monitored by the Board of Directors. Each of the Company’s executive officers is also an employee of the Manager or its affiliates. The Manager’s role as Manager will be under the supervision and direction of the Company’s Board of Directors.

The initial term of the Management Agreement expires on the third anniversary of the Closing Date and will be automatically renewed for a one-year term each anniversary date thereafter unless earlier terminated as described below. The Company’s independent directors review the Manager’s performance and the fees that may be payable to the Manager annually and, following the initial term, the Management Agreement may be terminated if there has been an affirmative vote of at least two-thirds of the Company’s independent directors determining that (1) there has been unsatisfactory performance by the Manager that is materially detrimental to the Company or (2) the compensation payable to the Manager, in the form of base management fees and incentive fees taken as a whole, or the amount thereof, is not fair to the Company, subject to the Manager’s right to prevent such termination due to unfair fees by accepting reduced compensation as agreed to by at least two-thirds of the Company’s independent directors. The Company must provide the Manager 180 days’ prior written notice of any such termination.

The Company may also terminate the Management Agreement for cause (as defined in the Management Agreement) at any time, including during the initial term, without the payment of any termination fee, with at least 30 days’ prior written notice from the Company’s Board of Directors. Unless terminated for cause, the Manager will be paid a termination fee as described below. The Manager may terminate the Management Agreement if the Company becomes required to register as an investment company under the Investment Company Act with such termination deemed to occur immediately before such event, in which case the Company would not be required to pay a termination fee. The Manager may decline to renew the Management Agreement by providing the Company with 180 days’ prior written notice, in which case the Company would not be required to pay a termination fee. The Manager may also terminate the Management Agreement with at least 60 days’ prior written notice if the Company breaches the Management Agreement in any material respect or otherwise is unable to perform its obligations thereunder and the breach continues for a period of 30 days after written notice to the Company, in which case the Manager will be paid a termination fee as described below.

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

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Fees to ManagerBase Management Fee

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

For the three and nine months ended September 30, 2020, the total management fee expense incurred was \$7.1 million and \$22.2 million, respectively. For the three and nine months ended September 30, 2019, the total management fee expense incurred was \$11.4 million and \$34.1 million, respectively. As of September 30, 2020 and December 31, 2019, \$7.2 million and \$8.4 million, respectively, of unpaid management fee were included in due to related party in the Company's consolidated balance sheets.

Incentive Fee

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

The Company did not incur any incentive fees during the three and nine months ended September 30, 2020 and 2019.

Reimbursements of Expenses

Reimbursement of expenses related to the Company incurred by the Manager, including legal, accounting, financial, due diligence and other services are paid on the Company's behalf by the OP or its designee(s). The Company reimburses the Manager for the Company's allocable share of the salaries and other compensation of the Company's chief financial officer and certain of its affiliates' non-investment personnel who spend all or a portion of their time managing the Company's affairs, and the Company's share of such costs are based upon the percentage of such time devoted by personnel of the Manager (or its affiliates) to the Company's affairs. The Company may be required to pay the Company's pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Manager and its affiliates required for the Company's operations.

For the three and nine months ended September 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 \$2.0 million and \$7.1 million, respectively, and are included in administrative expense on the consolidated statements of operations. For the three and nine months ended September 30, 2019, the total reimbursements of expenses incurred by the Manager on behalf of the Company and reimbursable in accordance with the Management Agreement was \$2.5 million and \$8.1 million, respectively. As of September 30, 2020 and December 31, 2019, there were \$2.0 million and \$2.7 million, respectively, of unpaid expenses included in due to related party in the Company's consolidated balance sheets.

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Equity Plan Grants

In April 2020, the Company granted 143,000 shares to its chief executive officer, an employee of the Manager, under the 2018 Equity Incentive Plan (the "2018 Plan"). In March 2019, the Company granted 800,000 shares to the Manager and/or employees thereof under the 2018 Plan. In March 2018, the Company granted 978,946 shares to its non-independent directors, officers and the Manager and/or employees thereof under the 2018 Plan. 927,414 shares remain granted and unvested as of September 30, 2020. See Note 11, "Equity-Based Compensation" for further discussion on the 2018 Plan including shares issued to independent directors of the Company. In connection with these grants, the Company recognized share-based compensation expense of \$1.3 million and \$3.0 million to its Manager within administrative expense in the consolidated statement of operations for the three and nine months ended September 30, 2020, respectively. The Company recognized share-based compensation expense of \$2.8 million and \$7.1 million to its Manager within administrative expense in the consolidated statement of operations for the three and nine months ended September 30, 2019, respectively.

Colony Capital, Inc. Internalization Discussions with the Company

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

Investment Activity

All investment acquisitions are approved in accordance with the Company's investment and related party guidelines, which may include approval by either the audit committee or disinterested members of the Company's Board of Directors. No investment by the Company will require approval under the related party transaction policy solely because such investment constitutes a co-investment made by and between the Company and any of its subsidiaries, on the one hand, and one or more investment vehicles formed, sponsored, or managed by an affiliate of the Manager on the other hand.

In July 2017, NorthStar II entered into a joint venture with an affiliate of the Manager to make a \$60.0 million investment in a \$180.0 million mezzanine loan which was originated by such affiliate of the Manager. The transaction was approved by NorthStar II's board of directors, including all of its independent directors. The investment was purchased by the Company in connection with the Combination. In June 2018, the Company increased its commitment to \$101.8 million in connection with the joint venture bifurcating the mezzanine loan into a mezzanine loan and a preferred equity investment. The Company's interest in both the underlying mezzanine loan and preferred equity investment is 31.8%, and the affiliate entities own the remaining 68.2%. Both the underlying mezzanine loan and preferred equity investment carry a fixed 13.0% interest rate. This investment is recorded in investments in unconsolidated ventures in the Company's consolidated balance sheets. In July 2019, the Company increased its commitment in the mezzanine loan from \$101.8 million to \$189.0 million. The Company's interest in the upsized mezzanine loan is 45.2% and it carries a fixed 13.0% interest rate. During the three months ended June 30, 2020, the Company made its pro-rata share of two protective advances to the senior mortgage lender totaling \$28.5 million. The Company placed this investment on nonaccrual status as of April 1, 2020. In September 2020 the Company's mezzanine loan and preferred equity investment was converted into a mezzanine participation. See Note 4, "Investments in Unconsolidated Ventures," for further information.

In May 2018, the Company acquired an \$89.1 million (at par) preferred equity investment in an investment vehicle that owns a seven-property office portfolio located in the New York metropolitan area from an affiliate of the Company's Manager. The affiliate has a 27.2% ownership interest in the borrower. The preferred equity investment carries a fixed 12.0% interest rate. This investment is recorded in loans and preferred equity held for investment, net in the Company's consolidated balance sheets. In July 2020, the Company accepted a discounted payoff and recognized an impairment loss of \$20.6 million. See Note 3, "Loans and Preferred Equity Held for Investment, net" for further information.

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

In July 2018, the Company entered into a joint venture to invest in a development project for land and a Grade A office building in Ireland. The Company agreed to invest up to \$69.9 million of the \$139.7 million total commitment. The Company co-

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invested along with two affiliates of the Manager, with the Company owning 50.0% of the joint venture and the affiliate entities owning the remaining 50.0%. The joint venture invested in a senior mortgage loan of \$66.7 million with a fixed interest rate of 12.5% and a maturity date of 3.5 years from origination and common equity.

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

In October 2018, the Company acquired a \$20.0 million mezzanine loan from an affiliate of the Company's Manager, secured by a pledge of an ownership interest in a luxury condominium development project located in New York, NY. The loan bears interest at 9.5% plus LIBOR. The borrower repaid the loan in February 2020.

11. Equity-Based Compensation

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

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

The table below summarizes our awards granted, forfeited or vested under the 2018 Plan during the nine months ended September 30, 2020:

	Number of Shares		Weighted Average Grant Date Fair Value
	Restricted Stock	Total	
Unvested Shares at December 31, 2019	1,335,590	1,335,590	\$ 17.79
Granted	237,340	237,340	3.70
Vested	(452,438)	(452,438)	17.34
Forfeited	(193,078)	(193,078)	17.21
Unvested shares at September 30, 2020	927,414	927,414	\$ 16.14

Fair value of equity awards that vested during the nine months ended September 30, 2020 and September 30, 2019, determined based on their respective fair values at vesting date, was \$2.7 million and \$4.7 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 September 30, 2020, aggregate unrecognized compensation cost for all unvested equity awards was \$6.0 million, which is expected to be recognized over a weighted-average period of 1.3 years.

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12. Stockholders' Equity*Authorized Capital*

As of September 30, 2020, the Company had the authority to issue up to 1.0 billion shares of stock, at \$0.01 par value per share, consisting of 950.0 million shares of Class A common stock and 50.0 million shares of preferred stock. On February 1, 2019, the Class B-3 common stock automatically converted to Class A common stock and each unissued share of Class B-3 common stock was automatically reclassified as one share of Class A common stock.

The Company had no shares of preferred stock issued and outstanding as of September 30, 2020.

Dividends

During the nine months ended September 30, 2020, the Company declared the following dividends on its common stock:

Declaration Date	Record Date	Payment Date	Per Share
January 15, 2020	January 31, 2020	February 10, 2020	\$0.10
February 14, 2020	February 29, 2020	March 10, 2020	\$0.10
March 16, 2020	March 31, 2020	April 10, 2020	\$0.10

The Company and its Board of Directors suspended the Company's monthly stock dividend beginning with the monthly period ended April 30, 2020.

Stock Repurchase Program

The Company's Board of Directors authorized a stock repurchase program (the "Stock Repurchase Program"), under which the Company could repurchase up to \$300.0 million of its outstanding Class A common stock until March 31, 2020. On February 18, 2020, the Company's Board of Directors voted to extend the Stock Repurchase Program through March 31, 2021. Under the Stock Repurchase Program, the Company may repurchase shares in open market purchases, through tender offers or otherwise in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

As of September 30, 2020, the Company had not repurchased any shares under the Stock Repurchase Program.

Accumulated Other Comprehensive Income (Loss)

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

Changes in Components of AOCI - Stockholders

<i>(in thousands)</i>	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, 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 loss before reclassification	(26,905)	—	10,581	(16,324)
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
Other comprehensive income (loss) before reclassification	6,018	—	11,443	17,461
Amounts reclassified from AOCI	(1,748)	—	—	(1,748)
Net current period OCI	4,270	—	11,443	15,713
AOCI at September 30, 2020	\$ 4,270	\$ 47,127	\$ (10,444)	\$ 40,953

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

Changes in Components of AOCI - Noncontrolling Interests in the OP

<i>(in thousands)</i>	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	\$ 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 before reclassification	(872)	—	259	(613)
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
Other comprehensive income (loss) before reclassification	63	—	298	361
Amounts reclassified from AOCI	(42)	—	—	(42)
Net current period OCI	21	—	298	319
AOCI at September 30, 2020	\$ 21	\$ 1,402	\$ (699)	\$ 724

<i>(in thousands)</i>	Unrealized gain (loss) on real estate securities, available for sale	Unrealized gain on net investment hedges	Foreign currency translation gain (loss)	Total
AOCI at December 31, 2018	\$ (32)	\$ 268	\$ (246)	\$ (10)
Other comprehensive income (loss)	228	173	(77)	324
AOCI at March 31, 2019	\$ 196	\$ 441	\$ (323)	\$ 314
Other comprehensive income	184	22	91	297
AOCI at June 30, 2019	\$ 380	\$ 463	\$ (232)	\$ 611
Other comprehensive income (loss)	119	299	(338)	80
AOCI at September 30, 2019	\$ 499	\$ 762	\$ (570)	\$ 691

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Changes in Components of AOCI - Noncontrolling Interests in investment entities

<i>(in thousands)</i>	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	—	—	—	—
AOCI at March 31, 2020	\$ —	\$ —	\$ —	\$ —
Other comprehensive income	—	—	257	257
AOCI at June 30, 2020	\$ —	\$ —	\$ 257	\$ 257
Other comprehensive income	—	—	915	915
AOCI at September 30, 2020	\$ —	\$ —	\$ 1,172	\$ 1,172

The following table presents the details of the reclassifications from AOCI for the nine months ended September 30, 2020:

<i>(in thousands)</i>	Nine Months Ended September 30, 2020	Affected Line Item in the Consolidated Statements of Operations
Component of AOCI reclassified into earnings		
Realized loss on sale of real estate securities	\$ (50,677)	Other gain (loss), net
Impairment of real estate securities	(31,844)	Other gain (loss), net

The Company had no reclassifications from AOCI for the nine months ended September 30, 2019.

13. Noncontrolling Interests

Operating Partnership

Noncontrolling interests include the aggregate limited partnership interests in the OP held by RED REIT. Net income (loss) attributable to the noncontrolling interests is based on the limited partners' ownership percentage of the OP. Net income attributable to the noncontrolling interests of the OP was \$0.2 million for the three months ended September 30, 2020 and net loss attributable to the noncontrolling interests of the OP was \$7.1 million for the nine months ended September 30, 2020, respectively. Net loss attributable to the noncontrolling interests of the OP for the three and nine months ended September 30, 2019 was \$8.5 million and \$10.7 million.

Investment Entities

Noncontrolling interests in investment entities represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net income attributable to noncontrolling interests in the investment entities for three months ended September 30, 2020 was \$1.2 million and net loss attributable to noncontrolling interests in the investments entities was \$6.4 million for the nine months ended September 30, 2020.

Net loss attributable to noncontrolling interests in the investment entities for the three and nine months ended September 30, 2019 was \$37.4 million and \$38.6 million, respectively.

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 financing provided \$200 million of proceeds at closing. The preferred financing is limited to (i) the Company's interests in four co-investments, three of which are in the Company's Core Portfolio and one which is in the Legacy, Non-Strategic Portfolio, alongside investment funds managed by affiliates of the Company's manager, each of which are financings on underlying development projects (including residential, office and/or mixed-use components), and (ii) a wholly-owned triple-net industrial distribution center investment leased to a national grocery chain, which is included in the Company's Core Portfolio. The preferred financing provides GS a 10% preferred return and certain other minimum returns, as well as a minority interest in future cash flows.

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The Company and its affiliates control the continuing investment and portfolio management of such investments and thus continues to consolidate these investments on the Consolidated Balance Sheet at September 30, 2020. The preferred financing provides for a disproportionate allocation of profits and losses, and thus each party's share of earnings or loss is determined using a balance sheet approach known as the HLBV method. Under the HLBV method, earnings and losses are recognized based on the change in each party's capital account from the beginning of the period in question to the end of the period, adjusting for the effects of distributions and new investments. The entity measures each party's capital account assuming that the subsidiary was liquidated or sold at book value. 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 the Company's consolidated balance sheet includes \$269.9 million representing GS's investment at September 30, 2020 under the HLBV method.

The transaction resulted in the Company receiving net liquidity of approximately \$170 million, net of approximately \$30 million in paydowns under the Company's corporate credit facility, and the ability to draw down up to \$29 million additional commitments from GS for future fundings to the portfolio, if any, at our same advance rate. As of September 30, 2020, we have neither drawn-down additional funds from, nor completed any cash distributions to, GS.

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

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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 September 30, 2020 and December 31, 2019 by level within the fair value hierarchy (dollars in thousands):

	September 30, 2020				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Investments in unconsolidated ventures - PE Investments	\$ —	\$ 124	\$ 6,969	\$ 7,093	\$ —	\$ 1,425	\$ 8,858	\$ 10,283
Real estate securities, available for sale	—	36,250	—	36,250	—	252,824	—	252,824
Mortgage loans held in securitization trusts, at fair value	—	—	1,839,390	1,839,390	—	—	1,872,970	1,872,970
Other assets - derivative assets	—	1,981	—	1,981	—	4,122	—	4,122
Liabilities:								
Mortgage obligations issued by securitization trusts, at fair value	\$ —	\$ 1,770,924	\$ —	\$ 1,770,924	\$ —	\$ 1,762,914	\$ —	\$ 1,762,914
Other liabilities - derivative liabilities	—	37	—	37	—	19,133	—	19,133

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The following table presents the changes in fair value of financial assets which are measured at fair value on a recurring basis using Level 3 inputs to determine fair value for the nine months ended September 30, 2020 and year ended December 31, 2019 (dollars in thousands):

	Nine Months Ended September 30, 2020		Year Ended December 31, 2019	
	Investments in unconsolidated ventures - PE Investments	Mortgage loans held in securitization trusts ⁽¹⁾	Investments in unconsolidated ventures - PE Investments	Mortgage loans held in securitization trusts ⁽¹⁾
Beginning balance	\$ 8,858	\$ 1,872,970	\$ 160,851	\$ 3,116,978
Contributions ⁽²⁾ /purchases	—	—	151	—
Distributions/paydowns	(2,558)	(19,817)	(18,407)	(55,288)
Deconsolidation of securitization trust ⁽³⁾	—	—	—	(1,239,627)
Equity in earnings	669	—	—	—
Sale of investments	—	—	(48,930)	(39,848)
Transfers out of Level 3	—	—	(84,807)	—
Unrealized gain (loss) in earnings	—	(13,763)	—	87,983
Realized gain in earnings	—	—	—	2,772
Ending balance	\$ 6,969	\$ 1,839,390	\$ 8,858	\$ 1,872,970

(1) For the nine months ended September 30, 2020, the Company recorded an unrealized loss of \$13.8 million related to mortgage loans held in securitization trusts, at fair value and an unrealized loss of \$27.8 million related to mortgage obligations issued by securitization trusts, at fair value.

(2) Includes initial investments, before distribution and contribution closing statement adjustments, and subsequent contributions, including deferred purchase price fundings.

(3) In July 2019, the Company sold its retained investments in the subordinate tranches of one securitization trust. As a result of the sale, the Company deconsolidated one of the securitization trusts. See Note 5, "Real Estate Securities, Available for Sale" for further information.

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

As of September 30, 2020 and December 31, 2019, the Company utilized a discounted cash flow model, comparable precedent transactions and other market information to quantify Level 3 fair value measurements on a recurring basis. As of September 30, 2020 and December 31, 2019, the key unobservable inputs used in the analysis of PE Investments included discount rates with a range of 11.0% to 12.0% and timing and amount of expected future cash flows. As of September 30, 2020 and December 31, 2019, the key unobservable inputs used in the valuation of mortgage obligations issued by securitization trusts included yields ranging from 20.3% to 54.3% and 15.0% to 16.1%, respectively, and a weighted average life of 5.1 years and 5.4 years, respectively. Significant increases or decreases in any one of the inputs described above in isolation may result in significantly different fair value of the financial assets and liabilities using such Level 3 inputs.

For the three and nine months ended September 30, 2020, the Company recorded a net unrealized loss of \$13.2 million and \$41.6 million, respectively, related to mortgage loans held in and mortgage obligations issued by securitization trusts, at fair value. For the three and nine months ended September 30, 2019, the Company recorded a net unrealized loss of \$2.0 million and a net unrealized gain of \$4.6 million, respectively, related to mortgage loans held in and mortgage obligations issued by securitization trusts, at fair value. These amounts, when incurred, are recorded as unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations.

For the three and nine months ended September 30, 2020, the company did not record a realized gain on mortgage loans held in securitization trusts, at fair value. For the three and nine months ended September 30, 2019, the Company recorded \$2.7 million and \$2.8 million realized gain respectively, on mortgage loans held in securitization trusts, at fair value, which represents the gain upon the sale of the Company's retained interests in the subordinate tranches of one securitization trust. This amount is recorded as realized gain on mortgage loans and obligations held in securitization trusts, net in the consolidated statements of operations.

Fair Value Option

The Company may elect to apply the fair value option of accounting for certain of its financial assets or liabilities due to the nature of the instrument at the time of the initial recognition of the investment. The Company elected the fair value option for PE Investments and eligible financial assets and liabilities of its consolidated Investing VIEs because management believes it is

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a more useful presentation for such investments. The Company determined recording the PE Investments based on the change in fair value of projected future cash flow from one period to another better represents the underlying economics of the respective investment. As of September 30, 2020 and December 31, 2019, the Company has elected not to apply the fair value option for any other eligible financial assets or liabilities.

Fair Value of Financial Instruments

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

The following table presents the principal amount, carrying value and fair value of certain financial assets and liabilities as of September 30, 2020 and December 31, 2019 (dollars in thousands):

	September 30, 2020			December 31, 2019		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial assets:⁽¹⁾						
Loans and preferred equity held for investment, net	\$ 2,149,018	\$ 2,103,414 ⁽²⁾	\$ 2,109,093	\$ 2,858,423 ⁽²⁾	\$ 2,576,332	\$ 2,470,561
Financial liabilities:⁽¹⁾						
Securitization bonds payable, net	\$ 840,423	\$ 834,621	\$ 840,423	\$ 840,423	\$ 833,153	\$ 840,423
Mortgage and other notes payable, net	1,107,388	1,102,999	1,107,388	1,260,267	1,256,112	1,260,675
Master repurchase facilities	608,632	608,632	608,632	1,099,233	1,099,233	1,099,233

(1) The fair value of other financial instruments not included in this table is estimated to approximate their carrying value.

(2) Excludes future funding commitments of \$173.2 million and \$276.6 million as of September 30, 2020 and December 31, 2019, respectively.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of September 30, 2020. Although management is not aware of any factors that would significantly affect fair value, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

Loans and Preferred Equity Held for Investment, Net

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

Securitization Bonds Payable, Net

The Company's securitization bonds payable, net bear floating rates of interest. As of September 30, 2020, the Company believes the carrying value approximates fair value. These fair value measurements are based on observable inputs, and as such, are classified as Level 2 of the fair value hierarchy.

Mortgage and Other Notes Payable, Net

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

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Master Repurchase Facilities

The Company has amounts outstanding under Master Repurchase Facilities. The Master Repurchase Facilities bear floating rates of interest. As of September 30, 2020, the Company believes the carrying value approximates fair value. These fair value measurements are based on observable inputs, and as such, are classified as Level 2 of the fair value hierarchy.

Other

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

Nonrecurring Fair Values

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

The following table summarizes assets carried at fair value on a nonrecurring basis as of September 30, 2020 and December 31, 2019 (dollars in thousands):

	September 30, 2020				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and preferred equity held for investment, net	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 104,797	\$ 104,797
Loans held for sale	—	—	—	—	—	—	5,016	5,016
Real estate, net	—	—	—	—	—	—	423,540	423,540
Real estate assets held for sale	—	—	142,559	142,559	—	—	117,880	117,880
Investments in unconsolidated ventures	—	—	—	—	—	—	124,860	124,860
Deferred leasing costs and intangible assets, net	—	—	—	—	—	—	41,862	41,862

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Loans:				
Loans and preferred equity held for investment, net ⁽¹⁾	\$ —	\$ 99,729	\$ 2,346	\$ 209,987
Loans held for sale ⁽¹⁾	—	10,584	31,581	10,584
Total	\$ —	\$ 110,313	\$ 33,927	\$ 220,571
Real Estate:				
Real estate, net	\$ —	\$ 216,437	\$ —	\$ 226,561
Real estate held for sale	4,565	56,285	30,500	56,285
Total	\$ 4,565	\$ 272,722	\$ 30,500	\$ 282,846
Investments in Unconsolidated Ventures:				
Investments in unconsolidated ventures	\$ —	\$ 17,600	\$ —	\$ 17,600
Total	\$ —	\$ 17,600	\$ —	\$ 17,600

(1) See Note 3 “Loans and Preferred Equity Held for Investment, net and Loans Held for Sale” for further details.

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Real estate held for sale consisted of certain properties in the Company's portfolio of real estate in its Legacy, Non-Strategic Portfolio segment. The amount of the impairment recognized was determined based on feedback received during the sales process. The fair value of the impaired properties was determined based on broker price opinions, executed purchase and sale agreements and third party bids received which utilized terminal capitalization rates ranging from 6% to 16%.

15. Derivatives

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

As of September 30, 2020 and December 31, 2019, fair value of derivative assets and derivative liabilities were as follows (dollars in thousands):

	September 30, 2020		December 31, 2019		
	Non-Designated Hedges	Total	Designated Hedges	Non-Designated Hedges	Total
Derivative Assets					
Foreign exchange contracts	\$ 1,974	\$ 1,974	\$ —	\$ 4,122	\$ 4,122
Interest rate contracts	7	7	—	—	—
Included in other assets	\$ 1,981	\$ 1,981	\$ —	\$ 4,122	\$ 4,122
Derivative Liabilities					
Foreign exchange contracts	\$ —	\$ —	\$ (2,128)	\$ (29)	\$ (2,157)
Interest rate contracts	(37)	(37)	—	(16,976)	(16,976)
Included in accrued and other liabilities	\$ (37)	\$ (37)	\$ (2,128)	\$ (17,005)	\$ (19,133)

As of September 30, 2020, the Company's counterparties held \$0.1 million in cash collateral.

The following table summarizes the Company's interest rate contracts as of September 30, 2020:

Type of Derivatives	Notional Currency	Notional Amount (in thousands)		Range of Maturity Dates
		Designated	Non-Designated	
Put Option	NOK	—	928,000	July 2021
Interest Rate Swap	USD	\$ —	\$ 109,526	April 2021 - July 2023

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The table below represents the effect of the derivative financial instruments on the consolidated statements of operations and of comprehensive income (loss) for the three and nine months ended September 30, 2020 and 2019 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Other gain (loss), net				
Non-designated foreign exchange contracts	\$ 99	\$ 2,016	\$ 4,573	\$ 2,394
Non-designated interest rate contracts	7	(4,688)	(17,084)	(14,949)
	\$ 106	\$ (2,672)	\$ (12,511)	\$ (12,555)
Other income				
Non-designated foreign exchange contracts	\$ —	\$ —	\$ 178	\$ —
Non-designated interest rate contracts	—	—	—	—
	\$ —	\$ —	\$ 178	\$ —
Accumulated other comprehensive income (loss)				
Designated foreign exchange contracts	\$ —	\$ 12,791	\$ 21,764	\$ 21,124
	\$ —	\$ 12,791	\$ 21,764	\$ 21,124

During the nine months ended September 30, 2020, the Company received \$28.2 million from the unwind of its NOK and EUR FX forwards and realized a gain of \$8.7 million which is included in other loss, net on its consolidated statements of operations.

During the nine months ended September 30, 2020, the Company unwound its remaining interest rate swaps and realized a loss of \$34.0 million, which is included in other loss, net on its consolidated statement of operations. This was previously recorded as an unrealized loss as of March 31, 2020.

At the end of each quarter, the Company reassesses the effectiveness of its net investment hedges and as appropriate, dedesignates the portion of the derivative notional that is in excess of the beginning balance of its net investments as non-designated hedges. Any unrealized gain or loss on the dedesignated portion of net investment hedges is transferred into earnings, recorded in other gain (loss), net. During the three and nine months ended September 30, 2020 and 2019, no gain (loss) was transferred from accumulated other comprehensive income (loss).

Offsetting Assets and Liabilities

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

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The following table sets forth derivative positions where the Company has a right of offset under netting arrangements with the same counterparty as of September 30, 2020 and December 31, 2019 (dollars in thousands):

	Gross Amounts of Assets (Liabilities) Included on Consolidated Balance Sheets	Gross Amounts Not Offset on Consolidated Balance Sheets		Net Amounts of Assets (Liabilities)
		(Assets) Liabilities	Cash Collateral Pledged	
September 30, 2020				
Derivative Assets				
Foreign exchange contracts	\$ 1,974	\$ —	\$ —	\$ 1,974
Interest rate contracts	7	(7)	—	—
	<u>\$ 1,981</u>	<u>\$ (7)</u>	<u>\$ —</u>	<u>\$ 1,974</u>
Derivative Liabilities				
Interest rate contracts	\$ (37)	\$ 7	\$ 30	\$ —
	<u>\$ (37)</u>	<u>\$ 7</u>	<u>\$ 30</u>	<u>\$ —</u>
December 31, 2019				
Derivative Assets				
Foreign exchange contracts	\$ 4,122	\$ (2,157)	\$ —	\$ 1,965
	<u>\$ 4,122</u>	<u>\$ (2,157)</u>	<u>\$ —</u>	<u>\$ 1,965</u>
Derivative Liabilities				
Foreign exchange contracts	\$ (2,157)	\$ 2,157	\$ —	\$ —
Interest rate contracts	(16,976)	—	16,976	—
	<u>\$ (19,133)</u>	<u>\$ 2,157</u>	<u>\$ 16,976</u>	<u>\$ —</u>

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 September 30, 2020, assuming the terms to qualify for future fundings, if any, had been met, total unfunded lending commitments for loans and preferred equity held for investment was \$146.3 million for senior loans, \$12.1 million for securitized loans, \$0.1 million for corporate term loans and \$14.7 million for mezzanine loans. Total unfunded commitments for equity method investments was \$24.6 million.

Ground Lease Obligation

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

At September 30, 2020, the weighted average remaining lease terms were 14.4 years for ground leases.

The following table presents lease expense, included in property operating expense, for the three and nine months ended September 30, 2020 and 2019 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating lease expense:				
Minimum lease expense	\$ 805	\$ 791	\$ 2,407	\$ 2,335
Variable lease expense	—	—	—	—
	<u>\$ 805</u>	<u>\$ 791</u>	<u>\$ 2,407</u>	<u>\$ 2,335</u>

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The operating lease liability was determined using a weighted average discount rate of 5.2%. The following table presents future minimum rental payments, excluding contingent rents, on noncancellable ground leases on real estate as of September 30, 2020 (dollars in thousands):

Remainder of 2020	\$	796
2021		3,171
2022		3,199
2023		3,229
2024		2,338
2025 and thereafter		21,725
Total lease payments		<u>34,458</u>
Less: Present value discount		11,140
Operating lease liability (Note 8)	\$	<u><u>23,318</u></u>

The following table presents future minimum rental payments, excluding contingent rents, on noncancellable ground leases on real estate as of December 31, 2019 (dollars in thousands):

2020	\$	3,232
2021		3,216
2022		3,244
2023		3,274
2024		2,383
2025 and thereafter		23,079
Total lease payments		<u>38,428</u>
Less: Present value discount		12,933
Operating lease liability (Note 8)	\$	<u><u>25,495</u></u>

Litigation and Claims

The Company may be involved in litigation and claims in the ordinary course of the business. As of September 30, 2020, the Company was not involved in any legal proceedings that are expected to have a material adverse effect on the Company's results of operations, financial position or liquidity.

17. Segment Reporting

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

During the third quarter of 2019, the Company realigned the business and reportable segment information to reflect how the CODM regularly review and manage the business. As a result, the Company presents its business segments as follows:

- Core Portfolio, which consists of the following four segments and remain unchanged from the prior segments:
 - Senior and Mezzanine Loans and Preferred Equity—CRE debt investments including senior mortgage loans, mezzanine loans, and preferred equity interests as well as participations in such loans. The segment also includes ADC loan arrangements accounted for as equity method investments.
 - CRE Debt Securities—investments currently consisting of BBB and some BB rated CMBS (including Non-Investment Grade “B-pieces” of a CMBS securitization pool), or CRE CLOs (including the junior tranches thereof, collateralized by pools of CRE debt investments).
 - Net Leased Real Estate—direct investments in CRE with long-term leases to tenants on a net lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance, capital expenditures and real estate taxes.

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

- Corporate—includes corporate-level asset management and other fees, related party and general and administrative expenses to the Core Portfolio only.
- Legacy, Non-Strategic Portfolio—segment consists of direct investments in operating real estate such as multi-tenant office and multifamily residential assets such as real estate acquired in settlement of loans (“REO”) which the Company plans to exit. It also includes two portfolios of PE Investments and certain retail and other legacy loans originated prior to the Combination. This segment includes corporate-level asset management and other fees, related party and general and administrative expenses related to the Legacy, Non-Strategic Portfolio only.

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

The Company primarily generates revenue from net interest income on the loan, preferred equity and securities portfolios, rental and other income from its net leased, hotel, multi-tenant office, and multifamily real estate assets, as well as equity in earnings of unconsolidated ventures. 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 nine months ended September 30, 2020 and 2019 (dollars in thousands):

	Core				Total Core Portfolio	Legacy, Non-Strategic Portfolio	Total
	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased Real Estate	Corporate ⁽¹⁾			
Three Months Ended September 30, 2020							
Net interest income (expense)	\$ 24,677	\$ 2,338	\$ 6	\$ (1,460)	\$ 25,561	\$ (338)	\$ 25,223
Property and other income	(14)	—	21,121	76	21,183	20,525	41,708
Management fee expense	—	—	—	(6,445)	(6,445)	(638)	(7,083)
Property operating expense	—	—	(2,480)	—	(2,480)	(12,797)	(15,277)
Transaction, investment and servicing expense	(210)	(2)	(364)	(827)	(1,403)	(224)	(1,627)
Interest expense on real estate	—	—	(8,067)	—	(8,067)	(4,138)	(12,205)
Depreciation and amortization	—	—	(10,946)	—	(10,946)	(3,824)	(14,770)
Provision for loan losses	(11,229)	—	—	—	(11,229)	825	(10,404)
Impairment of operating real estate	—	—	—	—	—	(3,451)	(3,451)
Administrative expense	(66)	(281)	(28)	(4,163)	(4,538)	(1,242)	(5,780)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	(13,750)	—	588	(13,162)	—	(13,162)
Other gain (loss), net	(1,457)	1,790	9,563	—	9,896	(216)	9,680
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	11,701	(9,905)	8,805	(12,231)	(1,630)	(5,518)	(7,148)
Equity in earnings (loss) of unconsolidated ventures	(1,652)	—	—	—	(1,652)	(127)	(1,779)
Income tax benefit	1,915	—	34	—	1,949	13,408	15,357
Net income (loss)	\$ 11,964	\$ (9,905)	\$ 8,839	\$ (12,231)	\$ (1,333)	\$ 7,763	\$ 6,430

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

	Core				Total Core Portfolio	Legacy, Non-Strategic Portfolio	Total
	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased Real Estate	Corporate ⁽¹⁾			
Three Months Ended September 30, 2019							
Net interest income (expense)	\$ 21,295	\$ 5,102	\$ —	\$ (2,363)	\$ 24,034	\$ 2,077	\$ 26,111
Property and other income	209	200	28,316	369	29,094	35,218	64,312
Management fee expense	—	—	—	(9,084)	(9,084)	(2,271)	(11,355)
Property operating expense	—	—	(8,340)	—	(8,340)	(21,416)	(29,756)
Transaction, investment and servicing expense	(512)	(3)	(103)	(245)	(863)	(570)	(1,433)
Interest expense on real estate	—	—	(8,695)	—	(8,695)	(5,586)	(14,281)
Depreciation and amortization	—	—	(11,673)	—	(11,673)	(14,261)	(25,934)
Provision for loan losses	—	—	—	—	—	(110,314)	(110,314)
Impairment of operating real estate	—	—	(23,911)	—	(23,911)	(248,811)	(272,722)
Administrative expense	(312)	(244)	(78)	(3,537)	(4,171)	(3,561)	(7,732)
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	—	215	—	(2,191)	(1,976)	—	(1,976)
Realized gain on mortgage loans and obligations held in securitization trusts, net	—	—	—	2,724	2,724	—	2,724
Other gain (loss), net	(15)	(4,683)	2,019	(3)	(2,682)	(6)	(2,688)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	20,665	587	(22,465)	(14,330)	(15,543)	(369,501)	(385,044)
Equity in earnings (loss) of unconsolidated ventures	2,736	—	—	—	2,736	(18,641)	(15,905)
Income tax benefit (expense)	—	—	(201)	—	(201)	(845)	(1,046)
Net income (loss)	\$ 23,401	\$ 587	\$ (22,666)	\$ (14,330)	\$ (13,008)	\$ (388,987)	\$ (401,995)

(1) Includes income earned from the CRE securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the three months ended September 30, 2020 and September 30, 2019, \$0.6 million and \$2.2 million, respectively, was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Corporate column.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

	Core				Total Core Portfolio	Legacy, Non-Strategic Portfolio	Total
	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased Real Estate	Corporate ⁽¹⁾			
Nine Months Ended September 30, 2020							
Net interest income (expense)	\$ 75,309	\$ 8,929	\$ 15	\$ (6,086)	\$ 78,167	\$ (150)	\$ 78,017
Property and other income	91	73	66,290	198	66,652	72,340	138,992
Management fee expense	—	—	—	(19,446)	(19,446)	(2,789)	(22,235)
Property operating expense	(1)	—	(9,437)	—	(9,438)	(44,681)	(54,119)
Transaction, investment and servicing expense	(1,737)	(39)	(511)	(2,770)	(5,057)	(2,611)	(7,668)
Interest expense on real estate	—	—	(24,613)	—	(24,613)	(12,488)	(37,101)
Depreciation and amortization	—	—	(31,396)	—	(31,396)	(15,370)	(46,766)
Provision for loan losses	(42,642)	—	—	—	(42,642)	(37,643)	(80,285)
Impairment of operating real estate	—	—	—	—	—	(33,512)	(33,512)
Administrative expense	(802)	(1,017)	(231)	(11,033)	(13,083)	(6,486)	(19,569)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	(43,154)	—	1,565	(41,589)	—	(41,589)
Other gain (loss), net	(49,567)	(101,552)	14,035	(94)	(137,178)	7,063	(130,115)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(19,349)	(136,760)	14,152	(37,666)	(179,623)	(76,327)	(255,950)
Equity in earnings (loss) of unconsolidated ventures	(72,906)	—	—	—	(72,906)	3,017	(69,889)
Income tax benefit (expense)	(646)	—	330	—	(316)	11,860	11,544
Net income (loss)	\$ (92,901)	\$ (136,760)	\$ 14,482	\$ (37,666)	\$ (252,845)	\$ (61,450)	\$ (314,295)

	Core				Total Core Portfolio	Legacy, Non-Strategic Portfolio	Total
	Senior and Mezzanine Loans and Preferred Equity	CRE Debt Securities	Net Leased Real Estate	Corporate ⁽¹⁾			
Nine Months Ended September 30, 2019							
Net interest income (expense)	\$ 55,077	\$ 15,856	\$ 2	\$ (7,674)	\$ 63,261	\$ 8,735	\$ 71,996
Property and other income	450	341	88,067	371	89,229	103,595	192,824
Management fee expense	—	—	—	(27,256)	(27,256)	(6,814)	(34,070)
Property operating expense	—	—	(25,187)	—	(25,187)	(60,889)	(86,076)
Transaction, investment and servicing expense	(1,325)	(4)	(208)	301	(1,236)	(1,777)	(3,013)
Interest expense on real estate	—	—	(26,078)	—	(26,078)	(15,708)	(41,786)
Depreciation and amortization	—	—	(37,645)	—	(37,645)	(45,208)	(82,853)
Provision for loan losses	—	—	—	—	—	(220,572)	(220,572)
Impairment of operating real estate	—	—	(23,911)	—	(23,911)	(258,935)	(282,846)
Administrative expense	(614)	(979)	(178)	(10,206)	(11,977)	(10,418)	(22,395)
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	—	6,035	—	(1,433)	4,602	—	4,602
Realized gain on mortgage loans and obligations held in securitization trusts, net	—	48	—	2,724	2,772	—	2,772
Other gain (loss), net	(15)	(14,909)	2,399	1	(12,524)	(1,305)	(13,829)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	53,573	6,388	(22,739)	(43,172)	(5,950)	(509,296)	(515,246)
Equity in earnings (losses) of unconsolidated ventures	39,020	—	—	—	39,020	(21,058)	17,962
Income tax benefit (expense)	(12)	—	1,822	(382)	1,428	(1,972)	(544)
Net income (loss)	\$ 92,581	\$ 6,388	\$ (20,917)	\$ (43,554)	\$ 34,498	\$ (532,326)	\$ (497,828)

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- (1) Includes income earned from the CRE securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the nine months ended September 30, 2020 and September 30, 2019, \$1.6 million and \$1.4 million, respectively, was attributable to discount accretion income and was eliminated in consolidation in the corporate segment. The corresponding interest expense is recorded in net interest income in the Corporate column.

The following table presents total assets by segment as of September 30, 2020 and December 31, 2019 (dollars in thousands):

Total Assets	Core				Total Core Portfolio	Legacy, Non-Strategic Portfolio ⁽³⁾	Total
	Senior and Mezzanine Loans and Preferred Equity ⁽¹⁾	CRE Debt Securities	Net Leased Real Estate	Corporate ⁽²⁾			
September 30, 2020	\$ 1,831,043	\$ 1,805,418	\$ 1,022,527	\$ 1,200,207	\$ 5,859,195	\$ 652,462	\$ 6,511,657
December 31, 2019	2,464,963	2,226,448	1,181,609	496,714	6,369,734	1,044,572	7,414,306

- (1) Includes investments in unconsolidated ventures totaling \$417.5 million and \$585.0 million as of September 30, 2020 and December 31, 2019, respectively.
(2) Includes cash, unallocated receivables, deferred costs and other assets, net and the elimination of the subordinate tranches of the securitization trusts in consolidation.
(3) Includes PE Investments totaling \$7.1 million and \$10.3 million as of September 30, 2020 and December 31, 2019, respectively.

Geography

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total income by geography:				
United States	\$ 90,814	\$ 105,826	\$ 222,547	\$ 400,864
Europe	5,968	12,161	30,115	37,080
Other	—	(3)	—	32
Total ⁽¹⁾	\$ 96,782	\$ 117,984	\$ 252,662	\$ 437,976

	September 30, 2020	December 31, 2019
Long-lived assets by geography:		
United States	\$ 931,300	\$ 1,282,189
Europe	287,899	315,369
Total ⁽²⁾	\$ 1,219,199	\$ 1,597,558

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

COLONY CREDIT REAL ESTATE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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18. Earnings Per Share

The Company's net income (loss) and weighted average shares outstanding for the three and nine months ended September 30, 2020 and 2019 consist of the following (dollars in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 6,430	\$ (401,995)	\$ (314,295)	\$ (497,828)
Net (income) loss attributable to noncontrolling interests:				
Investment Entities	(1,222)	37,445	6,362	38,623
Operating Partnership	(201)	8,519	7,109	10,741
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	<u>\$ 5,007</u>	<u>\$ (356,031)</u>	<u>\$ (300,824)</u>	<u>\$ (448,464)</u>
Numerator:				
Net income allocated to participating securities (non-vested shares)	\$ —	\$ (616)	\$ (322)	\$ (1,709)
Net income (loss) attributable to common stockholders	<u>\$ 5,007</u>	<u>\$ (356,647)</u>	<u>\$ (301,146)</u>	<u>\$ (450,173)</u>
Denominator:				
Weighted average shares outstanding ⁽¹⁾	<u>128,583</u>	<u>128,541</u>	<u>128,537</u>	<u>128,341</u>
Net income (loss) per common share - basic and diluted	<u>\$ 0.04</u>	<u>\$ (2.77)</u>	<u>\$ (2.34)</u>	<u>\$ (3.51)</u>

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

19. Subsequent Events*Investment Sales*

Subsequent to September 30, 2020, the Company sold 14 real estate properties in its Legacy, Non-Strategic Portfolio for total gross proceeds of \$29.3 million. The Company received \$27.3 million of net proceeds and will recognize a net gain of approximately \$2.0 million.

Additionally, the Company sold six CRE securities for \$14.7 million in gross sales proceeds and will recognize a gain of approximately \$3.6 million. In connection with these sales, the Company repaid \$6.6 million of financing on its CMBS Credit Facilities.

In October 2020, the Company completed a discounted payoff on the Corporate Term loan totaling \$12.1 million. The Company recorded \$1.6 million of provision for loan losses during the nine months ended September 30, 2020.

Loan Originations

Subsequent to September 30, 2020, the Company originated a senior loan with a total commitment of \$22.8 million which is secured by an office property. The loan bears interest at 3.6% plus LIBOR.

Master Repurchase Facilities

Subsequent to September 30, 2020, the Company exercised a one-year extension option on Bank 2 Facility 3, extending the maturity to October 2021. The Company additionally reduced the capacity from \$200.0 million to \$21.4 million.

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, 2019, 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 make preferred equity investments, which may include profit participations. The mezzanine loans and preferred equity investments may be in conjunction with our origination of corresponding first mortgages on the same properties. Net leased properties consist of CRE properties with long-term leases to tenants on a net-lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance capital expenditures and real estate taxes. We will continue to target net leased equity investments on a selective basis. We also currently have investments in CRE debt securities primarily consisting of commercial mortgage-backed securities (“CMBS”) (including “B pieces” of a CMBS securitization pool) or CRE collateralized loan obligations (“CLOs”) (including the junior tranches collateralized by pools of CRE debt investments). However, we have been reducing our CMBS holdings since the second quarter of this year. In doing so, we have also substantially reduced our exposure to CMBS securities repo financing.

We were organized in the state of Maryland on August 23, 2017. On January 31, 2018, the Combination among the CLNY Contributed Portfolio, NorthStar I and NorthStar II was completed in an all-stock exchange. We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, beginning with our taxable year ended December 31, 2018. We conduct all our activities and hold substantially all our assets and liabilities through our operating subsidiary, Credit RE Operating Company, LLC (the “OP”). At September 30, 2020, we owned 97.7% of the OP, as its sole managing member. The remaining 2.3% is owned primarily by our affiliate as noncontrolling interests.

We are externally managed by a subsidiary of Colony Capital, a New York Stock Exchange (“NYSE”)-listed global real estate and investment management firm. As of September 30, 2020, Colony Capital owned approximately 36.5% of our common equity on a fully diluted basis.

Our Manager

We are externally managed by our manager, CLNC Manager, LLC (our “Manager”). Our Manager is a subsidiary of Colony Capital. Over the past 28 years, Colony Capital and its predecessors have made over \$100 billion of investments. Colony Capital’s senior management team has a long track record and extensive experience managing and investing in our target assets and other real estate-related investments through a variety of credit cycles and market conditions. Colony Capital’s global footprint and corresponding network provides its investment and asset management teams with proprietary market knowledge, sourcing capabilities and the local presence required to identify, execute and manage complex transactions. Colony Capital’s history of external management includes its previous management of Colony Financial, Inc. (“Colony Financial”), an externally managed commercial mortgage REIT listed on the NYSE and focused on secondary loan acquisitions, high-yielding originations and real estate equity, and its management of various non-traded REITs (previously including NorthStar I and NorthStar II) and registered investment companies.

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

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

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

Our operating segments include the Senior and Mezzanine Loans and Preferred Equity, CRE Debt Securities, Net Leased Real Estate, Corporate and Legacy, Non-Strategic Portfolio. Our target assets, as more fully described below, are included in different operating segments.

Our Target Assets

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

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

- **CRE Debt Investments:**
 - **Senior Mortgage Loans.** Our primary focus is originating and selectively acquiring senior mortgage loans that are backed by CRE assets. These loans are secured by a first mortgage lien on a commercial property and provide mortgage financing to a commercial property developer or owner. Going forward, we expect to increase our exposure to senior mortgage loans as a percentage of our overall portfolio. The loans may vary in duration, bear interest at a fixed or floating rate and amortize, if at all, over varying periods, often with a balloon payment of principal at maturity. Senior mortgage loans include junior participations in our originated senior loans for which we have syndicated the senior participations to other investors and retained the junior participations for our portfolio. We believe these junior participations are more like the senior mortgage loans we originate than other loan types given their credit quality and risk profile.
- **Mezzanine Loans and Preferred Equity:**
 - **Mezzanine Loans.** We may originate or acquire mezzanine loans, which are structurally subordinate to senior loans, but senior to the borrower's equity position. Mezzanine loans may be structured such that our return accrues and is added to the principal amount rather than paid on a current basis. We may also pursue equity participation opportunities in instances when the risk-reward characteristics of the investment warrant additional upside participation in the possible appreciation in value of the underlying assets securing the investment.
 - **Preferred Equity.** We may make investments that are subordinate to senior and mezzanine loans, but senior to the common equity in the mortgage borrower. Preferred equity investments may be structured such that our return accrues and is added to the principal amount rather than paid on a current basis. We also may pursue equity participation opportunities in preferred equity investments, like such participations in mezzanine loans.
- **Net Leased Real Estate.** We may also invest directly in well-located commercial real estate with long-term leases to tenants on a net lease basis, where such tenants generally will be responsible for property operating expenses such as insurance, utilities, maintenance capital expenditures and real estate taxes. In addition, tenants of our properties typically pay rent increases based on: (1) increases in the consumer price index (typically subject to ceilings), (2) fixed increases, or (3) additional rent calculated as a percentage of the tenants' gross sales above a specified level. We believe that a portfolio of properties under long-term, net lease agreements generally produces a more predictable income stream than many other types of real estate portfolios, while continuing to offer the potential for growth in rental income.

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

The allocation of our capital among our target assets will depend on prevailing market conditions at the time we invest and may change over time in response to different prevailing market conditions. In addition, in the future, we may invest in assets other than our target assets or change our target assets. With respect to all our investments, we invest so as to maintain our qualification as a REIT for U.S. federal income tax purposes and our exclusion or exemption from regulation under the Investment Company Act of 1940, as amended (the “Investment Company Act”).

We believe that events in the financial markets from time to time, including the current and potential impacts of the COVID-19 pandemic, have created and will create significant dislocation between price and intrinsic value in certain asset classes as well as a supply and demand imbalance of available credit to finance these assets. We believe that our Manager’s in-depth understanding of CRE and real estate-related investments, in-house underwriting, asset management and resolution capabilities, provides the Company and management with a full-service value-add platform to regularly evaluate our investments and determine primary, secondary or alternative disposition strategies. This includes intermediate servicing and negotiating, restructuring of non-performing investments, foreclosure considerations, management or development of owned real estate, in each case to reposition and achieve optimal value realization for the Company and its stockholders. Depending on the nature of the underlying investment, we may pursue repositioning strategies through judicious capital investment in order to extract maximum value from the investment or recognize unanticipated losses to reinvest resulting liquidity in higher-yielding performing investments.

Our Business Segments

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

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

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

including expenses related to secured revolving credit facility, related party and general and administrative expenses related to the Legacy, Non-Strategic Portfolio only.

COVID-19 Initiatives

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

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

Significant Developments

During the three months ended September 30, 2020 and through November 5, 2020, significant developments affecting our business and results of operations of our Core Portfolio and Legacy, Non-Strategic Portfolio, respectively, included the following:

Capital Resources

- We reduced borrowing under our Bank Credit Facility (as defined below) and continue to reduce borrowing on our master repurchase facilities and CMBS Credit Facilities as a result of COVID-19 uncertainties. In July 2020, we fully repaid all outstanding borrowings on our Bank Credit Facility. The total combined reduction of debt on these facilities in 2020 through the date hereof is \$531.6 million.
- As of the date of this report, we have approximately \$438 million cash on hand and \$171.0 million available on our bank facility; and
- We expect to commence quarterly cash dividends in 2021.

Core Portfolio

- Originated two senior mortgage loans with a total commitment of \$42.3 million.
- Sold seven CRE debt securities and one loan for a total gross sales price of \$141.8 million and recognized a net gain of \$5.8 million, reducing our master repurchase facilities and CMBS Credit Facility borrowings by \$73.0 million and generating \$68.1 million in net liquidity;
- Succeeded in the recapitalization of the Los Angeles Mixed-use project. In doing so we transferred our mezzanine loan and preferred equity interests in the project to a third-party mezzanine lender who provided \$275.0 million in additional financing (the "Upsized Mezzanine Loan"). We retained a B-participation in the Upsized Mezzanine Loan at the same loan value. See "Los Angeles Construction Loan and Preferred Equity Investment" in "Our Core Portfolio" below;
- Placed Project Dockland on nonaccrual status as of July 1. See "Dublin, Ireland Senior Predevelopment Loan" in "Our Core Portfolio" below; and
- We sold an industrial portfolio and loan that generated gross and net proceeds of \$109.1 million and \$42.0 million, respectively. We recognized a gain of \$7.5 million on the sale. "See Net Leased Real Estate" in "Our Core Portfolio" below.

Legacy, Non-Strategic Portfolio

- Sold four operating property investments for a total gross sales price of \$15.2 million and a net gain of \$1.6 million; and
- Subsequent to September 30, 2020, we sold 14 operating real estate properties generating gross proceeds of \$29.3 million and an estimated net gain of \$2.0 million. We recorded an impairment charge of \$4.3 million during the three months ended September 30, 2020.

Results of Operations

Core

- Generated U.S. GAAP net loss of \$2.7 million, or \$(0.02) per share and Core Earnings of \$24.1 million, or \$0.18 per share during the three months ended September 30, 2020;
- Since July 1, 2020, we have collected all loan interest payments from our loan portfolio except for one, which is currently in maturity default as we work on an extension with the borrower; and we have collected 98% of total rents due from our net leased real estate portfolio. For further detail, refer to “COVID-19 Update” in “Our Core Portfolio.”

Legacy, Non-Strategic Portfolio

- Generated U.S. GAAP net income of \$7.7 million, or \$0.06 per share, and Legacy, Non-Strategic Earnings of \$15.6 million, or \$0.12 per share during the three months ended September 30, 2020; and
- Since July 1, 2020, we have collected 86.5% of total rents due from our owned real estate portfolio.

Impact of COVID-19

Since its discovery in December 2019, a new strain of coronavirus, which causes the viral disease known as COVID-19, has spread throughout the world, including the United States. The outbreak was declared to be a pandemic by the World Health Organization, and the Health and Human Services Secretary declared a public health emergency in the United States in response to the outbreak. Considerable uncertainty still surrounds COVID-19 and its potential effects, and the extent of and effectiveness of any responses taken on a national and local level.

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

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

We have taken actions since the onset of the COVID-19 pandemic to mitigate the impact on our financial condition while establishing a defensive posture through this period. As of the date of this report, we have approximately \$438 million in cash on hand and \$171.0 million available on our bank facility. We anticipate liquidity to increase further as a result of proceeds from sales related to assets under contract. It is important to note that while the combined result of these activities and events is an increase in liquidity and a reduction in debt, these events will also reduce future period earnings.

The decisive steps taken to protect the balance sheet and generate liquidity, position us to address further market and investment deterioration related to COVID-19. While asset and liability management and liquidity remain a priority, our focus has started to shift toward new investments, building earnings and further growth initiatives. New deployment will depend upon market pricing, opportunity and certainty of performance, each of which will be impacted by uncertainties relating to the impact of COVID-19.

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

Results of Operations Summary

The following tables present our results of operations for the three and nine months ended September 30, 2020 and 2019 (dollars in thousands):

	Three Months Ended September 30,					
	2020			2019		
	Core Portfolio	Legacy, Non-Strategic Portfolio	Total	Core Portfolio	Legacy, Non-Strategic Portfolio	Total
Net interest income	\$ 25,561	\$ (338)	\$ 25,223	\$ 24,034	\$ 2,077	\$ 26,111
Property and other income	21,183	20,525	41,708	29,094	35,218	64,312
Management fee expense	(6,445)	(638)	(7,083)	(9,084)	(2,271)	(11,355)
Property operating expense	(2,480)	(12,797)	(15,277)	(8,340)	(21,416)	(29,756)
Transaction, investment and servicing expense	(1,403)	(224)	(1,627)	(863)	(570)	(1,433)
Interest expense on real estate	(8,067)	(4,138)	(12,205)	(8,695)	(5,586)	(14,281)
Depreciation and amortization	(10,946)	(3,824)	(14,770)	(11,673)	(14,261)	(25,934)
Provision for loan losses	(11,229)	825	(10,404)	—	(110,314)	(110,314)
Impairment of operating real estate	—	(3,451)	(3,451)	(23,911)	(248,811)	(272,722)
Administrative expense	(4,538)	(1,242)	(5,780)	(4,171)	(3,561)	(7,732)
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	(13,162)	—	(13,162)	(1,976)	—	(1,976)
Realized gain on mortgage loans and obligations held in securitization trusts, net	—	—	—	2,724	—	2,724
Other gain (loss) on investments, net	9,896	(216)	9,680	(2,682)	(6)	(2,688)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(1,630)	(5,518)	(7,148)	(15,543)	(369,501)	(385,044)
Equity in earnings (loss) of unconsolidated ventures	(1,652)	(127)	(1,779)	2,736	(18,641)	(15,905)
Income tax benefit (expense)	1,949	13,408	15,357	(201)	(845)	(1,046)
Net income (loss)	\$ (1,333)	\$ 7,763	\$ 6,430	\$ (13,008)	\$ (388,987)	\$ (401,995)

	Nine Months Ended September 30,					
	2020			2019		
	Core Portfolio	Legacy, Non-Strategic Portfolio	Total	Core Portfolio	Legacy, Non-Strategic Portfolio	Total
Net interest income	\$ 78,167	\$ (150)	\$ 78,017	\$ 63,261	\$ 8,735	\$ 71,996
Property and other income	66,652	72,340	138,992	89,229	103,595	192,824
Management fee expense	(19,446)	(2,789)	(22,235)	(27,256)	(6,814)	(34,070)
Property operating expense	(9,438)	(44,681)	(54,119)	(25,187)	(60,889)	(86,076)
Transaction, investment and servicing expense	(5,057)	(2,611)	(7,668)	(1,236)	(1,777)	(3,013)
Interest expense on real estate	(24,613)	(12,488)	(37,101)	(26,078)	(15,708)	(41,786)
Depreciation and amortization	(31,396)	(15,370)	(46,766)	(37,645)	(45,208)	(82,853)
Provision for loan losses	(42,642)	(37,643)	(80,285)	—	(220,572)	(220,572)
Impairment of operating real estate	—	(33,512)	(33,512)	(23,911)	(258,935)	(282,846)
Administrative expense	(13,083)	(6,486)	(19,569)	(11,977)	(10,418)	(22,395)
Unrealized gain on mortgage loans and obligations held in securitization trusts, net	(41,589)	—	(41,589)	4,602	—	4,602
Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	—	—	2,772	—	2,772
Other gain (loss) on investments, net	(137,178)	7,063	(130,115)	(12,524)	(1,305)	(13,829)
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(179,623)	(76,327)	(255,950)	(5,950)	(509,296)	(515,246)
Equity in earnings (loss) of unconsolidated ventures	(72,906)	3,017	(69,889)	39,020	(21,058)	17,962
Income tax benefit (expense)	(316)	11,860	11,544	1,428	(1,972)	(544)
Net income (loss)	\$ (252,845)	\$ (61,450)	\$ (314,295)	\$ 34,498	\$ (532,326)	\$ (497,828)

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

Our Core Portfolio

As of September 30, 2020, our Core Portfolio, including our senior and mezzanine loans and preferred equity, CRE debt securities, net leased real estate and corporate segments, consisted of 71 investments representing approximately \$3.1 billion in book value (excluding cash, cash equivalents and certain other assets). Our senior and mezzanine loans and preferred equity consisted of 47 senior mortgage loans, mezzanine loans, preferred equity investments and other loans and had a weighted average cash coupon of 3.5% and a weighted average all-in unlevered yield of 5.8%. Our CRE debt securities portfolio had a weighted average cash coupon of 3.3%. Our net leased real estate consisted of approximately 9.2 million total square feet of space and total third quarter net operating income (“NOI”) of that portfolio was approximately \$12.9 million.

As of September 30, 2020, our Core Portfolio consisted of the following investments (dollars in thousands):

	Count ⁽¹⁾	Book value (Consolidated)	Book value (at CLNC share) ⁽²⁾	Net book value (Consolidated) ⁽³⁾	Net book value (at CLNC share) ⁽⁴⁾
Core Portfolio					
Senior mortgage loans ⁽⁵⁾	32	\$ 2,109,411	\$ 1,980,506	\$ 613,838	\$ 484,934
Mezzanine loans ⁽⁵⁾	9	305,152	269,676	305,152	269,676
Preferred equity and other loans ⁽⁵⁾⁽⁶⁾	6	47,675	44,865	47,675	44,865
CRE debt securities	19	104,716	104,716	79,485	79,485
Net leased real estate	5	954,919	746,281	279,588	223,838
Total/Weighted average Core Portfolio	71	\$ 3,521,873	\$ 3,146,044	\$ 1,325,738	\$ 1,102,798

(1) Count for net leased real estate represents number of investments.

(2) Book value at our share represents the proportionate book value based on ownership by asset as of September 30, 2020.

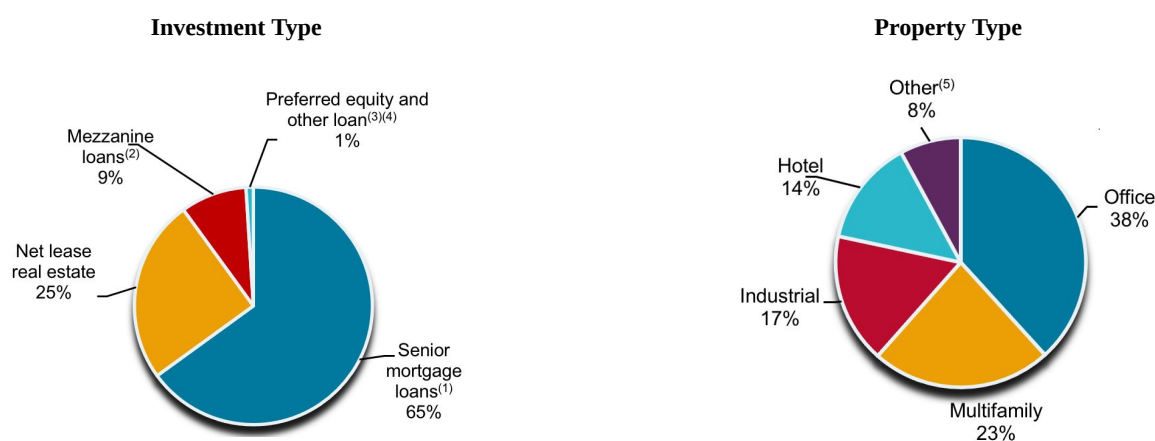
(3) Net book value represents book value less any associated financing as of September 30, 2020.

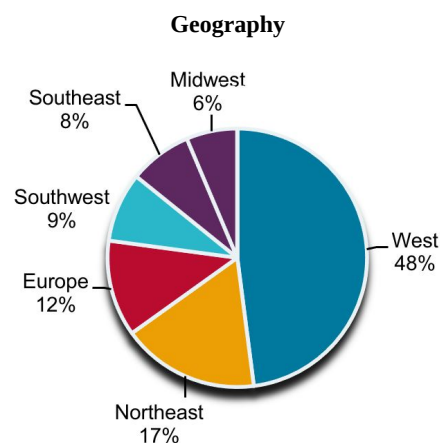
(4) Net book value at our share represents the proportionate book value based on asset ownership less any associated financing based on ownership as of September 30, 2020.

(5) Senior mortgage loans, mezzanine loans, and preferred equity include investments in joint ventures whose underlying interest is in a loan or preferred equity.

(6) Preferred equity balances include \$17.5 million of book value at our share attributable to related equity participation interests.

The following charts illustrate the diversification of our Core Portfolio (not including CRE Debt Securities) based on investment type, underlying property type, and geography, as of September 30, 2020 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):





- (1) Senior mortgage loans include junior participations in our originated senior mortgage loans for which we have syndicated the senior participations to other investors and retained the junior participations for our portfolio and contiguous mezzanine loans where we own both the senior and junior loan positions. We believe these investments are more similar to the senior mortgage loans we originate than other loan types given their credit quality and risk profile.
- (2) Mezzanine loans include other subordinated loans.
- (3) Preferred equity balances include \$17.5 million of book value at our share attributable to related equity participation interests.
- (4) Other contains one corporate term loan secured by the borrower's limited partnership interests in a fund.
- (5) Other includes commercial and residential development and predevelopment assets, one corporate term loan secured by the borrower's limited partnership interests in a fund, and a preferred equity investment in a loan origination platform.

Underwriting Process

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

Loan Risk Rankings

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

1. *Very Low Risk*—The loan is performing as agreed. The underlying property performance has exceeded underwritten expectations with very strong 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 a sufficient reserve or loan structure to provide time for sponsor to execute the business plan. Sponsor has routinely met its obligations and has experience owning/operating similar real estate.
4. *High Risk/Delinquent/Potential for Loss*—The loan is in excess of 30 days delinquent and/or has a risk of a principal loss. The underlying property performance is behind underwritten expectations. Loan covenants may require occasional waivers/modifications. Sponsor has been unable to execute its business plan and local market fundamentals have deteriorated. Operating cash flow is not sufficient to service the debt and debt service payments may be coming from sponsor equity/loan reserves.
5. *Impaired/Defaulted/Loss Likely*—The loan 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 rating each quarter. Beginning with the quarter ended March 31, 2020, and continuing in the quarter ended June 30, 2020, our average risk ranking was impacted by the current and potential future effects of the COVID-19 pandemic, resulting in a number of assets moving from average risk (3) to high risk (4).

For the quarter ended September 30, 2020, management believes the extended impact of the COVID-19 pandemic remains uncertain, and therefore continues to represent a significant risk to our portfolio. As such, the current period average rating is 3.8, which is consistent with the first and second quarters of 2020.

Senior and Mezzanine Loans and Preferred Equity

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

The following table provides a summary of our senior and mezzanine loans and preferred equity in our Core Portfolio based on our internal risk rankings as of September 30, 2020 (dollars in thousands):

Risk Ranking	Count ⁽²⁾	Carrying Value (at CLNC share) ⁽¹⁾			Total	% of Core Portfolio
		Senior mortgage loans ⁽³⁾	Mezzanine loans	Preferred equity and other loans		
3	14	\$ 696,762	\$ —	\$ —	\$ 696,762	30.4 %
4	28	1,250,387	140,990	32,810	1,424,187	62.0 %
5	4	60,657	101,386	12,052	174,095	7.6 %
	46	\$ 2,007,806	\$ 242,376	\$ 44,862	\$ 2,295,044	100.0 %

Weighted average risk ranking

3.8

(1) Book value at our share represents the proportionate book value based on ownership by asset as of September 30, 2020.

(2) Count excludes one equity method participation held in a joint venture with a de minimis carry value (at CLNC share) which was not assigned a risk ranking.

(3) Includes one mezzanine loan totaling \$27.3 million where we are also the senior lender.

The following table provides asset level detail for senior and mezzanine loans and preferred equity included in our Core Portfolio as of September 30, 2020 (dollars in thousands):

	Collateral type	Origination Date	City, State	Carrying value ⁽¹⁾	Principal balance	Coupon type	Cash Coupon ⁽²⁾	Unlevered all-in yield ⁽³⁾	Extended maturity date	Loan-to-value ⁽⁴⁾	Q3/Q2/Q1 Risk ranking ⁽⁵⁾
Senior loans											
Loan 1	Multifamily	6/21/2019	Milpitas, CA	\$ 176,742	\$ 178,951	Floating	3.1%	5.5%	7/9/2024	72%	3/3/3
Loan 2	Hotel	1/2/2018	San Jose, CA	169,890	173,485	Floating	4.3%	5.3%	1/9/2023	62%	4/4/4
Loan 3	Hotel	6/28/2018	Berkeley, CA	116,356	120,517	Floating	3.2%	5.2%	7/9/2025	66%	4/4/4
Loan 4	Industrial	9/19/2019	New York, NY	114,757	116,000	Floating	3.1%	5.8%	9/19/2024	76%	4/4/3
Loan 5	Office	12/7/2018	Carlsbad, CA	111,482	115,563	Floating	3.7%	6.1%	12/9/2023	73%	3/3/3
Loan 6 ⁽⁶⁾	Multifamily	6/18/2019	Santa Clara, CA	103,424	104,867	Floating	4.4%	7.3%	6/18/2024	64%	4/4/4
Loan 7	Office	5/31/2019	Stamford, CT	94,326	95,767	Floating	3.5%	5.8%	6/9/2025	71%	4/4/4
Loan 8	Multifamily	4/11/2019	Various - U.S.	91,539	92,000	Floating	3.0%	5.9%	4/9/2024	65%	4/4/4
Loan 9	Office	6/27/2018	Burlingame, CA	73,204	73,254	Floating	2.8%	4.7%	7/9/2023	61%	3/3/3
Loan 10	Hotel	6/25/2018	Englewood, CO	71,965	73,156	Floating	3.5%	5.3%	7/9/2023	69%	4/4/4
Loan 11	Office	8/28/2018	San Jose, CA	68,152	68,182	Floating	2.5%	4.3%	8/28/2025	66%	3/3/3
Loan 12	Other (Mixed-use)	10/24/2019	Brooklyn, NY	66,401	72,251	Floating	3.4%	5.9%	11/9/2024	66%	4/4/4
Loan 13	Office	4/5/2019	Long Island City, NY	62,163	62,981	Floating	3.3%	5.8%	4/9/2024	58%	4/4/4
Loan 14	Office	5/29/2019	Long Island City, NY	61,072	63,770	Floating	3.5%	6.0%	6/9/2024	59%	4/4/4
Loan 15 ⁽⁶⁾⁽⁷⁾	Other (Mixed-use)	10/17/2018	Dublin, Ireland	60,657	60,626	n/a ⁽⁷⁾	n/a ⁽⁷⁾	n/a ⁽⁷⁾	12/31/2023	94%	5/4/4
Loan 16	Office	2/13/2019	Baltimore, MD	55,474	56,199	Floating	3.5%	6.2%	2/9/2024	74%	4/4/4
Loan 17	Office	7/12/2019	Washington, D.C.	53,149	53,828	Floating	2.8%	5.7%	8/9/2024	68%	4/4/4
Loan 18	Multifamily	7/1/2019	Phoenix, AZ	44,280	44,384	Floating	2.7%	5.0%	7/9/2024	76%	3/4/4
Loan 19	Multifamily	2/8/2019	Las Vegas, NV	39,489	39,734	Floating	3.2%	5.9%	2/9/2024	71%	4/4/4
Loan 20	Multifamily	5/3/2019	North Phoenix, AZ	37,040	37,311	Floating	3.4%	5.6%	5/9/2024	81%	4/4/4
Loan 21	Multifamily	4/26/2018	Oxnard, CA	36,385	36,500	Floating	5.2%	6.5%	11/9/2020	71%	4/4/4
Loan 22	Office	9/26/2019	Salt Lake City, UT	36,035	36,626	Floating	2.7%	5.0%	10/9/2024	72%	4/4/4
Loan 23	Office	6/16/2017	Miami, FL	33,323	33,305	Floating	4.9%	5.6%	7/9/2022	68%	3/3/3
Loan 24	Office	3/28/2019	San Jose, CA	30,135	30,251	Floating	3.0%	5.9%	4/9/2024	64%	3/4/4
Loan 25	Office	1/15/2019	Santa Barbara, CA	27,910	28,614	Floating	3.2%	5.7%	2/9/2024	80%	3/3/3
Loan 26	Multifamily	1/11/2019	Tempe, AZ	26,660	26,659	Floating	2.9%	5.2%	2/9/2024	79%	3/4/4
Loan 27	Office	9/16/2019	San Francisco, CA	22,643	22,951	Floating	3.2%	5.9%	10/9/2024	72%	3/3/3
Loan 28	Multifamily	12/21/2018	Phoenix, AZ	22,288	22,284	Floating	2.9%	5.2%	1/9/2023	73%	3/4/4
Loan 29	Office	8/27/2019	San Francisco, CA	20,332	20,507	Floating	2.8%	5.6%	9/9/2024	73%	3/3/3
Loan 30	Office	2/26/2019	Charlotte, NC	20,115	20,267	Floating	3.4%	6.0%	3/9/2024	56%	3/3/3
Loan 31	Hotel	7/30/2020	Bloomington, MN	19,494	19,500	Floating	3.0%	4.8%	11/9/2021	64%	3
Loan 32	Multifamily	2/8/2019	Las Vegas, NV	13,624	13,668	Floating	3.2%	5.9%	2/9/2024	71%	4/4/4
Total/Weighted average senior loans				\$ 1,980,506	\$ 2,013,958			5.5%	3/25/2024	70%	3.7/3.8/3.7
Mezzanine loans											
Loan 33 ⁽⁶⁾⁽⁷⁾	Other (Mixed-use)	9/1/2020	Los Angeles, CA	\$ 97,918	\$ 162,243	n/a ⁽⁷⁾	n/a ⁽⁷⁾	n/a ⁽⁷⁾	7/9/2023	62% – 88%	5/5/5
Loan 34 ⁽⁶⁾	Multifamily	12/26/2018	Santa Clarita, CA	52,967	55,790	Fixed	7.0%	13.8%	12/26/2024	56% – 84%	4/4/4
Loan 35 ⁽⁶⁾	Multifamily	12/3/2019	Milpitas, CA	32,466	33,050	Fixed	8.0%	13.3%	12/3/2024	49% – 71%	4/4/4
Loan 36	Hotel	9/23/2019	Berkeley, CA	27,300	28,773	Fixed	9.0%	11.5%	7/9/2025	66% – 81%	4/4/4
Loan 37 ⁽⁶⁾	Multifamily	7/11/2019	Placentia, CA	26,953	28,198	Fixed	8.0%	13.3%	7/11/2024	51% – 84%	4/4/4
Loan 38 ⁽⁶⁾	Office	7/20/2018	Dublin, Ireland	13,265	12,746	Fixed	—%	12.5%	12/20/2021	45% – 68%	4/4/4
Loan 39	Hotel	1/9/2017	New York, NY	11,182	12,000	Floating	11.0%	11.5%	1/9/2022	63% – 76%	4/4/4
Loan 40	Multifamily	7/30/2014	Various - TX	4,157	4,524	Fixed	9.5%	9.5%	8/11/2024	71% – 83%	4/4/4

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	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⁾	Q3/Q2/Q1 Risk ranking ⁽⁵⁾
Loan 41 ⁽⁷⁾	Other (Mixed-use)	3/19/2013	San Rafael, CA	3,468	5,701	n/a ⁽⁷⁾	n/a ⁽⁷⁾	n/a ⁽⁷⁾	9/30/2020	32% – 86%	5/5/4
Total/Weighted average mezzanine loans				<u>\$ 269,676</u>	<u>\$ 343,025</u>			8.0%	2/14/2024	54% - 78%	4.4/4.4/4.4
Preferred equity & other loans											
Loan 42 ⁽⁶⁾	Industrial	9/1/2016	Various - U.S.	\$ 16,200	\$ —	n/a	n/a	n/a	9/2/2027	n/a	4/4/4
Loan 43 ⁽⁶⁾⁽⁸⁾	Office	8/22/2018	Las Vegas, NV	13,716	18,351	Fixed	8.0%	15.3%	9/9/2023	n/a	4/5/5
Loan 44	Other	6/28/2019	Various - U.S.	12,052	13,692	Fixed	10.0%	15.3%	5/28/2024	n/a	5/4/4
Loan 45	Hotel	8/17/2020	San Jose, CA	1,569	1,569	Floating	4.3%	5.3%	1/9/2021	n/a	4/4/4
Loan 46	Office	7/20/2018	Dublin, Ireland	1,325	—	n/a	n/a	n/a	12/20/2021	n/a	4/4/4
Loan 47 ⁽⁶⁾	Hotel	10/24/2014	Austin, TX	3	—	n/a	n/a	n/a	n/a	n/a	n/a
Total/Weighted average preferred equity & other loans⁽⁹⁾				<u>\$ 44,865</u>	<u>\$ 33,612</u>			9.0%	3/1/2025	n/a	4.3/4.7/4.1
Total/Weighted average senior and mezzanine loans and preferred equity - Core Portfolio				<u>\$ 2,295,047</u>	<u>\$ 2,390,595</u>			5.8%	3/27/2024	n/a	3.8/3.9/3.8

(1) Represents carrying values at our share as of September 30, 2020.

(2) Represents the stated coupon rate for loans; for floating rate loans, does not include USD 1-month London Interbank Offered Rate (“LIBOR”) which was 0.15% as of September 30, 2020.

(3) In addition to the stated cash coupon rate, unlevered all-in yield includes non-cash payment in-kind interest income and the accrual of origination, extension and exit fees. Unlevered all-in yield for the loan portfolio assumes the applicable floating benchmark rate as of September 30, 2020 for weighted average calculations.

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

(5) On a quarterly basis, the Company’s senior and mezzanine loans and preferred equity are rated “1” through “5,” from less risk to greater risk. Represents risk ranking as of September 30, 2020, June 30, 2020 and March 31, 2020, respectively.

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

(7) Loans 15, 33 and 41 are on nonaccrual status as of September 30, 2020; as such, no income is being recognized.

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

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

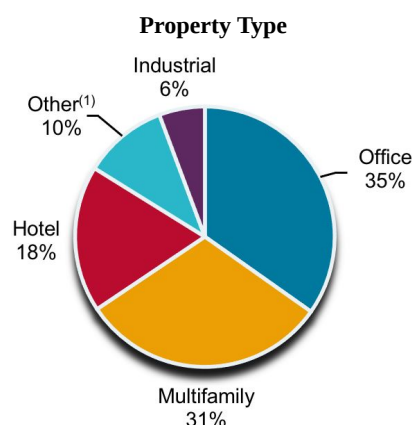
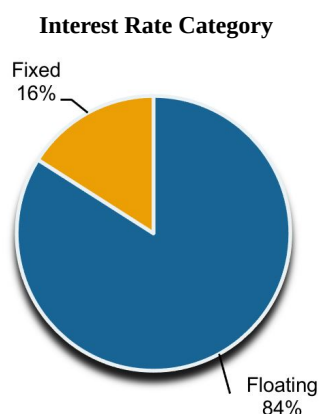
The following table details the types of properties securing our senior and mezzanine loans and preferred equity included in our Core Portfolio and geographic distribution as of September 30, 2020 (dollars in thousands):

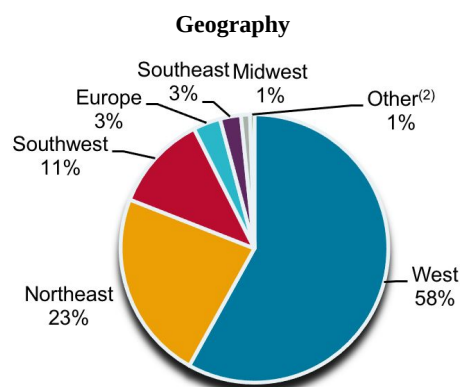
Collateral property type	Book value (at CLNC share)				% of Total
	Count	Senior mortgage loans	Mezzanine loans and preferred equity ⁽¹⁾	Total	
Office	18	\$ 769,515	\$ 28,306	\$ 797,821	34.8 %
Multifamily	14	591,473	116,543	708,016	30.8 %
Industrial	2	114,757	16,200	130,957	5.7 %
Hotel	8	377,705	40,068	417,773	18.2 %
Other ⁽²⁾	5	127,056	113,424	240,480	10.5 %
Total	47	\$ 1,980,506	\$ 314,541	\$ 2,295,047	100.0 %

Region	Book value (at CLNC share)				% of Total
	Count	Senior mortgage loans	Mezzanine loans and preferred equity ⁽¹⁾	Total	
US West	23	\$ 1,081,733	\$ 261,097	\$ 1,342,830	58.5 %
US Northeast	8	507,341	11,785	519,126	22.6 %
US Southwest	8	257,843	5,772	263,615	11.5 %
Europe	3	60,657	14,591	75,248	3.3 %
US Southeast	2	53,438	4,033	57,471	2.5 %
US Midwest	1	19,494	5,215	24,709	1.1 %
US Other ⁽³⁾	2	—	12,048	12,048	0.5 %
Total	47	\$ 1,980,506	\$ 314,541	\$ 2,295,047	100.0 %

- (1) Mezzanine loans and preferred equity also contains one corporate term loan secured by the borrower's limited partnership interests in a fund.
 (2) Other includes commercial and residential development and predevelopment assets and one corporate term loan secured by the borrower's limited partnership interests in a fund.
 (3) US Other contains one corporate term loan secured by the borrower's limited partnership interests in a fund.

The following charts illustrate the diversification of our senior and mezzanine loans and preferred equity included in our Core Portfolio based on interest rate category, property type, and geography as of September 30, 2020 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):





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

(2) Other contains one corporate term loan secured by the borrower's limited partnership interests in a fund and a preferred equity investment in a loan origination platform.

COVID-19 Update

For the three months ended September 30, 2020 we have collected all of our loan interest payments, excluding payment-in-kind loans. Most of our borrowers paid on time utilizing cash from operations, while some utilized interest and other reserves. Additionally, some loans required partial modification of their existing reserves to provide their loan interest payment.

In October 2020, we collected all loan interest payments except for one loan, excluding payment-in-kind loans. Most of our borrowers paid on time utilizing cash from operations, while some utilized interest and other reserves. Additionally, some loans required partial modification of their existing reserves to provide their loan interest payment. The one loan on which we did not receive our loan interest payment is currently in maturity default as we work on an extension with the borrower.

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

We have five loans on nonaccrual status during the nine months ended September 30, 2020, of which we received cash interest payments from these loans of \$9.8 million and applied the cash interest collected as a reduction to the loan's carrying value.

At September 30, 2020 our current expected credit loss reserve ("CECL") calculated by our probability of default ("PD")/loss given default ("LGD") model for our outstanding loans and future loan funding commitments is \$40.2 million, or \$0.31 per share, which is 1.7% of the aggregate commitment amount of our loan portfolio. This represents a \$8.9 million increase from \$31.3 million for the three months ended June 30, 2020. The difference is primarily driven by declining asset performance attributable to the on-going impact of COVID-19.

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

Additionally, during the three months ended September 30, 2020, the following three loans were resolved:

- The hotel property securing Midwest Hospitality was sold and we received \$24.5 million in gross proceeds and concurrently provided a bridge loan in the amount of \$19.5 million to a new borrower secured by Midwest Hospitality. For the three months ended March 31, 2020, we recorded a specific provision for loan loss of \$2.3 million on our Midwest Hospitality loan secured by a hotel in Bloomington, MN, with an unpaid principal balance of \$29.8 million. This loan was placed on nonaccrual status during 2019 and is the only loan in our Core Portfolio that was delinquent.

- We received gross proceeds of \$80.7 million in a discounted payoff of one loan secured by six suburban office buildings (“Northeast Office Portfolio”) which was equal to the carrying value of the loan, net of current provision for loan losses. As such, no additional provision for loan losses were required at June 30, 2020. A \$20.9 million allowance for loan losses was recorded as of March 31, 2020, which included an \$8.8 million allowance for loan losses resulting from CECL adoption and an additional \$12.1 million provision for loan losses recognition during the three months ended March 31, 2020.
- We received \$105.2 million in gross proceeds resulting from a sale of our loan secured by a hospitality asset in San Diego, California (“West Hospitality”) and concurrently repaid \$56.8 million on our master repurchase facility. During the second quarter, we classified this loan as held for sale and recognized a net loss of \$32.8 million to reflect the expected proceeds to be collected in a sale of the loan. We had recorded a \$5.2 million allowance for loan losses as of March 31, 2020, which included a \$2.6 million allowance for loan losses resulting from CECL adoption and an additional \$2.6 million provision for loan losses recognized for West Hospitality during the three months ended March 31, 2020. In connection with transferring the loan to held for sale during the second quarter, we reversed out the \$5.2 million from provision for loan losses line item and recorded \$38.0 million in other loss, net.

Furthermore, the Company had a total \$1.6 million allowance for loan losses recorded as of September 30, 2020, which included a \$0.1 million allowance for loan losses resulting from CECL adoption and an additional \$1.5 million provision for loan losses recognition recorded during the first and second quarters of 2020, on one loan secured by the borrowers limited partner interests in a fund (“Corporate Term loan”). Subsequent to September 30, 2020 the Company received gross proceeds of \$12.1 million in a discounted payoff of the Corporate Term loan which was equal to the carrying value of the loan, net of current provision for loan losses. As such, no additional provision for loan losses were required at September 30, 2020.

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

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

In April 2020, the senior mortgage lender notified the borrower developer that the Mixed-use Project loan funding was out of balance, due to cost overruns from certain hard and soft costs and senior loan interest reserve shortfalls projected through completion. To address the out of balance circumstance during the second quarter, the Colony Mezzanine Lender made two protective advances to the senior mortgage lender totaling \$67.6 million, of which our share was \$28.5 million. The Colony Mezzanine Lender placed this investment on nonaccrual status.

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

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

During the three months ended June 30, 2020, we placed the mezzanine loans and preferred equity investment on nonaccrual status and recorded our proportionate share of a fair value loss adjustment totaling \$89.3 million. (See Loans 36 and 46 in the table above). Having just completed the Upsized Mezzanine Loan refinancing, among other factors, for the period ended September 30, 2020, we continue to maintain the nonaccrual status and fair value loss adjustment on our proportionate share of the Colony Mezzanine Lender's B-participation investment.

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

Dublin, Ireland Senior Predevelopment Loan

We hold a \$189.6 million co-lender interest (61%) in a senior mortgage loan in the amount of \$310.9 million. The senior mortgage loan is also held by private investment vehicles managed by Colony Capital. The senior mortgage is Euro-denominated and is for a fully entitled land acquisition for a mixed-use development project in Dublin, Ireland (Project Dockland).

The project borrower has planning permission for 420 apartments and approximately 380,000 square feet of offices on the site, but the project borrower subsequently sought to increase that number to 1,000 total residential units across two towers of 40 and 44 stories, respectively. Based on this value-driven expansion effort and updated permitting guidelines for waterfront development implemented by the Irish government zoning authority, the borrower modified its final development application, which is currently under review by planning authorities. While the Project Dockland schedule had been extended by approximately six to nine months, as previously disclosed, the majority of enabling works commenced in July 2020 and remain on track to be completed, as planned, in January 2021. The aforementioned delay may limit the ability of the borrower to obtain a senior secured development construction facility within the expected timeline as initially underwritten; however, senior financing is largely dependent on pre-letting discussions, which are progressing. We and our senior mortgage co-lenders regularly engage in discussions with the borrower to address continuing developments and solutions at the project.

In addition, project delays, permitting processes, uncertain market conditions as a result of COVID-19 (including adverse impacts on demand for office and residential space), may have a negative impact on the senior lender's investment interest and may result in a future valuation impairment or investment loss. Given the delays and potential negative impact of COVID-19 on market conditions the loan was placed on nonaccrual status for the quarter ended September 30, 2020. We are working with the borrower and evaluating options. The loan's initial maturity date is December 31, 2020, and the borrower is unlikely to meet the conditions required for an automatic extension. (See Loan 3 in the table).

During the second quarter, we completed an asset level preferred financing on five assets which included Project Dockland.

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

Other Impairment of Loans and Preferred Equity Held in Joint Ventures

During the three months ended June 30, 2020, we recognized our proportionate share of a fair value loss adjustment totaling \$7.0 million reducing the carrying to \$10.8 million from \$17.8 million on one mezzanine loan secured by a mixed-use development project ("West Mixed-use") of which we own 50.0% of the joint venture. The change in fair value is a result of revised sale expectations and its impact on repayment proceeds.

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

We have debt investments in our portfolio that contain a PIK provision. Contractual PIK interest, which represents contractually deferred interest added to the loan balance that is due at the end of the loan term, is generally recorded on an accrual basis to the extent such amounts are expected to be collected. During the three and nine months ended September 30, 2020, we recorded total PIK interest of \$3.9 million and \$23.2 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 in our Core Portfolio as of September 30, 2020 (dollars in thousands):

CRE Debt Securities by ratings category ⁽²⁾	Number of Securities	Book value	Weighted Average ⁽¹⁾			
			Cash coupon	Unlevered all-in yield	Remaining term	Ratings
Investment grade rated (BBB)	9	\$ 27,691	— %	— %	6.2	BBB-
Non-investment grade rated (BB)	2	8,558	— %	— %	4.8	BB B
"B-pieces" of CMBS securitization pools	8	68,467	4.6 %	10.3 %	5.1	—
Total/Weighted Average	19	\$ 104,716	3.3 %	6.7 %	5.3	—

(1) Weighted average metrics weighted by book value, except for cash coupon which is weighted by principal balance.

(2) As of September 30, 2020, all CRE debt securities consisted of CMBS.

During the three and nine months ended September 30, 2020, we sold the following CMBS bonds (dollars in thousands):

	Number of Securities	Gross Proceeds	Repayment of CMBS Credit Facility	Net Proceeds	Net gain (loss) ⁽¹⁾
Three months ended June 30, 2020	27	\$ 89,700	\$ 66,100	\$ 23,600	\$ (57,000)
Three months ended September 30, 2020	5	28,824	13,120	15,704	5,156
Total⁽²⁾	32	\$ 118,524	\$ 79,220	\$ 39,304	\$ (51,844)

(1) Net loss during the quarter ended June 30, 2020 contained \$36.4 million previously recorded as an unrealized loss in other comprehensive income at March 31, 2020.

(2) Subsequent to September 30, 2020, we sold 6 CRE securities for \$14.7 million in gross sales proceeds and will recognize a gain of approximately \$3.6 million.

Additionally, during the quarter ended June 30, 2020, we unwound a portion of our interest rate swaps and in connection realized a loss of \$34.0 million. This resulted in the release of \$32.0 million held in a margin account to unrestricted cash.

Consistent with the overall market, our CRE debt securities (CMBS), which we mark to fair value, lost significant value since the onset of the COVID-19 pandemic. Although the market at September 30, 2020 experienced a slight rebound in some securities from the marks taken at June 30, 2020, we believe bond prices will remain at or around current levels over the next six to twelve months. As we evaluate selling our investment grade and non-investment grade rated bonds over the next twelve months, it is more likely than not that we will sell before recovery. As a result, during the three months ended June 30, 2020 we recorded an impairment loss of \$29.2 million. Additionally, during the second quarter, we have placed our investment grade and non-investment grade rated bonds on cost recovery and as a result, have ceased accretion of any discounts to expected maturity and applied any cash interest received against the securities' carrying value.

We expect continued challenges to CRE debt security values, with further losses resulting from delinquencies and potential defaults in underlying loans with respect to loans secured by hotel and retail properties. Further losses not only impact our financial results but may also trigger further repayments under our CMBS credit facilities.

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

Net Leased Real Estate

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

As of September 30, 2020, \$0.7 billion, or 23.7% of our assets were invested in net leased real estate properties included in our Core Portfolio and these properties were 98.3% occupied. The following table presents our net leased real estate investments included in our Core Portfolio as of September 30, 2020 (dollars in thousands):

	Count	Carrying Value ⁽¹⁾	NOI for the three months ended September 30, 2020 ⁽²⁾
Net leased real estate	5	\$ 746,281	\$ 12,918
Total/Weighted average net leased real estate - Core Portfolio	5	\$ 746,281	\$ 12,918

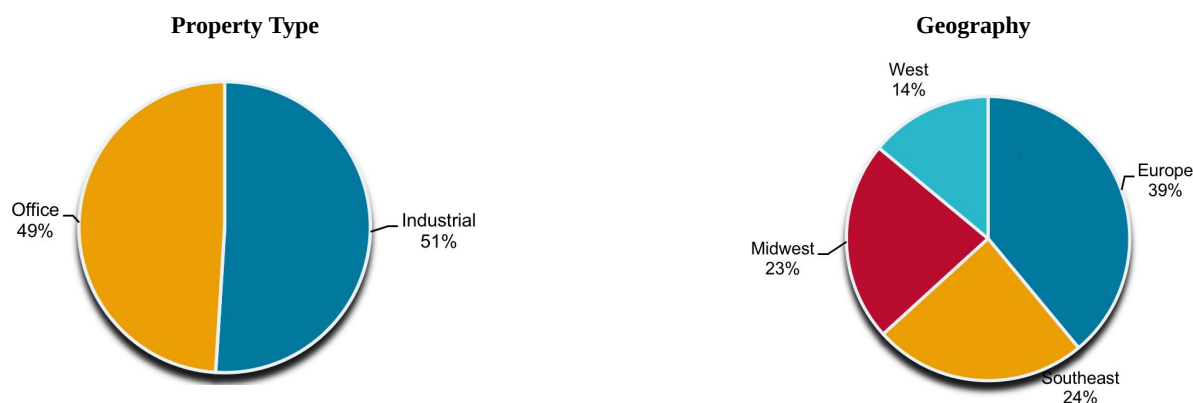
- (1) Represents carrying values at our share as of September 30, 2020; includes real estate tangible assets, deferred leasing costs and other intangible assets less intangible liabilities.
 (2) Excludes NOI of \$1.7 million that relates to properties that have been sold. Please refer to “Non-GAAP Supplemental Financial Measures” for further information on NOI.

The following table provides asset-level detail of our net leased real estate included in our Core Portfolio as of September 30, 2020:

	Collateral type	City, State	Number of Properties	Number of Buildings	Rentable square feet (“RSF”) / units/keys	Weighted average % leased ⁽¹⁾	Weighted average lease term (yrs) ⁽²⁾
Net leased real estate							
Net lease 1	Industrial	Various - U.S.	22	22	6,697,304 RSF	96%	4.2
Net lease 2	Office	Stavenger, Norway	1	26	1,290,926 RSF	100%	9.7
Net lease 3	Industrial	Various - U.S.	2	2	661,278 RSF	100%	17.9
Net lease 4	Office	Aurora, CO	1	1	183,529 RSF	100%	2.2
Net lease 5	Office	Indianapolis, IN	1	1	338,000 RSF	100%	5.3
Total/Weighted average net leased real estate			27	52	9,171,037 RSF	98%	7.4

- (1) Represents the percent leased as of September 30, 2020. Weighted average calculation based on carrying value at our share as of September 30, 2020.
 (2) Based on in-place leases (defined as occupied and paying leases) as of September 30, 2020 and assumes that no renewal options are exercised. Weighted average calculation based on carrying value at our share as of September 30, 2020.

The following charts illustrate the concentration of our net leased real estate portfolio included in Core Portfolio based on property type and geography as of September 30, 2020 (percentages based on book value at our share, which represents the proportionate book value based on our ownership by asset):



COVID-19 Update

For the quarter ended September 30, 2020 and October, we collected 98% of total rents from our net leased real estate portfolio. We believe these properties will continue to perform but caution that COVID-19 events could still result in lease modifications, impairment and the inability to make our mortgage payments, all which could result in defaults under our mortgage obligations or trigger repayments under our Bank Credit Facility.

For the quarter ended September 30, 2020, we sold one industrial portfolio and received total gross proceeds of \$466.4 million. Net of repayments to existing mortgages and paydowns under our Bank Credit Facility, we generated \$90.6 million of available balance sheet cash liquidity.

During the second quarter, we disclosed the potential sale of Net Lease 1. In September 2020, the prospective purchasers failed to timely satisfy the conditions of the purchase and sale agreement. As a result, we exercised our contractual right to terminate the transaction, and intend to hold this asset for investment. However, on October 16, 2020, the prospective purchasers filed an action in Delaware Chancery Court seeking an order compelling us to specifically perform and sell the asset under the terms of the purchase and sale agreement. We are seeking to dismiss this claim; however no assurances can be given as to whether we will be successful.

During the first quarter we unwound our NOK FX Future contracts related to Net Lease 2 (Stavenger, Norway). During the three months ended September 30, 2020, we purchased one year put options of NOK for the notional amount of \$92 million and a cost of \$1.9 million.

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

Results of Operations - Core Portfolio

The following table summarizes our Core Portfolio results of operations for the three months ended September 30, 2020 and 2019 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Net interest income				
Interest income	\$ 36,391	\$ 43,071	\$ (6,680)	(15.5)%
Interest expense	(13,088)	(21,323)	8,235	(38.6)%
Interest income on mortgage loans held in securitization trusts	20,462	22,586	(2,124)	(9.4)%
Interest expense on mortgage obligations issued by securitization trusts	(18,204)	(20,299)	2,095	(10.3)%
Net interest income	25,561	24,035	1,526	6.3 %
Property and other income				
Property operating income	21,119	28,315	(7,196)	(25.4)%
Other income (loss)	64	779	(715)	(91.8)%
Total property and other income	21,183	29,094	(7,911)	(27.2)%
Expenses				
Management fee expense	6,445	9,084	(2,639)	(29.1)%
Property operating expense	2,480	8,340	(5,860)	(70.3)%
Transaction, investment and servicing expense	1,403	863	540	62.6 %
Interest expense on real estate	8,067	8,695	(628)	(7.2)%
Depreciation and amortization	10,946	11,673	(727)	(6.2)%
Provision for loan losses	11,229	—	11,229	n.m.
Impairment of operating real estate	—	23,911	(23,911)	n.m.
Administrative expense	4,538	4,171	367	8.8 %
Total expenses	45,108	66,737	(21,629)	(32.4)%
Other income (loss)				
Unrealized loss on mortgage loans and obligations held in securitization trusts, net	(13,162)	(1,976)	(11,186)	n.m.
Realized gain (loss) on mortgage loans and obligations held in securitization trusts, net	—	2,724	(2,724)	n.m.
Other gain (loss), net	9,896	(2,682)	12,578	n.m.
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(1,630)	(15,542)	13,912	(89.5)%
Equity in earnings (losses) of unconsolidated ventures	(1,652)	2,736	(4,388)	(160.4)%
Income tax benefit (expense)	1,949	(201)	2,150	n.m.
Net income (loss)	\$ (1,333)	\$ (13,007)	\$ 11,674	n.m.

Comparison of Core Portfolio for Three Months Ended September 30, 2020 and 2019

Net Interest Income

Interest income

Interest income decreased by \$6.7 million to \$36.4 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. The decrease was primarily due to \$7.0 million in repayment of loan investments and \$4.3 million related to the sales and placement of the remaining CRE securities on cost recovery status during the second quarter of 2020. This was offset by a \$4.8 million increase from originations, acquisitions and refinancings of loans in 2019 and 2020

Interest expense

Interest expense decreased by \$8.2 million to \$13.1 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. The decrease was primarily due to a \$10.5 million reduction from the collapse of a securitization trust and repayment of loan investments and \$1.3 million from lower financing rates and sales of CMBS securities in 2020. This was partially offset by a \$4.1 million increase from originations, acquisitions and refinancings of loans in 2019 and 2020.

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 a de minimis amount for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019, primarily due to the sale and deconsolidation of a retained investment in the subordinate tranches of one securitization trust in the third quarter of 2019.

Property and other income

Property operating income

Property operating income decreased by \$7.2 million to \$21.1 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. The decrease was primarily due to a \$7.2 million reduction in operating income due to the sale of a hotel in the fourth quarter of 2019 and an industrial building in third quarter in 2020.

Other income

Other income decreased by \$0.7 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019 primarily due to lower income earned on cash held in corporate cash accounts.

Expenses

Management fee expense

Management fee expense decreased by \$2.6 million to \$6.4 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. The decrease is due to the reduction in stockholders' equity (as defined in the Management Agreement) as of September 30, 2020 compared to September 30, 2019. The reduction in stockholders' equity is primarily due to a fourth quarter 2019 amendment to our definition of core earnings in the Management Agreement.

Property operating expense

Property operating expense decreased by \$5.9 million to \$2.5 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. The decrease resulted from the sale of a hotel during the fourth quarter of 2019.

Transaction, investment and servicing expense

Transaction, investment and servicing expense increased by \$0.5 million to \$1.4 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019, primarily due to a \$0.3 million increase in legal costs for asset-specific activity and a \$0.2 million increase in franchise taxes.

Interest expense on real estate

Interest expense on real estate decreased by \$0.6 million to \$8.1 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019 driven by a decrease due to the sale of an industrial building in third quarter.

Depreciation and amortization

Depreciation and amortization expense decreased by \$0.7 million to \$10.9 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This was primarily due to a \$2.2 million decrease resulting from the sale of an industrial building during the third quarter of 2020 offset by an increase due to asset additions in 2020 and a catch up in depreciation booked in the third quarter 2020 for an asset moved from held for sale to held for investment.

Provision for loan losses

Provision for loan losses increased by \$11.2 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. During the three months ended September 30, 2020, the increase was a result of recording incremental CECL reserves in the third quarter of 2020.

Impairment of operating real estate

Impairment of operating real estate decreased by \$23.9 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. During the three months ended September 30, 2019, the impairment was

attributable to an industrial real estate portfolio of properties, resulting from a reduction in the estimated holding period of the portfolio.

Administrative expense

Administrative expense increased by \$0.4 million to \$4.5 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This increase was primarily due to higher professional fees.

Other income (loss)

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

During the three months ended September 30, 2020, we recorded a \$13.2 million unrealized loss on mortgage loans and obligations which primarily represents the change in fair value of the assets and liabilities of the securitization trusts consolidated as a result of our investment in the subordinate tranches of these securitization trusts.

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

Realized gain on mortgage loans and obligations held in securitizations trusts, net decreased by \$2.7 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019 due to the sale and deconsolidation of a retained investment in the subordinate tranches of one securitization trust in the third quarter of 2019.

Other gain (loss), net

Other gain (loss), net increased by \$12.6 million to other gain for the three months ended September 30, 2020, as compared to three months ended September 30, 2019. The increase was primarily due to a \$7.5 million realized gain on the sale of an industrial portfolio and \$5.2 million realized gain on the sale of five CRE securities.

Equity in earnings (losses) of unconsolidated ventures

Equity in earnings (losses) of unconsolidated ventures decreased by \$4.4 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This was primarily due to \$7.5 million decrease in operating performance of one of the Company's hospitality assets held in a joint venture, \$7.3 million relating to two equity method investments being placed on nonaccrual status in 2020 and asset sales of \$3.5 million, partially offset by \$17.6 million of impairment recorded in the third quarter 2019 on an equity participation interest in a joint venture.

Income tax benefit (expense)

Income tax benefit (expense) decreased by \$2.2 million to an income tax benefit for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019, primarily due to a \$1.8 million decrease in the deferred income tax liabilities on one of our equity method investments.

Results of Operations - Core Portfolio

The following table summarizes our Core Portfolio results of operations for the nine months ended September 30, 2020 and 2019 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Net interest income				
Interest income	\$ 120,188	\$ 113,246	\$ 6,942	6.1 %
Interest expense	(48,950)	(58,013)	9,063	(15.6)%
Interest income on mortgage loans held in securitization trusts	61,556	99,718	(38,162)	(38.3)%
Interest expense on mortgage obligations issued by securitization trusts	(54,627)	(91,690)	37,063	(40.4)%
Net interest income	78,167	63,261	14,906	23.6 %
Property and other income				
Property operating income	65,831	87,882	(22,051)	(25.1)%
Other income	821	1,347	(526)	(39.0)%
Total property and other income	66,652	89,229	(22,577)	(25.3)%
Expenses				
Management fee expense	19,446	27,256	(7,810)	(28.7)%
Property operating expense	9,438	25,187	(15,749)	(62.5)%
Transaction, investment and servicing expense	5,057	1,236	3,821	n.m
Interest expense on real estate	24,613	26,078	(1,465)	(5.6)%
Depreciation and amortization	31,396	37,645	(6,249)	(16.6)%
Provision for loan losses	42,642	—	42,642	n.m
Impairment of operating real estate	—	23,911	(23,911)	n.m
Administrative expense	13,083	11,977	1,106	9.2 %
Total expenses	145,675	153,290	(7,615)	n.m
Other income (loss)				
Unrealized gain (loss) on mortgage loans and obligations held in securitization trusts, net	(41,589)	4,602	(46,191)	n.m
Realized gain on mortgage loans and obligations held in securitization trusts, net	—	2,772	(2,772)	n.m
Other loss, net	(137,178)	(12,524)	(124,654)	n.m
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(179,623)	(5,950)	(173,673)	n.m
Equity in earnings (loss) of unconsolidated ventures	(72,906)	39,020	(111,926)	n.m
Income tax benefit (expense)	(316)	1,428	(1,744)	n.m
Net income (loss)	\$ (252,845)	\$ 34,498	\$ (287,343)	n.m

Comparison of Core Portfolio for Nine Months Ended September 30, 2020 and 2019

Net Interest Income

Interest income

Interest income increased by \$6.9 million to \$120.2 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The increase was primarily due to a \$46.4 million increase from originations, acquisitions and refinancings of loans in 2019 and 2020. This was partially offset by a decrease of \$30.7 million related to the repayment of loan investments and a decrease of \$8.8 million related to sales and placement of the remaining CRE securities on cost recovery status during the second quarter of 2020.

Interest expense

Interest expense decreased by \$9.1 million to \$49.0 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The decrease was primarily due to a \$22.5 million reduction from the collapse of a securitization trust and repayment of loan investments and a \$1.9 million decrease from sales of CRE securities in 2020. This was partially offset by a \$15.3 million increase from originations, acquisitions and refinancings of loans in 2019 and 2020.

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 nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019, primarily due to the sale and deconsolidation of a retained investment in the subordinate tranches of one securitization trust in the third quarter of 2019.

Property and other income

Property operating income

Property operating income decreased by \$22.1 million to \$65.8 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The decrease was primarily due to a \$20.2 million reduction in operating income due to the sale of a hotel in the fourth quarter of 2019.

Other income

Other income decreased by \$0.5 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019 primarily as a result of lower income earned on cash held in corporate cash accounts.

Expenses

Management fee expense

Management fee expense decreased by \$7.8 million to \$19.4 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The decrease is due to the reduction in stockholders' equity (as defined in the Management Agreement) as of September 30, 2020 compared to September 30, 2019. The reduction in stockholders' equity is primarily due to a fourth quarter 2019 amendment to our definition of core earnings in the Management Agreement.

Property operating expense

Property operating expense decreased by \$15.7 million to \$9.4 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The decrease resulted from the sale of a hotel during the fourth quarter of 2019.

Transaction, investment and servicing expense

Transaction, investment and servicing expense increased by \$3.8 million to \$5.1 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019, primarily due to a \$1.6 million decrease in franchise tax refunds received, a \$1.4 million increase in legal costs incurred associated with exploring the internalization of the management of the Company and other value-enhancing opportunities, and a \$0.6 million increase in asset-specific legal costs.

Interest expense on real estate

Interest expense on real estate decreased by \$1.5 million to \$24.6 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019 due to the sale of an industrial building in third quarter 2020.

Depreciation and amortization

Depreciation and amortization expense decreased by \$6.2 million to \$31.4 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. This was primarily due to a \$1.8 million decrease resulting from the sale of a hotel during the fourth quarter of 2019 and a \$4.3 million decrease resulting from the sale of an industrial building in the third quarter of 2020.

Provision for loan losses

Provision for loan losses increased by \$42.6 million during the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019 primarily due to the recording of CECL reserves in accordance with ASU No. 2016-13, *Financial Instruments-Credit Losses*.

Impairment of operating real estate

Impairment of operating real estate decreased by \$23.9 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. During the nine months ended September 30, 2019, the impairment was attributable to an industrial real estate portfolio of properties, resulting from a reduction in the estimated holding period of the portfolio.

Administrative expense

Administrative expense increased by \$1.1 million to \$13.1 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. This increase was primarily due to \$0.6 million of higher corporate expenses allocated to our Core Portfolio following the sales and repayments in our Legacy, Non-Strategic Portfolio and higher professional fees of \$0.5 million.

Other income (loss)

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

During the nine months ended September 30, 2020, we recorded an unrealized loss of \$41.6 million on mortgage loans and obligations held in securitization trusts, net which represents the change in fair value of the assets and liabilities of the securitization trusts consolidated as a result of our investment in the subordinate tranches of these securitization trusts.

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

Realized gain on mortgage loans and obligations held in securitizations trusts, net decreased by \$2.8 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019 due to the sale and deconsolidation of a retained investment in the subordinate tranches of one securitization trust in the third quarter of 2019.

Other gain (loss), net

During the nine months ended September 30, 2020, we recorded other loss, net of \$137.2 million, which primarily represents \$93.0 million realized net loss on the sale of 32 CRE securities and the realization of the fair value marks on our CRE securities portfolio in addition to a \$38.0 million provision for loan loss recorded on one hospitality loan.

Equity in earnings (losses) of unconsolidated ventures

Equity in earnings of unconsolidated ventures decreased by \$111.9 million to a loss of \$72.9 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. This was primarily due to the Company recording \$98.4 million in fair value losses relating to two equity method investments that have been placed on nonaccrual status and \$7.6 million related to the sale and repayment of equity method investments.

Income tax benefit (expense)

Income tax benefit (expense) decreased by \$1.7 million to an income tax expense of \$0.3 million for the nine months ended September 30, 2020, as compared to an income tax benefit of \$1.4 million for the nine months ended September 30, 2019, primarily due to a \$2.5 million reduction in the deferred income tax benefit on one of our net lease portfolios acquired in 2018, partially offset by a \$0.9 million decrease to income tax provision on a hotel acquired through the legal foreclosure process in the third quarter of 2018, and subsequently sold in December 2019.

Our Legacy, Non-Strategic Portfolio

As of September 30, 2020, our Legacy, Non-Strategic Portfolio consisted of 38 investments representing approximately \$513.0 million in book value (excluding cash, cash equivalents and certain other assets). Our loan portfolio consisted of one senior mortgage loan, one mezzanine loan and one preferred equity investment, all of which are on nonaccrual status as of September 30, 2020. Our owned real estate portfolio (including net leased and other real estate) consisted of approximately 3.7 million total square feet of space and the total third quarter NOI of that portfolio was approximately \$7.3 million (based on leases in place as of September 30, 2020).

As of September 30, 2020, our Legacy, Non-Strategic Portfolio consisted of the following investments (dollars in thousands):

	Count ⁽¹⁾	Book value (Consolidated)	Book value (at CLNC share) ⁽²⁾	Net book value (Consolidated) ⁽³⁾	Net book value (at CLNC share) ⁽⁴⁾
Legacy, Non-Strategic Portfolio					
Senior mortgage loans ⁽⁵⁾	1	\$ 10,997	\$ 10,997	\$ 10,997	\$ 10,997
Mezzanine loans ⁽⁵⁾	1	56,757	18,190	56,757	18,190
Preferred equity ⁽⁵⁾	1	684	219	684	219
Net leased real estate	6	58,789	58,789	4,006	4,006
Other real estate	25	378,727	341,269	73,201	67,402
Private equity interests	4	7,093	7,093	7,093	7,093
Total/Weighted average Legacy, Non-Strategic Portfolio	38	\$ 513,047	\$ 436,557	\$ 152,738	\$ 107,907

- (1) Count for net leased and other real estate represents number of investments.
- (2) Book value at our share represents the proportionate book value based on ownership by asset as of September 30, 2020.
- (3) Net book value represents book value less any associated financing as of September 30, 2020.
- (4) Net book value at our share represents the proportionate book value based on asset ownership less any associated financing based on ownership as of September 30, 2020.
- (5) Senior mortgage loans, mezzanine loans, and preferred equity include investments in joint ventures whose underlying interest is in a loan or preferred equity.

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

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

The following table provides a summary of senior and mezzanine loans and preferred equity included in our Legacy, Non-Strategic Portfolio as of September 30, 2020 (dollars in thousands):

	Count	Book value (at CLNC share) ⁽²⁾	Principal balance ⁽²⁾	Weighted Average ⁽¹⁾			
				Cash coupon ⁽³⁾	Unlevered all-in yield ⁽³⁾	Remaining Term ⁽⁴⁾	Extended Remaining Term ⁽⁵⁾
Senior loans	1	\$ 10,997	\$ 19,784	—	—	0.1	0.2
Mezzanine loans	1	18,190	18,349	—	—	0.7	0.7
Preferred equity	1	219	—	—	—	—	—
Total/Weighted average senior and mezzanine loans and preferred equity - Legacy, Non-Strategic Portfolio	3	\$ 29,406	\$ 38,133	—	—	0.5	0.6

- (1) Weighted average metrics weighted by book value at our share, except for cash coupon which is weighted by principal balance at our share.
- (2) Book value and principal balance at our share represents the proportionate value based on ownership by asset as of September 30, 2020.
- (3) All three senior and mezzanine loans and preferred equity investments are on nonaccrual status.
- (4) Represents the remaining term based on the current contractual maturity date of loans.
- (5) Represents the remaining term based on a maximum maturity date assuming all extension options on loans are exercised by the borrower.

The following table details senior and mezzanine loans and preferred equity included in our Legacy, Non-Strategic Portfolio by fixed or floating rate as of September 30, 2020 (dollars in thousands):

	Number of loans	Book value (at CLNC share) ⁽²⁾	Principal balance ⁽²⁾	Weighted Average ⁽¹⁾			
				Spread to LIBOR ⁽³⁾	All-in unlevered yield ⁽³⁾	Remaining term ⁽⁴⁾	Extended remaining term ⁽⁵⁾
Fixed rate loans ⁽⁶⁾	3	\$ 29,406	\$ 38,133	—	—	0.5	0.6
Total/ Weighted average	3	\$ 29,406	\$ 38,133	—	—	0.5	0.6

- (1) Weighted average metrics weighted by book value at our share, except for spread to LIBOR, which is weighted by principal balance value at our share. Book and principal balances at share exclude a de minimis amount of noncontrolling interest. See the table located above in "Our Portfolio" for further information.
- (2) Book value and principal balance at our share represents the proportionate value based on ownership by asset as of September 30, 2020.
- (3) All three senior and mezzanine loans and preferred equity investments are on nonaccrual status.
- (4) Represents the remaining term in years based on the original maturity date or current extension maturity date of loans.
- (5) Represents the remaining term in years based on a maximum maturity date assuming all extension options on loans are exercised by the borrower.
- (6) Includes one preferred equity investment.

The following table details the types of properties securing senior and mezzanine loans and preferred equity included in our Legacy, Non-Strategic Portfolio and geographic distribution as of September 30, 2020 (dollars in thousands):

Collateral property type	Book value	% of total
Other ⁽¹⁾	\$ 29,406	100.0 %
Total	\$ 29,406	100.0 %
Region	Book value	% of total
West	\$ 29,406	100.0 %
Total	\$ 29,406	100.0 %

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

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

Within our Legacy, Non-Strategic Portfolio, we held certain other loans secured by regional malls that were sold during the nine months ended September 30, 2020 as follows:

- We placed one loan secured by a regional mall (“Midwest Regional Mall”) on nonaccrual status during 2019 as collectability of the principal was uncertain; as such, interest collected is recognized using the cost recovery method by applying interest collected as a reduction to loan carrying value. We recorded \$10.6 million of impairment related to Midwest Regional Mall and transferred the loan to held for sale during 2019. During the three months ended June 30, 2020 the Midwest Regional Mall was sold. We received \$8.3 million in gross proceeds and recognized a gain of \$3.7 million.
- During 2018, we recorded \$8.8 million of provision for loan losses on one loan secured by a regional mall (“Northeast Regional Mall B”) to reflect the estimated fair value of the collateral. During 2019, we recognized additional provision for loan losses of \$10.5 million on Northeast Regional Mall B. The additional provisions were based on then-current and prospective leasing activity to reflect the estimated fair value of the collateral. During the three months ended March 31, 2020, the Northeast Regional Mall was sold. We received \$9.2 million in gross proceeds and recognized a gain of \$1.8 million.
- Also, during 2019, we separately recognized provision for loan losses of \$18.5 million on two loans secured by one regional mall (“West Regional Mall”) to reflect the estimated fair value of the collateral. During the three months ended June 30, 2020, the West Regional Mall loan was sold. We received \$23.5 million in gross proceeds and recognized a gain of \$6.5 million.
- Furthermore, during 2019, we recognized a \$26.7 million provision for loan losses on three loans to two separate borrowers (“South Regional Mall A” and “South Regional Mall B”) to reflect the estimated fair value of the collateral. During the three months ended March 31, 2020, we accepted a discounted payoff of South Regional Mall A. We received \$22.0 million in gross proceeds and recognized a loss of \$1.6 million. Additionally, during the three months ended March 31, 2020 South Regional Mall B was sold. We received \$13.5 million in gross proceeds and recognized a gain of \$8.7 million.

Impairment of Loans and Preferred Equity Held in Joint Ventures

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

COVID-19 Update

During the nine months ended September 30, 2020, we sold 13 loans generating gross proceeds of \$144.8 million. Our four remaining loans are on nonaccrual. We have reviewed the three remaining loans in our Legacy, Non-Strategic portfolio and believe that it is too early to predict and quantify the full impact of principal loss. However, further losses or permanent impairment in future quarters are possible.

Legacy, Non-Strategic Portfolio: Owned Real Estate

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

As of September 30, 2020, \$400.1 million, or 91.6%, of our Legacy, Non-Strategic Portfolio was invested in owned real estate and was 81.1% occupied. The following table provides a summary of net leased and other real estate included in our Legacy, Non-Strategic Portfolio as of September 30, 2020 (dollars in thousands):

	Count	Carrying Value ⁽¹⁾	NOI for the three months ended September 30, 2020 ⁽²⁾
Net leased real estate	6	\$ 58,789	\$ 1,794
Other real estate	25	341,269	5,507
Total/Weighted average owned real estate - Legacy, Non-Strategic Portfolio	31	\$ 400,058	\$ 7,301

(1) Represents carrying values at our share as of September 30, 2020; includes real estate tangible assets, deferred leasing costs and other intangible assets less intangible liabilities.

(2) Excludes a de minimis NOI loss that relates to properties that have been sold. Please refer to “Non-GAAP Supplemental Financial Measures” for further information on NOI.

The following table provides asset-level details of our net leased and other real estate included in our Legacy, Non-Strategic Portfolio as of September 30, 2020:

	Collateral type	City, State	Number of properties	Number of buildings	RSF / units/keys	Weighted average % leased ⁽¹⁾	Weighted average lease term (yrs) ⁽²⁾
Net leased real estate							
Net lease 1	Retail	Various - U.S.	7	7	319,600 RSF	100%	3.7
Net lease 2	Office	Columbus, OH	1	1	199,122 RSF	52%	6.3
Net lease 3	Office	Rockaway, NJ	1	1	121,038 RSF	100%	2.3
Net lease 4	Retail	Keene, NH	1	1	45,471 RSF	100%	8.3
Net lease 5	Retail	Fort Wayne, IN	1	1	50,000 RSF	100%	3.9
Net lease 6	Retail	South Portland, ME	1	1	52,900 RSF	100%	3.0
Total/Weighted average net leased real estate			12	12	788,131 RSF	86%	4.5
Other real estate							
Other real estate 1	Office	Creve Coeur, MO	7	7	847,604 RSF	94%	4.0
Other real estate 2	Office	Warrendale, PA	5	5	496,414 RSF	82%	4.8
Other real estate 3	Multifamily	New Orleans, LA	1	1	375 Units	87%	—
Other real estate 4	Hotel	Coraopolis, PA	1	1	318 Keys	n/a	—
Other real estate 5	Multifamily	Kalamazoo, MI	1	24	698 Units	91%	—
Other real estate 6	Multifamily	Cayce, SC	1	1	557 Units	41%	—
Other real estate 7	Multifamily	Central, SC	1	10	469 Units	96%	—
Other real estate 8	Office	Omaha, NE	1	1	404,865 RSF	65%	1.1
Other real estate 9	Office	Greensboro, NC	1	1	129,717 RSF	88%	2.0
Other real estate 10	Office	Greensboro, NC	1	1	86,321 RSF	85%	0.9
Other real estate 11	Office	Bath, ME	1	1	37,623 RSF	100%	5.2
Other real estate 12	Retail	Anchorage, AK	1	1	343,995 RSF	65%	1.0
Other real estate 13	Office	Winston Salem, NC	1	1	140,132 RSF	42%	1.8
Other real estate 14	Office	Greensboro, NC	1	2	58,978 RSF	22%	0.5
Other real estate 15	Multifamily	Evansville, WY	1	1	191 Units	38%	—
Other real estate 16	Office	Greensboro, NC	1	1	48,042 RSF	29%	0.3
Other real estate 17	Office	Greensboro, NC	1	1	47,690 RSF	58%	0.6
Other real estate 18	Office	Greensboro, NC	1	1	47,211 RSF	34%	0.5
Other real estate 19	Office	Greensboro, NC	1	4	42,123 RSF	40%	0.6
Other real estate 20	Office	Greensboro, NC	1	1	35,224 RSF	41%	0.3
Other real estate 21	Office	Greensboro, NC	1	1	34,903 RSF	55%	0.6
Other real estate 22	Office	Greensboro, NC	1	1	34,060 RSF	40%	0.1
Other real estate 23	Office	Greensboro, NC	1	1	32,905 RSF	100%	5.4
Other real estate 24	Office	Greensboro, NC	1	1	26,563 RSF	53%	0.1
Other real estate 25	Office	Greensboro, NC	1	1	23,145 RSF	63%	0.8
Total/Weighted average other real estate			35	71	n/a	78%	2.4
Total/Weighted average owned real estate - Legacy, Non-Strategic Portfolio			47	83			

(1) Represents the percent leased as of September 30, 2020. Weighted average calculation based on carrying value at our share as of September 30, 2020.

(2) Based on in-place leases (defined as occupied and paying leases) as of September 30, 2020 and assumes that no renewal options are exercised. Weighted average calculation based on carrying value at our share as of September 30, 2020.

COVID-19 Update

For the quarter ended September 30, 2020 and through November 5, 2020, we collected 86.5% of total rents across our Legacy, Non-Strategic Portfolio.

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

	July through October 2020 Rent Collection		
	Billed	Collected	% Collected
Office	\$ 15,707	\$ 13,668	87.0 %
Student Housing	2,666	2,433	91.3 %
Multifamily	2,360	2,086	88.4 %
Retail	2,400	1,829	76.2 %
Hotel	—	—	n/a
	<u>\$ 23,133</u>	<u>\$ 20,016</u>	<u>86.5 %</u>

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

We continue to pursue and execute sales of owned real estate in our Legacy, Non-Strategic Portfolio. As a result, we recorded impairment on held for sale operating real estate properties of \$3.5 million during the three months ended September 30, 2020 resulting from bids received and updated brokers' opinions of value (BOVs).

Since October 1, 2019, we have completed the following sales (dollars in thousands):

	No. of Properties sold	Gross Proceeds	Net Proceeds	Net gain/(loss)
Three months ended December 31, 2019	6	\$ 96,980	\$ 95,425	\$ 10,036
Three months ended March 31, 2020	6	172,579	80,133	(3,551)
Three months ended June 30, 2020	1	1,025	903	(83)
Three months ended September 30, 2020	5	143,412	62,189	10,489
October 1 - November 6, 2020	14	29,353	27,308	2,023
Total	<u>32</u>	<u>\$ 443,349</u>	<u>\$ 265,958</u>	<u>\$ 18,914</u>

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

Results of Operations - Legacy, Non-Strategic Portfolio

The following table summarizes our Legacy, Non-Strategic Portfolio results of operations for the three months ended September 30, 2020 and 2019 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Net interest income				
Interest income	\$ —	\$ 3,920	\$ (3,920)	(100.0)%
Interest expense	(338)	(1,843)	1,505	(81.7)%
Net interest income	(338)	2,077	(2,415)	(116.3)%
Property and other income				
Property operating income	20,559	35,177	(14,618)	(41.6)%
Other income	(34)	41	(75)	n.m.
Total property and other income	20,525	35,218	(14,693)	(41.7)%
Expenses				
Management fee expense	638	2,271	(1,633)	(71.9)%
Property operating expense	12,797	21,416	(8,619)	(40.2)%
Transaction, investment and servicing expense	224	570	(346)	(60.7)%
Interest expense on real estate	4,138	5,586	(1,448)	(25.9)%
Depreciation and amortization	3,824	14,261	(10,437)	(73.2)%
Provision for loan losses	(825)	110,314	(111,139)	n.m.
Impairment of operating real estate	3,451	248,811	(245,360)	n.m.
Administrative expense	1,242	3,561	(2,319)	(65.1)%
Total expenses	25,489	406,790	(381,301)	(93.7)%
Other income (loss)				
Other loss, net	(216)	(6)	(210)	n.m.
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(5,518)	(369,501)	363,983	n.m.
Equity in earnings (losses) of unconsolidated ventures	(127)	(18,641)	18,514	(99.3)%
Income tax benefit (expense)	13,408	(845)	14,253	(1,686.7)%
Net income (loss)	\$ 7,763	\$ (388,987)	\$ 396,750	n.m.

Comparison of Legacy, Non-Strategic Portfolio for Three Months Ended September 30, 2020 and 2019

Net Interest Income

Interest income

Interest income decreased by \$3.9 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This decrease was primarily due to the sale and repayment of loan investments.

Interest expense

Interest expense decreased by \$1.5 million to \$0.3 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This was primarily due to a lower allocation of interest expense on our Bank Credit Facility to the Legacy Non-Strategic Portfolio for the three months ended September 30, 2020 and \$0.6 million of lower interest expense as a result of sales of loans during 2019 and 2020.

Property and other income

Property operating income

Property operating income decreased by \$14.6 million to \$20.6 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. The lower income was primarily due to a \$9.5 million decrease

related to 17 real estate properties sold within the past twelve months and a \$3.2 million decrease in hotel revenues due to COVID-19.

Other Income

Other income decreased from the three months ended September 30, 2020 as compared to the three months ended September 30, 2019 by a de minimis amount.

Expenses

Management fee expense

Management fee expense decreased by \$1.6 million to \$0.6 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. The decrease is due to the reduction in stockholders' equity (as defined in the Management Agreement) as of September 30, 2020 compared to September 30, 2019. The reduction in stockholders' equity is primarily due to a fourth quarter 2019 amendment to our definition of core earnings in the Management Agreement.

Property operating expense

Property operating expense decreased by \$8.6 million to \$12.8 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. The lower expense was primarily due to a \$5.1 million decrease related to 17 real estate properties sold within the past twelve months and a \$2.1 million decrease in hotel operating expenses related to the impact of COVID-19.

Transaction, investment and servicing expense

Transaction, investment and servicing expense decreased by \$0.3 million to \$0.2 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019, primarily as a result of costs associated with the sale of investments during 2019.

Interest expense on real estate

Interest expense on real estate decreased by \$1.4 million to \$4.1 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. The decrease resulted from 17 real estate properties sold within the past twelve months.

Depreciation and amortization

Depreciation and amortization expense decreased by \$10.4 million to \$3.8 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This was primarily due to a \$3.5 million decrease related to 24 real estate properties classified as held for sale in 2019 and 2020, a \$3.6 million decrease due to the 17 properties sold within the past twelve months, and \$3.8 million due to lower carrying values associated with impairments recorded in the third quarter of 2019.

Provision for loan losses

Provision for loan losses decreased by \$111.1 million for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019. This provision recorded in the third quarter of 2019 was a result of a provision recorded on four NY hospitality loans and seven loans collateralized by retail properties.

Impairment of operating real estate

Impairment of operating real estate held for sale of \$3.5 million was recorded for the three months ended September 30, 2020 as a result of feedback received during the sales process. Impairment of operating real estate held for sale of \$248.8 million for the three months ended September 30, 2019 resulted from a reduction in the estimated holding period for certain properties.

Administrative expense

Administrative expense decreased by \$2.3 million to \$1.2 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This decrease was primarily due to a lower allocation of indirect costs which are reimbursable to our Manager.

Other income

Other gain (loss), net

Other gain (loss), net increased by \$0.2 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. The increase was primarily due to net realized losses on sales of three operating real estate properties.

Equity in earnings (losses) of unconsolidated ventures

Equity in earnings (losses) of unconsolidated ventures decreased by \$18.5 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This was primarily due to the Company recording \$16.2 million in impairments on three equity method investments in the third quarter of 2019.

Income tax benefit (expense)

Income tax benefit (expense) decreased to an income tax benefit of \$13.4 million for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019. This was primarily due to the Company finalizing its 2019 federal tax return and determining it would be able to carryback certain tax capital losses to prior years resulting in a refund of \$12.9 million.

The following table summarizes our Legacy, Non-Strategic Portfolio results of operations for the nine months ended September 30, 2020 and 2019 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2020	2019	Amount	%
Net interest income				
Interest income	\$ 1,815	\$ 14,227	\$ (12,412)	(87.2)%
Interest expense	(1,965)	(5,492)	3,527	(64.2)%
Net interest income	(150)	8,735	(8,885)	(101.7)%
Property and other income				
Property operating income	72,082	103,511	(31,429)	(30.4)%
Other income	258	84	174	207.1 %
Total property and other income	72,340	103,595	(31,255)	(30.2)%
Expenses				
Management fee expense	2,789	6,814	(4,025)	(59.1)%
Property operating expense	44,681	60,889	(16,208)	(26.6)%
Transaction, investment and servicing expense	2,611	1,777	834	46.9 %
Interest expense on real estate	12,488	15,708	(3,220)	(20.5)%
Depreciation and amortization	15,370	45,208	(29,838)	(66.0)%
Provision for loan losses	37,643	220,572	(182,929)	(82.9)%
Impairment of operating real estate	33,512	258,935	(225,423)	(87.1)%
Administrative expense	6,486	10,418	(3,932)	(37.7)%
Total expenses	155,580	620,321	(464,741)	(75)%
Other income (loss)				
Other gain (loss), net	7,063	(1,305)	8,368	(641.2)%
Income (loss) before equity in earnings of unconsolidated ventures and income taxes	(76,327)	(509,296)	432,969	(85.0)%
Equity in earnings (loss) of unconsolidated ventures	3,017	(21,058)	24,075	(114.3)%
Income tax benefit (expense)	11,860	(1,972)	13,832	(701.4)%
Net income (loss)	<u>\$ (61,450)</u>	<u>\$ (532,326)</u>	<u>\$ 470,876</u>	<u>(88.5)%</u>

Comparison of Legacy, Non-Strategic Portfolio for Nine Months Ended September 30, 2020 and 2019

Net Interest Income

Interest income

Interest income decreased by \$12.4 million to \$1.8 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. This decrease was primarily due to \$11.1 million related to the sale and repayment of loan investments and \$1.3 million related to one foreclosed loan investment.

Interest expense

Interest expense decreased by \$3.5 million to \$2.0 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. This was primarily due to a lower allocation of interest expense on our Bank Credit Facility to the Legacy Non-Strategic Portfolio for the nine months ended September 30, 2020.

Property and other income

Property operating income

Property operating income decreased by \$31.4 million to \$72.1 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The lower income was primarily due to a \$17.9 million decrease related to 17 real estate properties sold within the past twelve months and a \$8.5 million decrease in hotel revenues due to COVID-19.

Other income

Other income increased by \$0.2 million to \$0.3 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. This is primarily due to a tax refund received during the nine months ended September 30, 2020.

Expenses

Management fee expense

Management fee expense decreased by \$4.0 million to \$2.8 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The decrease is due to the reduction in stockholders' equity (as defined in the Management Agreement) as of September 30, 2020 compared to September 30, 2019. The reduction in stockholders' equity is primarily due to a fourth quarter 2019 amendment to our definition of core earnings in the Management Agreement.

Property operating expense

Property operating expense decreased by \$16.2 million to \$44.7 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The lower expense was primarily due to a \$11.3 million decrease related to 17 real estate properties sold within the past twelve months and a \$5.1 million decrease in hotel operating expenses related to COVID-19.

Transaction, investment and servicing expense

Transaction, investment and servicing expense increased by \$0.8 million to \$2.6 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019, as a result of costs associated with the sale of investments.

Interest expense on real estate

Interest expense on real estate decreased by \$3.2 million to \$12.5 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The decrease resulted from real estate properties sold within the past twelve months.

Depreciation and amortization

Depreciation and amortization expense decreased by \$29.8 million to \$15.4 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. This was primarily due to a \$8.7 million decrease related to 24 real estate properties classified as held for sale in 2019 and 2020, a \$5.2 million decrease due to properties sold within the

past twelve months, and \$4.5 million due to lower carrying values associated with impairments recorded in the third quarter of 2019.

Provision for loan losses

Provision for loan losses of \$37.6 million was recorded for the nine months ended September 30, 2020, which is primarily attributable to the Company recording an additional provision of \$36.8 million for our four NY hospitality loans due to the detrimental impact of COVID-19 on the hospitality industry.

Impairment of operating real estate

Impairment of operating real estate held for sale of \$33.5 million for the nine months ended September 30, 2020 is primarily resulting from feedback received during the sales process.

Administrative expense

Administrative expense decreased by \$3.9 million to \$6.5 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. This decrease was primarily due to lower stock compensation expense allocated to the Legacy, Non-Strategic Portfolio and a lower allocation of indirect costs which are reimbursable to our Manager.

Other income

Other gain (loss), net

Other loss, net decreased by \$8.4 million to other gain for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. The decrease was primarily due to \$9.9 million of gains from asset sales during 2020.

Equity in earnings (loss) of unconsolidated ventures

Equity in earnings (loss) of unconsolidated ventures decreased by \$24.1 million to \$3.0 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. This was primarily due to the Company recording \$25.0 million in impairments on three equity method investments in 2019.

Income tax benefit (expense)

Income tax benefit (expense) decreased by \$13.8 million to an income tax benefit of \$11.9 million for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019. This was primarily due to the Company finalizing its 2019 federal tax return and determining it would be able to carryback certain tax capital losses to prior years resulting in a refund of \$12.9 million.

Non-GAAP Supplemental Financial Measures

Core Earnings/Legacy, Non-Strategic Earnings

We present Core Earnings/Legacy, Non-Strategic Earnings, which is a non-GAAP supplemental financial measure of our performance. Our Core Earnings are generated by the Core Portfolio and Legacy, Non-Strategic Earnings are generated by the Legacy, Non-Strategic Portfolio. We believe that Core Earnings/Legacy, Non-Strategic Earnings provides meaningful information to consider in addition to our net income and cash flow from operating activities determined in accordance with U.S. GAAP. This supplemental financial measure helps us to evaluate our performance excluding the effects of certain transactions and U.S. GAAP adjustments that we believe are not necessarily indicative of our current portfolio and operations. For information on the fees we pay our Manager, see Note 10, "Related Party Arrangements" to our consolidated financial statements included in this Form 10-Q. In addition, we believe that our investors also use Core Earnings/Legacy, Non-Strategic Earnings or a comparable supplemental performance measure to evaluate and compare the performance of us and our peers, and as such, we believe that the disclosure of Core Earnings/Legacy, Non-Strategic Earnings is useful to our investors.

We define Core Earnings/Legacy, Non-Strategic Earnings as U.S. GAAP net income (loss) attributable to our common stockholders (or, without duplication, the owners of the common equity of our direct subsidiaries, such as our OP) and excluding (i) non-cash equity compensation expense, (ii) the expenses incurred in connection with our formation 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 Core Earnings/Legacy, Non-Strategic Earnings. For clauses (ix) and (x), such exclusions shall only be applied after discussions between our Manager and our independent directors and after approval by a majority of our independent directors. U.S. GAAP net income (loss) attributable to our common stockholders and Core Earnings/Legacy, Non-Strategic Earnings include provision for loan losses.

Prior to the third quarter of 2019, Core Earnings reflected adjustments to U.S. GAAP net income to exclude impairment of real estate and provision for loan losses. During the third quarter of 2019, we revised our definition of Core Earnings to include the provision for loan losses while excluding realized losses of sales of real estate property and impairment write-downs of preferred equity investments. This was approved by a majority of our independent directors.

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

The following tables present a reconciliation of net income (loss) attributable to our common stockholders to Core Earnings/Legacy, Non-Strategic Earnings attributable to our common stockholders and noncontrolling interest of the Operating Partnership (dollars and share amounts in thousands, except per share data) for the three and nine months ended September 30, 2020:

	Three Months Ended September 30, 2020		
	Total	Legacy, Non-Strategic Portfolio	Core Portfolio
Net loss attributable to Colony Credit Real Estate, Inc. common stockholders	\$ 5,007	\$ 7,717	\$ (2,710)
Adjustments:			
Net loss attributable to noncontrolling interest of the Operating Partnership	201	185	16
Non-cash equity compensation expense	1,376	330	1,046
Transaction costs	420	101	319
Depreciation and amortization	15,100	3,854	11,246
Net unrealized loss (gain) on investments:			
Impairment of operating real estate and preferred equity	3,452	3,452	—
Other unrealized gain	13,643	(7)	13,650
CECL reserves	8,892	—	8,892
Losses on sales of real estate and preferred equity	(8,158)	183	(8,341)
Adjustments related to noncontrolling interests	(186)	(186)	—
Core Earnings (Loss) / Legacy, Non-Strategic Earnings (Loss) attributable to Colony Credit Real Estate, Inc. common stockholders and noncontrolling interest of the Operating Partnership	<u>\$ 39,747</u>	<u>\$ 15,629</u>	<u>\$ 24,118</u>
Core Earnings (Loss) / Legacy, Non-Strategic Earnings (Loss) per share ⁽¹⁾	<u>\$ 0.30</u>	<u>\$ 0.12</u>	<u>\$ 0.18</u>
Weighted average number of common shares and OP units ⁽¹⁾	<u>131,659</u>	<u>131,659</u>	<u>131,659</u>

(1) We calculate Core Earnings (Loss) / Legacy, Non-Strategic Earnings (Loss) per share, a non-GAAP financial measure, based on a weighted-average number of common shares and OP units (held by members other than us or our subsidiaries). For the three months ended September 30, 2020, weighted average number of common shares includes 3.1 million OP units.

	Nine Months Ended September 30, 2020		
	Total	Legacy, Non-Strategic Portfolio	Core Portfolio
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	\$ (300,824)	\$ (52,784)	\$ (248,040)
Adjustments:			
Net income (loss) attributable to noncontrolling interest of the Operating Partnership	(7,109)	(1,237)	(5,872)
Non-cash equity compensation expense	3,267	1,181	2,086
Transaction costs	2,990	1,077	1,913
Depreciation and amortization	45,996	14,302	31,694
Net unrealized loss (gain) on investments:			
Impairment of operating real estate and preferred equity	33,512	33,512	—
Other Unrealized loss	30,206	27	30,179
CECL reserves	16,967	(153)	17,120
Losses on sales of real estate and preferred equity	4,910	3,168	1,742
Adjustments related to noncontrolling interests	(9,202)	(8,891)	(311)
Core Earnings (Loss) Legacy, Non-Strategic Earnings (Loss) attributable to Colony Credit Real Estate, Inc. common stockholders and noncontrolling interest of the Operating Partnership	\$ (179,287)	\$ (9,798)	\$ (169,489)
Core Earnings (Loss) / Legacy, Non-Strategic Earnings (Loss) per share ⁽¹⁾	\$ (1.36)	\$ (0.07)	\$ (1.29)
Weighted average number of common shares and OP units ⁽¹⁾	131,659	131,659	131,659

(1) We calculate Core Earnings (Loss) / Legacy, Non-Strategic Earnings (Loss) per share, a non-GAAP financial measure, based on a weighted-average number of common shares and OP units (held by members other than us or our subsidiaries). For the nine months ended September 30, 2020, weighted average number of common shares includes 3.1 million OP units.

NOI

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

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

The following tables present a reconciliation of net income (loss) attributable to our common stockholders to NOI attributable to our common stockholders (dollars in thousands) for the three and nine months ended September 30, 2020:

	Three Months Ended September 30, 2020		
	Total	Legacy, Non-Strategic Portfolio	Core Portfolio
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	\$ 3,358	\$ (4,180)	\$ 7,538
Adjustments:	—		
Net income (loss) attributable to noncontrolling interest in investment entities	1,262	(39)	1,301
Amortization of above- and below-market lease intangibles	156	—	156
Interest expense on real estate	12,198	4,137	8,061
Other loss	257	257	—
Transaction, investment and servicing expense	437	73	364
Depreciation and amortization	14,770	3,824	10,946
Impairment of operating real estate	3,452	3,452	—
Administrative expense	69	41	28
Other (gain) loss on investments, net	(9,348)	215	(9,563)
Income tax benefit	(34)	—	(34)
NOI attributable to noncontrolling interest in investment entities	(4,654)	(506)	(4,148)
Total NOI attributable to Colony Credit Real Estate, Inc. common stockholders	<u>\$ 21,923</u>	<u>\$ 7,274</u>	<u>\$ 14,649</u>

	Nine Months Ended September 30, 2020		
	Total	Legacy Non-Strategic Portfolio	Core Portfolio
Net income (loss) attributable to Colony Credit Real Estate, Inc. common stockholders	\$ (17,759)	\$ (30,793)	\$ 13,034
Adjustments:			
Net income (loss) attributable to noncontrolling interest in investment entities	(5,887)	(7,348)	1,461
Amortization of above- and below-market lease intangibles	(409)	(270)	(139)
Interest expense on real estate	37,084	12,488	24,596
Other income	(466)	(7)	(459)
Transaction, investment and servicing expense	781	270	511
Depreciation and amortization	46,766	15,370	31,396
Impairment of operating real estate	33,512	33,512	—
Administrative expense	132	13	119
Other (gain) loss on investments, net	(14,126)	3,878	(18,004)
Income tax benefit	(330)	—	(330)
NOI attributable to noncontrolling interest in investment entities	(14,301)	(1,794)	(12,507)
Total NOI attributable to Colony Credit Real Estate, Inc. common stockholders	<u>\$ 64,997</u>	<u>\$ 25,319</u>	<u>\$ 39,678</u>

Liquidity and Capital Resources

Overview

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

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

Financing Strategy

We have a multi-pronged financing strategy that includes an up to \$450 million secured revolving credit facility, up to approximately \$2.3 billion in secured revolving repurchase facilities, non-recourse securitization financing, commercial mortgages and other asset-level financing structures. In addition, we may use other forms of financing, including additional warehouse facilities, public and private secured and unsecured debt issuances and equity or equity-related securities issuances by us or our subsidiaries. We may also finance a portion of our investments through the syndication of one or more interests in a whole loan or securitization. We will seek to match the nature and duration of the financing with the underlying asset's cash flow, including using hedges, as appropriate.

Debt-to-Equity Ratio

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

	September 30, 2020	December 31, 2019
Debt-to-equity ratio ⁽¹⁾	1.0x	1.4x

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

Potential Sources of Liquidity

Bank Credit Facilities

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

On February 1, 2018, the OP (together with certain subsidiaries of the OP from time to time party thereto as borrowers, collectively, the "Borrowers") entered into a credit agreement (the "Bank Credit Facility") with JPMorgan Chase Bank, N.A., as administrative agent, and the several lenders from time to time party thereto (the "Lenders"), pursuant to which the Lenders agreed to provide a revolving credit facility in the aggregate principal amount of up to \$400.0 million. On 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.

Advances under the Bank Credit Facility accrue interest at a per annum rate equal to, at the applicable Borrower's election, either a LIBOR rate plus a margin of 2.25%, or a base rate determined according to a prime rate or federal funds rate plus a margin of 1.25%. An unused commitment fee at a rate of 0.25% or 0.35%, per annum, depending on the amount of facility utilization, applies to un-utilized borrowing capacity under the Bank Credit Facility. Amounts owing under the Bank Credit Facility may be prepaid at any time without premium or penalty, subject to customary breakage costs in the case of borrowings with respect to which a LIBOR rate election is in effect.

The maximum amount available for borrowing at any time under the Bank Credit Facility is limited to a borrowing base valuation of certain investment assets, with the valuation of such investment assets generally determined according to a percentage of adjusted net book value. As of the date hereof, the borrowing base valuation is sufficient to support the outstanding borrowings. The Bank Credit Facility will mature on February 1, 2022, unless the OP elects to exercise the extension options for up to two additional terms of six months each, subject to the terms and conditions in the Bank Credit Facility, resulting in a latest maturity date of February 1, 2023.

The obligations of the Borrowers under the Bank Credit Facility are guaranteed by substantially all material wholly owned subsidiaries of the OP pursuant to a Guarantee and Collateral Agreement with the OP and certain subsidiaries of the OP in favor of JPMorgan Chase Bank, N.A., as administrative agent (the "Guarantee and Collateral Agreement") and, subject to certain exceptions, secured by a pledge of substantially all equity interests owned by the Borrowers and the guarantors, as well as by a

security interest in deposit accounts of the Borrowers and the Guarantors (as such terms are defined in the Guarantee and Collateral Agreement) in which the proceeds of investment asset distributions are maintained.

The Bank Credit Facility contains various affirmative and negative covenants, including, among other things, the obligation of the Company to maintain REIT status and be listed on the NYSE, and limitations on debt, liens and restricted payments. In addition, the Bank Credit Facility includes the following financial covenants applicable to the OP and its consolidated subsidiaries: (a) consolidated tangible net worth of the OP must be greater than or equal to the sum of (i) \$1.5 billion and (ii) 75% of the proceeds received by the OP from any offering of its common equity and of the proceeds from any offering by the Company of its common equity to the extent such proceeds are contributed to the OP, excluding any such proceeds that are contributed to the OP within ninety (90) days of receipt and applied to acquire capital stock of the OP; (b) the OP's earnings before interest, income tax, depreciation, and amortization plus lease expenses to fixed charges for any period of four (4) consecutive fiscal quarters must be not less than 1.50 to 1.00; (c) the OP's interest coverage ratio must be not less than 3.00 to 1.00; and (d) the OP's ratio of consolidated total debt to consolidated total assets must be not more than 0.70 to 1.00. The Bank Credit Facility also includes customary events of default, including, among other things, failure to make payments when due, breach of covenants or representations, cross default to material indebtedness or material judgment defaults, bankruptcy matters involving any Borrower or any Guarantor and certain change of control events. Further, we may not make distributions in excess of amounts required to maintain REIT status and may not repurchase shares, among other provisions. The occurrence of an event of default will limit the ability of the OP and its subsidiaries to make distributions and may result in the termination of the credit facility, acceleration of repayment obligations and the exercise of remedies by the Lenders with respect to the collateral.

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

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.

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

The following table presents a summary of our Master Repurchase, CMBS and Bank Credit Facilities as of September 30, 2020 (dollars in thousands):

	Maximum Facility Size	Current Borrowings	Weighted Average Final Maturity (Years)	Weighted Average Interest Rate
Master Repurchase Facilities				
Bank 1	\$ 400,000	\$ 103,622	2.6	LIBOR + 1.91%
Bank 2	200,000	21,353	2.0	LIBOR + 2.50%
Bank 3	600,000	202,952	1.6	LIBOR + 2.14%
Bank 7	500,000	124,704	1.6	LIBOR + 2.01%
Bank 8	250,000	130,769	0.7	LIBOR + 1.98%
Bank 9	300,000	—	3.1	
Total Master Repurchase Facilities	2,250,000	583,400		
CMBS Credit Facilities				
Bank 1 ⁽²⁾	—	—	—	—
Bank 6	25,232	25,232	(1)	4.25 %
Bank 3 ⁽²⁾	—	—	—	—
Bank 4 ⁽²⁾	—	—	—	—
Bank 5 ⁽²⁾	—	—	—	—
Total CMBS Credit Facilities	25,232	25,232		
Bank Credit Facility	450,000	—	2.8	LIBOR + 2.25%
Total Facilities	\$ 2,725,232	\$ 608,632		

(1) The maturity dates on CMBS Credit Facilities are dependent upon asset type and is currently three months.

(2) Amounts can be drawn under the Bank 1, Bank 3, Bank 4, and Bank 5 CMBS Credit Facilities, but we are not utilizing them.

Securizations

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

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

CLNC 2019-FL1 includes a two-year reinvestment feature that allows us to contribute existing or newly originated loan investments in exchange for proceeds from repayments or repurchases of loans held in CLNC 2019-FL1, subject to the satisfaction of certain conditions set forth in the indenture. In addition to existing eligible loans available for reinvestment, the continued origination of securitization eligible loans is required to ensure that we reinvest the available proceeds within CLNC 2019-FL1. During the three months ended September 30, 2020 and through November 5, 2020, we repaid two loans totaling \$78 million. We replaced the repaid loans by contributing existing loan investments of equal value.

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

Refer to “COVID-19 Impact on Liquidity” below regarding for further discussion regarding the COVID-19 pandemic and its impact on our future operating results, liquidity and financial condition.

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.

Refer to “COVID-19 Impact on Liquidity” below for discussion on the 5-Investment Preferred Financing we obtained during the quarter ended September 30, 2020.

COVID-19 Impact on Liquidity

The most notable impact relates to the financial condition of our borrowers and their ability to make their monthly mortgage payments and remain in compliance with loan covenants and terms. Failure of our borrowers to meet their loan obligations may trigger repayments to our Bank Credit Facility and Master Repurchase Facilities.

Secondly, 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.

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

As of November 5, 2020, we have approximately \$438 million cash on hand and \$171.0 million of availability under our bank facility.

During the nine months ended September 30, 2020 and through November 5, 2020, we have accomplished the following:

Bank Credit Facility

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

Master Repurchase Facilities

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

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

As a result, these margin holiday periods cover \$307 million, or 56%, of the outstanding \$549 million of senior loan master repurchase facility indebtedness as of the date hereof.

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

Subsequent to September 30, 2020, we exercised a one-year extension option on the Bank 2 facility, extending the maturity to October 2021. We additionally reduced the capacity from \$200.0 million to \$21.4 million.

CMBS Credit Facilities

During the first quarter, we received and paid margin calls on our CMBS Credit Facilities of \$48.9 million. During the second quarter, we consolidated our CMBS Credit Facilities borrowings with one existing counterparty bank. In connection with the consolidation, we paid down the CMBS Credit Facilities borrowing advance rate to a blended borrowing advance rate of 62% and extended the repurchase date on all such borrowings first to June 30, 2020 and then to December 31, 2020. This \$73.9 million paydown allowed for a 15% additional loss on a bond specific basis before further margin calls. As of November 5, 2020, we had \$18.6 million outstanding under our CMBS Credit Facilities. The financing bears a fixed interest rate of 4.25%.

5-Investment Preferred Financing

On June 5, 2020, we accepted preferred financing of up to \$229 million (on a portfolio of five of our underlying investment interests) (the “5-Investment Preferred Financing”) from investment vehicles managed by Goldman Sachs (“GS”). The financing included \$200 million of proceeds at closing. The unsecured financing provides GS a 10% preferred return and a minority interest in future cash flows following certain minimum returns on the preferred financing investment.

The portfolio financing is limited to (i) our interests in four co-investments alongside investment funds managed by affiliates of our manager, each of which are financings on underlying development projects (including residential, office and/or mixed-use components), and (ii) a wholly-owned triple-net industrial distribution center investment leased to a national grocery chain.

We and our affiliates control the continuing investment and portfolio management of such investments and are consolidated on our consolidated balance sheet at September 30, 2020. The preferred financing provides for a disproportionate allocation of profits and losses and the share of income or loss is determined using a balance sheet approach known as the hypothetical liquidation at book value (“HLBV”) method. Under the HLBV method, earnings and losses are recognized based on how an entity would allocate and distribute its cash if it were to sell all of its assets and settle its liabilities for their carrying amounts and liquidate at the reporting date. Under the HLBV method, we could record, in any period, more or less income than may be generated in the case of an actual liquidation. The preferred financing resulted in a reallocation of a portion of stockholders equity to noncontrolling interest, resulting in a \$69 million day one reduction in stockholders equity. The noncontrolling interest in investment entities on our consolidated balance sheet includes \$270 million representing GS’s investment at September 30, 2020 under the HLBV method.

The transaction resulted in us receiving net liquidity of approximately \$170 million, net of approximately \$30 million in paydowns under the Company’s corporate credit facility, and the ability to draw down up to \$29 million additional commitments from GS for future fundings to the portfolio, if any, at our same advance rate. As of the date hereof, we have neither drew-down additional funds from nor completed any cash distributions to GS.

We also continue to assess capital needs in our owned real estate portfolio (both Core and Legacy, Non-Strategic) where we expect to limit any investment of additional capital.

Investment Sales

During the nine months ended September 30, 2020 and through November 5, 2020, we sold or received a discounted pay-off for 13 loans, sold 14 owned real estate assets and sold 34 CRE debt securities generating net proceeds of \$301.6 million and \$196.7 million from our Core and Legacy, Non-Strategic segments, respectively.

We currently classify 23 owned real estate properties as held for sale with a total net carrying value of \$181.7 million at September 30, 2020. While we have agreements to sell or are proceeding with active marketing, the ongoing uncertainty surrounding the COVID-19 pandemic may result in us being unable to sell or complete the sale of these properties in the near to medium-term. Further, any completed sales may result in an investment loss.

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

Dividend

The COVID-19 pandemic has caused extraordinary volatility and unprecedented market conditions, including actual and unanticipated consequences to us and certain of our investments, which may continue. Having paid monthly dividend payments with respect to our common stock through March 31, 2020, we and the Board of Directors determined it was prudent and in our best interests to conserve available liquidity and suspend our monthly dividend beginning with the monthly period ended April

30, 2020. We and the Board of Directors continue to monitor our taxable income to ensure that we meet the minimum distribution requirements to maintain our status as a REIT for our taxable year ending December 31, 2020.

Additionally, with the steps we have taken to mitigate the impact of COVID-19 on our liquidity and financial condition, and our focus shifting toward new investments, rebuilding earnings and further growth initiatives, we expect to commence quarterly cash dividends in 2021.

Earnings

While we have generated liquidity and reduced our financing exposures, the Core Portfolio assets sold to date along with those under contract, will result in a material impact on future earnings.

The decisive steps taken to protect the balance sheet and generate liquidity, position us to address further market and investment deterioration related to COVID-19. While asset and liability management and liquidity remain a priority, our focus has started to shift toward new investments, building earnings and further growth initiatives. New deployment of capital will depend upon market pricing, opportunity and certainty of performance, each of which will be impacted by uncertainties relating to the impact of COVID-19.

Cash Flows

The following presents a summary of our consolidated statements of cash flows for the nine months ended September 30, 2020 and 2019 (dollars in thousands):

Cash flow provided by (used in):	Nine Months Ended September 30,		
	2020	2019	Change
Operating activities	\$ 44,862	\$ 113,205	\$ (68,343)
Investing activities	831,295	(459,239)	1,290,534
Financing activities	(535,660)	358,368	(894,028)

Operating Activities

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

Our operating activities generated net cash inflows of \$44.9 million and \$113.2 million for the nine months ended September 30, 2020 and 2019, respectively. Net cash provided by operating activities decreased \$68.3 million for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, primarily due to lower property operating income earned resulting from sales of real estate properties and lower financing costs on our loans receivable portfolio during the nine months ended September 30, 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 generated net cash inflows of \$831.3 million and used net cash outflows of \$459.2 million for the nine months ended September 30, 2020 and 2019, respectively. Net cash provided by investing activities in 2020 resulted primarily from proceeds from repayments on loan and preferred equity held for investment of \$334.2 million, sales of real estate of \$300.5 million, proceeds from sales of loans held for sale of \$137.1 million, proceeds from sale of real estate securities, available for sale of \$118.6 million and proceeds from sale of investments in unconsolidated ventures of \$100.0 million partially offset by future fundings on our loans and preferred equity held for investment, net of \$122.4 million, and contributions to investments in unconsolidated ventures of \$47.5 million.

Net cash flows used in investing activities of \$459.2 million for the nine months ended September 30, 2019 was primarily driven by \$1.3 billion of acquisition, origination and funding of loans and preferred equity held for investment partially offset

by \$426.4 million of loan and preferred equity repayments, \$202.7 million of distributions in excess of cumulative earnings from unconsolidated ventures and \$115.3 million of proceeds from sales of investments in unconsolidated ventures.

Financing Activities

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

Financing activities used net cash of \$535.7 million for the nine months ended September 30, 2020 compared to net cash inflow of \$358.4 million for the nine months ended September 30, 2019. Net cash used in financing activities in 2020 resulted primarily from repayment of credit facilities of \$745.7 million, repayment of mortgage notes of \$156.1 million, distributions paid on common stock and noncontrolling interests of \$52.6 million and distributions to noncontrolling interests in the amount of \$22.9 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 \$15.0 million.

Our financing activities provided net cash inflow of \$358.4 million for the nine months ended September 30, 2019. Net cash provided by financing activities in 2019 resulted primarily from borrowings from credit facilities in the amount of \$1.8 billion and borrowings from mortgage notes in the amount of \$85.7 million, partially offset by repayment of credit facilities in the amount of \$1.3 billion, distributions paid on common stock and noncontrolling interests of \$171.5 million and repayment of securitization bonds of \$81.4 million.

Contractual Obligations, Commitments and Contingencies of the Company

The following table sets forth the known contractual obligations of the Company on an undiscounted basis. This table excludes obligations of the Company that are not fixed and determinable, including the Management Agreement (dollars in thousands):

	Payments Due by Period				
	Total	Less than a Year	1-3 Years	3-5 Years	More than 5 Years
Bank credit facility ⁽¹⁾	\$ 3,714	\$ 1,575	\$ 2,139	\$ —	\$ —
Secured debt ⁽²⁾	2,053,900	232,853	556,933	850,834	413,280
Securitization bonds payable ⁽³⁾	935,691	38,616	614,670	282,405	—
Ground lease obligations ⁽⁴⁾	34,457	3,174	6,412	4,856	20,015
	\$ 3,027,762	\$ 276,218	\$ 1,180,154	\$ 1,138,095	\$ 433,295
Lending commitments ⁽⁵⁾	197,846				
Total	\$ 3,225,608				

(1) Future interest payments were estimated based on the applicable index at September 30, 2020 and unused commitment fee of 0.35% per annum, assuming principal is repaid on the current maturity date of February 2022.

(2) Amounts include minimum principal and interest obligations through the initial maturity date of the collateral assets. Interest on floating rate debt was determined based on the applicable index at September 30, 2020.

(3) The timing of future principal payments was estimated based on expected future cash flows of underlying collateral loans. Repayments are estimated to be earlier than contractual maturity only if proceeds from underlying loans are repaid by the borrowers.

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

(5) Future lending commitments may be subject to certain conditions that borrowers must meet to qualify for such fundings. Commitment amount assumes future fundings meet the terms to qualify for such fundings.

Guarantees and Off-Balance Sheet Arrangements

As of September 30, 2020, we were not dependent on the use of any off-balance sheet financing arrangements for liquidity. We have made investments in unconsolidated ventures. Our investments in unconsolidated joint ventures consisted of investments in PE Investments, senior loans, mezzanine loans and preferred equity held in joint ventures, as well as acquisition, development and construction arrangements accounted for as equity method investments. In each case, our exposure to loss is limited to the carrying value of our investment.

Our Investment Strategy

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

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

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

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

We have not acquired any investments in 2020 and currently are primarily focused on existing investments and commitments.

Underwriting, Asset and Risk Management

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

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

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

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

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

Inflation

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

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

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. There have been no material changes to our critical accounting policies since the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Recent Accounting Updates

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risks are interest rate risk, prepayment risk, extension risk, credit risk, real estate market risk, capital market risk and foreign currency risk, either directly through the assets held or indirectly through investments in unconsolidated ventures, 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 and our Manager are taking steps to mitigate certain risks associated with COVID-19, however the extent to which the COVID-19 pandemic impacts us, our business, our borrowers and our tenants will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic efforts of the pandemic and containment measures, among others.

Interest Rate Risk

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

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

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

As of September 30, 2020, a hypothetical 100 basis point increase in the applicable interest rate benchmark on our loan portfolio would decrease interest income by \$13.1 million annually, net of interest expense.

Prepayment risk

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

Extension risk

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

Credit risk

Investment in loans held for investment is subject to a high degree of credit risk through exposure to loss from loan defaults. Default rates are subject to a wide variety of factors, including, but not limited to, borrower financial condition, property performance, property management, supply/demand factors, construction trends, consumer behavior, regional economics, interest rates, the strength of the U.S. economy and other factors beyond our control, all 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, among other factors, all of which have and may continue to be detrimentally impacted by the COVID-19 pandemic. We seek to undertake a rigorous credit evaluation of the tenants prior to acquiring properties. This analysis includes an extensive due diligence investigation of the tenants' businesses, as well as an assessment of the strategic importance of the underlying real estate to the respective tenants' core business operations. Where appropriate, we may seek to augment the tenants' commitment to the properties by structuring various credit enhancement mechanisms into the underlying leases. These mechanisms could include security deposit requirements or guarantees from entities that are deemed credit worthy.

We are working closely with our borrowers and tenants to address the impact of COVID-19 on their business. Our Manager's in-depth understanding of CRE and real estate-related investments, and in-house underwriting, asset management and resolution capabilities, provides us and management with a sophisticated full-service platform to regularly evaluate our investments and determine primary, secondary or alternative strategies to manage the credit risks described above. This includes intermediate servicing and complex and creative negotiating, restructuring of non-performing investments, foreclosure considerations, intense management or development of owned real estate, in each case to manage the risks faced to achieve value realization events in our interests and our stockholders. Solutions considered due to the impact of the COVID-19 pandemic may include defensive loan or lease modifications, temporary interest or rent deferrals or forbearances, converting

current interest payment obligations to payment-in-kind, repurposing reserves and/or covenant waivers. Depending on the nature of the underlying investment and credit risk, we may pursue repositioning strategies through judicious capital investment in order to extract value from the investment or limit losses.

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

Real estate market risk

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

Capital markets risk

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

The COVID-19 pandemic has had a direct and volatile impact on the global markets, including the commercial real estate equity and debt capital markets. The disruption caused by the COVID-19 pandemic has led to a negative impact on asset valuations and significant constraints on liquidity in the capital markets, which may lead to restrictions on lending activity, downward pressure on covenant compliance or 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 forwards.

At September 30, 2020, we had approximately NOK 846.0 million and €149.6 million or a total of \$265.4 million, in net investments in our European subsidiaries. A 1.0% change in these foreign currency rates would result in a \$2.7 million increase or decrease in translation gain or loss included in other comprehensive income in connection with our European subsidiaries.

A summary of the foreign exchange contracts in place at September 30, 2020, including notional amount and key terms, is included in Note 15, "Derivatives," to Part I, Item 1, "Financial Statements." The maturity dates of these instruments approximate the projected dates of related cash flows for specific investments. Termination or maturity of currency hedging instruments may result in an obligation for payment to or from the counterparty to the hedging agreement. We are exposed to credit loss in the event of non-performance by counterparties for these contracts. To manage this risk, we select major international banks and financial institutions as counterparties and perform a quarterly review of the financial health and stability of our trading counterparties. Based on our review at September 30, 2020, we do not expect any counterparty to default on its obligations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2020, our disclosure controls and procedures were effective at providing reasonable assurance regarding the reliability of the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

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.

Our external manager instituted a full remote work policy in early March that will be in effect through August 15, 2020, at the earliest.

Our internal control framework, which includes controls over financial reporting and disclosure, continues to operate effectively.

PART II

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, please refer to the “Risk Factors” section in our Annual Report on Form 10-K for the year ended December 31, 2019 (the “Annual Report”), which is available on the SEC’s website at www.sec.gov. The Company is providing the following additional risk factors to supplement the risk factors included in Item 1A. of the Annual Report:

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

The COVID-19 pandemic is causing significant disruptions to the U.S. and global economies and has contributed to volatility and negative pressure in financial markets. The outbreak has led governments and other authorities around the world to impose measures intended to control its spread, including restrictions on freedom of movement and business operations such as travel bans, border closings, business closures, quarantines and shelter-in-place orders. The actual and potential impact and duration of COVID-19 or another pandemic have and are expected to continue to have significant repercussions across regional, national and global economies and financial markets, and have triggered a period of regional, national and global economic slowdown and may trigger a longer term recession. The impact of the pandemic and measures to prevent its spread have negatively impacted us and could further negatively impact our business. To the extent current conditions persist or worsen, we expect there to be a materially negative effect on the value of our assets and our results of operations, and, in turn, cash available for distribution to our stockholders. Moreover, many risk factors set forth in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 should be interpreted as heightened risks as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic.

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

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

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

been materially impacted by shelter-in-place orders, when applicable, and rent payment delinquencies in future periods may increase.

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

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

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

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

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

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

experienced margins calls well beyond historical norms. These trends, if continued, will have a negative adverse impact on our liquidity.

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

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

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

We generally must distribute annually at least 90% of our REIT taxable income (subject to certain adjustments and excluding any net capital gain), in order to qualify as a REIT, and any REIT taxable income that we do not distribute will be subject to U.S. corporate income tax at regular rates. In April 2020, the Board of Directors of the Company determined it was prudent to conserve available liquidity and suspend the Company's monthly stock dividend beginning with the monthly period ending April 30, 2020. The Board of Directors will evaluate dividends in future periods based upon customary consideration, such as our cash balances, and cash flows and market conditions and could consider paying future dividends in shares of common stock, cash, or a combination of shares of common stock and cash.

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

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

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

There were no sales of unregistered securities of our Company during the nine months ended September 30, 2020, other than those previously disclosed in filings with the SEC.

Purchases of Equity Securities by Issuer

The Company did not purchase any of its Class A common stock during the three months ended September 30, 2020.

The Company's Board of Directors authorized a stock repurchase program (the "Stock Repurchase Program"), under which the Company could repurchase up to \$300.0 million of its outstanding Class A common stock until March 31, 2020. On February 18, 2020, the Company's Board of Directors voted to extend the Stock Repurchase Program through March 31, 2021. Under the Stock Repurchase Program, the Company may repurchase shares in open market purchases, through tender offers or otherwise in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits**EXHIBIT INDEX**

Exhibit Number	Description of Exhibit
2.1	Amended and Restated Master Combination Agreement, dated as of November 20, 2017, among Colony Capital Operating Company, LLC, NRF RED REIT Corp., NorthStar Real Estate Income Trust, Inc., NorthStar Real Estate Income Trust Operating Partnership, LP, NorthStar Real Estate Income II, Inc., NorthStar Real Estate Income Operating Partnership II, LP, Colony NorthStar Credit Real Estate, Inc. and Credit RE Operating Company, LLC (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-4 (No. 333-221685) effective December 6, 2017)
3.1	Articles of Amendment and Restatement of Colony NorthStar Credit Real Estate, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (No. 001-38377) filed on August 09, 2018)
3.2	Third Amended and Restated Bylaws of Colony Credit Real Estate, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (No. 001-38377) filed on April 16, 2020)
31.1*	Certification by the Chief Executive Officer pursuant to 17 CFR 240.13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by the Chief Financial Officer pursuant to 17 CFR 240.13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by the Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification by the Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

**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 Colony Credit Real Estate, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Michael J. Mazzei

Michael J. Mazzei
Chief Executive Officer and President

Date: November 6, 2020

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

I, Neale W. Redington, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Colony Credit Real Estate, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Neale W. Redington

Neale W. Redington

Chief Financial Officer and Treasurer

Date: November 6, 2020

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

In connection with the Quarterly Report on Form 10-Q of Colony Credit Real Estate, Inc. (the "Company") for the three months ended September 30, 2020, 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 certifies, pursuant to 18 U.S.C. Section §1350, as adopted pursuant to Section §906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Michael J. Mazzei

Michael J. Mazzei

Chief Executive Officer and President

Date: November 6, 2020

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.

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

In connection with the Quarterly Report on Form 10-Q of Colony Credit Real Estate, Inc. (the "Company") for the three months ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Neale W. Redington, as Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section §1350, as adopted pursuant to Section §906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Neale W. Redington

Neale W. Redington

Chief Financial Officer and Treasurer

Date: November 6, 2020

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.