

**NEXPOINT**  
REAL ESTATE FINANCE

# ANNUAL REPORT

**2022**

300 Crescent Court, Suite 700  
Dallas, TX 75201  
[NREF.NEXPOINT.COM](http://NREF.NEXPOINT.COM)



# NEXPOINT

## REAL ESTATE FINANCE

April 11, 2023

TO MY FELLOW SHAREHOLDERS,

NexPoint Real Estate Finance, Inc. (NYSE: NREF) (“NREF” or the “Company”) celebrated its second full year as a public company in 2022. Continuing our success, we hit the ground running and were able to make numerous investments that we believe will be accretive to our shareholders, while continuing to stay dedicated to our investment thesis of deploying capital in asset classes in which our senior management team has extensive operating experience. For the year 2022, NREF raised the annual dividend run rate to \$2.00 per common share, a 5.3% increase over the prior year. Additionally, as of December 31, 2022, the Company had \$12.5 million in undistributed earnings and intends to distribute it quarterly in 2023 through a special dividend at \$0.185 per share per quarter or \$0.74 per share for the year. Since inception and through March 31, 2023, NREF’s total return to common shareholders was 20.6%.

### NREF Total Return Performance (Inception through March 31, 2023)



Note: See “Cautionary Statement Regarding Forward-Looking Statements” in our Form 10-K for the year ended December 31, 2022, accompanying this letter.

## Diversifying Our Portfolio

As of December 31, 2022, our portfolio consisted of 83 investments totaling \$1.7 billion. The debt portfolio was comprised of 43.0% single family rental (SFR), 53.0% multifamily, 2.5% life sciences, and 1.5% Self Storage.<sup>1</sup> The portfolio had 5.7 years of average remaining term, was 92.2% stabilized, and had a weighted average loan-to-value of 68.6%. The portfolio's weighted average debt service coverage ratio was 1.78x.

We believe the residential sector, specifically single-family rental and multifamily, provide the best risk-adjusted returns through all market cycles. Notably, the aggregate historical losses in Freddie Mac originations have averaged 5 bps per year since 1994.<sup>2</sup> Since the introduction of the K-Deal securitization in 2009, Freddie Mac has issued approximately \$522.1B, with losses of only \$46.1MM.<sup>3</sup>

Like multifamily, we believe the SFR asset class will continue to exhibit growth and resiliency. The current portfolio of SFR loans is capitalized, in part, by a secured credit facility with Freddie Mac, which is paired in both duration and character with the underlying loans. The portfolio has 5.4 years of weighted average term to maturity and generates an interest-rate spread of approximately 245 bps.<sup>4</sup>

In 2022, through new investments, we increased our portfolio allocation in self-storage from 0.0% to 1.5%. Of our self-storage assets, as of December 31, 2022, \$50.4 million is common stock, \$7.9 million is in mortgage backed securities and \$7.9 million is in preferred equity investments.

The remaining 2.5% of our debt portfolio was invested in life sciences. Propelled by tailwinds from COVID, the life-sciences sector has become extremely sought after due to the undersupply of lab space and specialized biotechnology manufacturing facilities. By partnering with leaders in the industry, we were able to source several investments we believe will be accretive to our shareholders.

We also began investing in ground leases, a vehicle we believe is in its nascent stages, with long-term return potential. While ground leases have existed since the feudal system, it has recently emerged as an alternative to conventional financing, although it has not been particularly well publicized. COVID, however, has drastically changed the ground-lease asset class. Like our life-sciences portfolio, we have partnered with a well-known leader in the space and look forward to growing this book of business.

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<sup>1</sup> Based upon unpaid principal balance.

<sup>2</sup> Freddie Mac; 4Q 2022.

<sup>3</sup> Freddie Mac K-Deal Performance; December 31, 2022.

<sup>4</sup> As of December 31, 2022.

## Diversifying Our Capital Stack

As discussed above, the SFR portfolio is partially capitalized by a credit facility, matched in structure and term with the underlying SFR loans, with a weighted average remaining term of 5.7 years<sup>4</sup>. As of March 22, 2023, outstanding repo financing was \$331.0 million, which equates to a 59.1% advance rate on our CMBS B-Piece and IO Strip portfolios.<sup>5</sup>

The Company also raised capital through the issuance of several debt and equity offerings in each case achieving lower costs of capital. In January 2022, the Company issued an additional \$35.0 million aggregate principal amount of its 5.75% Unsecured Notes at a price equal to 100.9% par value, including accrued interest, for proceeds of approximately \$35.1 million after underwriting discounts and commissions. In October 2022, NREF issued a 7.5% Convertible Note, totaling \$6.5 million. The Company also raised \$12.6 million from its at-the-market offering. Through these offerings, we were able to connect with a wide variety of investors, and we continue to be excited about the future of the Company.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Dondero", with a stylized, cursive script.

James D. Dondero, President

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<sup>5</sup> Based on actual collateral posted

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2022  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-39210

**NexPoint Real Estate Finance, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

Maryland  
(State or other Jurisdiction of Incorporation or Organization)

300 Crescent Court, Suite 700, Dallas, Texas  
(Address of Principal Executive Offices)

84-2178264  
(I.R.S. Employer Identification No.)

75201  
(Zip Code)

(214) 276-6300  
(Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	NREF	New York Stock Exchange
8.50% Series A Cumulative Redeemable Preferred Stock, par value 0.01 per share	NREF-PRA	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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, a 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.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐ This checkbox has been left unanswered pending adoption of the underlying rules.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐ This checkbox has been left unanswered pending adoption of the underlying rules.

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

The aggregate market value of the shares of common stock of the registrant held by non-affiliates of the registrant, based upon the closing price of such shares on June 30, 2022, was approximately \$274,000,000.00.

As of March 30, 2023, the registrant had 17,471,238 shares of its common stock, par value \$0.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the registrant's 2023 Annual Meeting of stockholders are incorporated by reference in Part III of this Form 10-K.

Auditor Firm Id: 185

Auditor Name: KPMG, LLP

Auditor Location: Dallas, Texas, United States

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**NEXPOINT REAL ESTATE FINANCE, INC.**  
**Form 10-K**  
**Year Ended December 31, 2022**

**INDEX**

	<u><b>Page</b></u>
Cautionary Statement Regarding Forward-Looking Statements.....	ii

**PART I**

Item 1. Business .....	1
Item 1A. Risk Factors .....	12
Item 1B. Unresolved Staff Comments .....	55
Item 2. Properties .....	55
Item 3. Legal Proceedings .....	56
Item 4. Mine Safety Disclosures .....	56

**PART II**

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	57
Item 6. [Reserved] .....	57
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	57
Item 7A. Quantitative and Qualitative Disclosures About Market Risk .....	77
Item 8. Financial Statements and Supplementary Data .....	77
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures .....	77
Item 9A. Controls and Procedures .....	77
Item 9B. Other Information .....	78
Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections .....	78

**PART III**

Item 10. Directors, Executive Officers and Corporate Governance .....	79
Item 11. Executive Compensation.....	79
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	79
Item 13. Certain Relationships and Related Transactions, and Director Independence .....	79
Item 14. Principal Accountant Fees and Services .....	79

**PART IV**

Item 15. Exhibit and Financial Statement Schedules .....	80
Index to Consolidated Financial Statements .....	F-1

## Cautionary Statement Regarding Forward-Looking Statements

This annual report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. In particular, statements relating to our liquidity and capital resources, our performance and results of operations contain forward-looking statements. Furthermore, all of the statements regarding future financial performance (including market conditions and demographics) are forward-looking statements. We caution investors that any forward-looking statements presented in this annual report are based on management's current beliefs and assumptions made by, and information currently available to, management. When used, the words "anticipate," "believe," "expect," "intend," "may," "might," "plan," "estimate," "project," "should," "will," "would," "result," the negative version of these words and similar expressions that do not relate solely to historical matters are intended to identify forward-looking statements. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

Forward-looking statements are subject to risks, uncertainties and assumptions and may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We caution you therefore against relying on any of these forward-looking statements.

Some of the risks and uncertainties that may cause our actual results, performance, liquidity or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- Unfavorable changes in economic conditions and their effects on the real estate industry generally and our operations and financial condition, including inflation, rising interest rates, tightening monetary policy or recession, which may limit our ability to access funding and generate returns for our stockholders;
- Our loans and investments expose us to risks similar to and associated with debt-oriented real estate investments generally;
- Commercial real estate-related investments that are secured, directly or indirectly, by real property are subject to delinquency, foreclosure and loss, which could result in losses to us;
- Fluctuations in interest rate and credit spreads, could reduce our ability to generate income on our loans and other investments, which could lead to a significant decrease in our results of operations, cash flows and the market value of our investments;
- Risks associated with the ownership of real estate;
- Our loans and investments are concentrated in terms of type of interest, geography, asset types and sponsors and may continue to be so in the future;
- We have a substantial amount of indebtedness which may limit our financial and operating activities and may adversely affect our ability to incur additional debt to fund future needs;
- We have limited operating history as a standalone company and may not be able to operate our business successfully, find suitable investments, or generate sufficient revenue to make or sustain distributions to our stockholders;
- We may not replicate the historical results achieved by other entities managed or sponsored by affiliates of NexPoint Advisors, L.P. (our "Sponsor"), members of the NexPoint Real Estate Advisors VII, L.P. (our "Manager") management team or their affiliates;
- We are dependent upon our Manager and its affiliates to conduct our day-to-day operations; thus, adverse changes in their financial health or our relationship with them could cause our operations to suffer;
- Our Manager and its affiliates face conflicts of interest, including significant conflicts created by our Manager's compensation arrangements with us, including compensation which may be required to be paid to our Manager if our management agreement is terminated, which could result in decisions that are not in the best interests of our stockholders;
- We pay substantial fees and expenses to our Manager and its affiliates, which payments increase the risk that you will not earn a profit on your investment;

- If we fail to qualify as a real estate investment trust (a “REIT”) for U.S. federal income tax purposes, cash available for distributions (“CAD”) to be paid to our stockholders could decrease materially, which would limit our ability to make distributions to our stockholders;
- Risks associated with the COVID-19 pandemic or the future outbreak of other highly infectious or contagious diseases;
- Risks associated with a single material weakness that was identified in our review of internal control over financial reporting and the determination that our internal control over financial reporting and disclosure controls and procedures were therefore not effective as of December 31, 2022; and
- Any other risks included under the heading “Risk Factors” in this annual report.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. They are based on estimates and assumptions only as of the date of this annual report. We undertake no obligation to update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes, except as required by law.

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## PART I

### Item 1. Business

#### General

NexPoint Real Estate Finance, Inc. (the “Company”, “we”, “our”) is a commercial mortgage REIT incorporated in Maryland on June 7, 2019 that has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”). The Company is focused on originating, structuring and investing in first-lien mortgage loans, mezzanine loans, preferred equity, convertible notes, multifamily properties and common stock investments, as well as multifamily commercial mortgage-backed securities securitizations (“CMBS securitizations”), multifamily structured credit risk notes (“MSCR Notes”) and mortgage-backed securities, or our target assets. Substantially all of the Company’s business is conducted through NexPoint Real Estate Finance Operating Partnership, L.P. (the “OP”), the Company’s operating partnership. As of December 31, 2022, the Company held approximately 83.36% of the common limited partnership units in the OP (“OP Units”) which represents 100% of the Class A OP Units, and the OP owned all of the common limited partnership units (“SubOP Units”) of its three subsidiary partnerships (collectively, the “Subsidiary OPs”) (see Note 13 to our consolidated financial statements). At the 2021 annual meeting of the Company, the Company’s stockholders approved the potential issuance of 13,758,905.9 shares of the Company’s common stock to related parties in connection with the redemption of their OP Units or SubOP Units that may be redeemed for OP Units. As of December 31, 2022, the Company has issued 8,748,735 shares of the Company’s common stock to the redeeming unitholders.

The OP also directly owns all of the membership interests of a limited liability company (the “Mezz LLC”) through which it owns a portfolio of mezzanine loans, as further discussed below. NexPoint Real Estate Finance OP GP, LLC (the “OP GP”) is the sole general partner of the OP. In addition to OP Units, the Company holds all 2,000,000 of the issued and outstanding 8.50% Series A Cumulative Redeemable Preferred Units (liquidation preference \$25.00 per unit) in our OP (the “Series A Preferred Units”). The Series A Preferred Units have economic terms that are substantially the same as the terms of our 8.50% Series A Cumulative Redeemable Preferred Stock (the “Series A Preferred Stock”). The Series A Preferred Units rank, as to distributions and upon liquidation, senior to OP Units.

The Company commenced operations on February 11, 2020 upon the closing of its initial public offering of shares of its common stock (the “IPO”). Prior to the closing of the IPO, the Company engaged in a series of transactions through which it acquired an initial portfolio consisting of senior pooled mortgage loans backed by single family rental (“SFR”) properties (the “SFR Loans”), the junior most bonds of multifamily CMBS securitizations (the “CMBS B-Pieces”), mezzanine loan and preferred equity investments in real estate companies and properties in other structured real estate investments within the multifamily, SFR and self-storage asset classes (the “Initial Portfolio”). The Initial Portfolio was acquired from affiliates (the “Contribution Group”) of our Sponsor, pursuant to a contribution agreement with the Contribution Group through which the Contribution Group contributed their interest in the Initial Portfolio to special purpose entities (“SPEs”) owned by the Subsidiary OPs, in exchange for SubOP Units (the “Formation Transaction”). Subsequent to the Formation Transaction, the Company has continued to invest in asset types and real estate sectors within the Initial Portfolio and expanded to include additional asset types and real estate sectors.

The Company is externally managed through a management agreement dated February 6, 2020 and amended as of July 17, 2020 and November 3, 2021, for an initial three-year term that expired on February 6, 2023 and successive one-year terms thereafter unless earlier terminated (as amended, the “Management Agreement”), by and between the Company and the Manager. The Manager conducts substantially all of the Company’s operations and provides asset management services for its real estate investments. The Company expects it will only have accounting employees while the Management Agreement is in effect. All of the Company’s investment decisions are made by the Manager, subject to general oversight by the Manager’s investment committee and the Company’s board of directors (the “Board”). The Manager is wholly owned by our Sponsor.

The Company’s primary investment objective is to generate attractive, risk-adjusted returns for stockholders over the long term. We intend to achieve this objective primarily by originating, structuring and investing in our target assets. We concentrate on investments in real estate sectors where our senior management team has operating expertise, including in the multifamily, SFR, self-storage, life science, hospitality and office sectors predominantly in the top 50 metropolitan statistical areas (“MSAs”). In addition, we target lending or investing in properties that are stabilized or have a “light transitional” business plan, meaning a property that requires limited deferred funding to support leasing or ramp-up of operations and for which most capital expenditures are for value-add improvements. Through active portfolio management we seek to take advantage of market opportunities to achieve a superior portfolio risk-mix that delivers attractive total returns.

## 2022 Highlights

Key highlights and transactions completed in 2022 include the following:

### *Purchases and Investments*

We made the following purchases and investments in 2022:

Investment	Investment Date	Tranche	Outstanding Principal Amount	Cost (% of Par Value)	Coupon (4)	Current Yield (4)	Maturity Date	Interest Rate Type
Convertible Notes .....	1/12/2022	N/A	\$ 38,656,456	99.5 %	9.00 %	9.05 %	12/27/2023	Fixed Rate
Preferred Equity .....	1/14/2022	N/A	19,594,241 (1)	99.5 %	10.00 %	10.05 %	9/29/2023	Fixed Rate
FRESB 2019-SB64 .....	2/3/2022	X1	27,106,367 (2)	8.0 %	1.25 %	15.57 %	5/25/2029	Interest Only
FREMF 2017-K62 .....	2/10/2022	D	10,000,000	71.0 %	— %	7.03 %	12/31/2026	Zero-Coupon
FRESB 2019-SB64 .....	3/18/2022	X1	32,209,026 (2)	7.4 %	1.25 %	16.91 %	5/25/2029	Interest Only
Bridge Loan .....	3/31/2022	N/A	13,500,000	99.5 %	9.00 %	5.03 %	10/1/2022	Floating Rate
Preferred Equity .....	4/7/2022	N/A	4,000,000 (3)	99.0 %	13.77 %	10.86 %	9/1/2030	Floating Rate
Common Stock .....	4/14/2022	N/A	25,000,000	100.0 %	N/A	N/A	N/A	N/A
FRESB 2019-SB58 .....	5/2/2022	B	40,727,072	92.6 %	4.35 %	4.70 %	11/25/2038	Fixed Rate
MSCR 2022-MN4 .....	5/25/2022	M2	4,000,000	125.0 %	10.03 %	10.03 %	5/25/2052	Floating Rate
MSCR 2022-MN4 .....	5/25/2022	B1	5,000,000	80.0 %	7.03 %	7.03 %	5/25/2052	Floating Rate
STAR 2021-SFR1 .....	6/1/2022	G	10,419,000	95.1 %	4.08 %	4.28 %	4/17/2026	Floating Rate
AMSR 2020-SFR4 .....	6/1/2022	G2	10,074,000	95.1 %	4.87 %	5.12 %	11/19/2025	Fixed Rate
Preferred Equity .....	6/8/2022	N/A	4,000,000	99.0 %	9.99 %	10.09 %	9/1/2030	Floating Rate
Mezzanine Loan .....	6/9/2022	N/A	4,500,000	99.0 %	11.50 %	11.61 %	6/9/2025	Floating Rate
Mezzanine Loan .....	7/1/2022	N/A	9,000,000	99.0 %	11.00 %	11.10 %	7/1/2027	Fixed Rate
PROG 2020-SFR 3 .....	7/28/2022	H	575,000	98.3 %	6.23 %	6.33 %	10/17/2027	Fixed Rate
AMSR 2021-SFR1 .....	7/28/2022	F	1,057,000	84.3 %	3.60 %	4.23 %	6/20/2028	Fixed Rate
FREMF 2022-KF140 .....	7/28/2022	CS	70,480,514	100.0 %	8.29 %	8.29 %	7/25/2029	Floating Rate
Preferred Equity .....	8/10/2022	B1	8,500,000	99.0 %	14.61 %	14.74 %	9/9/2025	Floating Rate
FREMF 21K-F103 .....	9/12/2022	CS	4,472,571	112.2 %	9.29 %	9.27 %	1/25/2031	Floating Rate
MSCR 2021-MN 3 .....	9/23/2022	B1	1,500,000	91.7 %	10.37 %	11.40 %	11/25/2051	Floating Rate
JPMCC 2022-NXSS .....	9/29/2022	E	8,000,000	99.8 %	9.57 %	9.59 %	9/15/2027	Floating Rate
Preferred Equity .....	9/30/2022	N/A	9,000,000	99.0 %	13.76 %	13.89 %	10/1/2025	Floating Rate
Preferred Equity .....	10/5/2022	N/A	4,030,000	99.0 %	14.52 %	14.66 %	1/1/2028	Floating Rate
Preferred Equity .....	10/19/2022	N/A	15,000,000	99.5 %	10.00 %	10.05 %	9/29/2023	Fixed Rate
			<u>\$ 380,401,247</u>					

(1) Includes investments made on January 14, 2022, January 19, 2022 and January 27, 2022.

(2) I/O Strips reflect initial notional value.

(3) Includes investments made on April 7, 2022 and May 3, 2022.

(4) Current yield and coupon as of December 31, 2022.

We acquired one property in 2022. Details of the acquisition are in the table below (dollars in thousands):

Property Name	Location	Date of Acquisition	Purchase Price	Mortgage Debt	# Units	Effective Ownership
Elysian at Hughes.....	Las Vegas, NV	2/1/2022	\$ 184,100	\$ 89,634	368	36.0 %

### Dispositions and Loan Payoffs

The following investments were disposed of, sold, matured or redeemed in 2022:

Investment	Investment Date	Disposition Date	Amortized Cost Basis	Disposition Proceeds	Prepayment Penalties	Net Gain (Loss) on Prepayment
Preferred Equity.....	11/8/2021	1/11/2022	\$ 6,574,994	\$ 6,639,367	\$ 544,796	\$ 609,169
Preferred Equity.....	2/11/2020	1/12/2022	5,278,530	5,056,000	—	(222,530)
SFR Loan.....	2/11/2020	1/25/2022	7,967,571	7,438,341	1,687,146	1,157,916
SFR Loan.....	2/11/2020	1/25/2022	8,432,259	7,728,462	2,074,920	1,371,123
SFR Loan.....	2/11/2020	1/25/2022	18,573,187	16,969,898	4,579,526	2,976,237
Preferred Equity.....	11/8/2021	1/28/2022	16,439,352	16,598,416	1,280,543	1,439,607
Mezzanine Loan .....	1/21/2021	1/31/2022	1,513,720	1,540,798	—	27,078
SFR Loan.....	2/11/2020	2/25/2022	65,986,054	62,023,000	12,545,996	8,582,942
Convertible Notes .....	1/12/2022	4/14/2022	33,992,809	34,134,820	853,371	995,382
SFR Loan.....	2/11/2020	4/25/2022	6,644,645	6,052,385	1,335,603	743,343
Preferred Equity.....	11/8/2021	6/28/2022	6,845,200	6,912,217	216,699	283,716
FREMF 2020-K113 X2A ...	8/6/2020	7/19/2022	8,046,260	6,962,393	—	(1,083,867)
Bridge Loan.....	3/31/2022	8/9/2022	13,467,500	13,500,000	—	32,500
SFR Loan.....	2/11/2020	9/25/2022	4,895,376	4,596,169	643,833	344,625
Mezzanine Loan .....	10/20/2020	9/25/2022	1,116,983	1,082,000	10,820	(24,163)
			<u>205,774,441</u>	<u>197,234,265</u>	<u>25,773,254</u>	<u>17,233,078</u>

### Repurchase Agreement Financing

As described further below, the Company entered into a master repurchase agreement in April 2020. The table below provides additional details regarding borrowings under the master repurchase agreement as of December 31, 2022 (dollars in thousands):

	December 31, 2022									
	Facility						Collateral			
	Date issued	Outstanding face amount	Carrying value	Final stated maturity	Weighted average interest rate (1)	Weighted average life (years) (2)	Outstanding face amount	Amortized cost basis	Carrying value (3)	Weighted average life (years) (2)
Master Repurchase Agreements										
CMBS										
Mizuho <sup>(4)</sup> .....	4/15/2020	331,020	331,020	N/A (5)	5.83 %	0.2	974,440	543,919	539,736	7.0

- (1) Weighted-average interest rate using unpaid principal balances.
- (2) Weighted-average life is determined using the maximum maturity date of the corresponding loans, assuming all extension options are exercised by the borrower.
- (3) CMBS are shown at fair value on an unconsolidated basis.
- (4) In April 2020, three of our subsidiaries entered into a master repurchase agreement with Mizuho Securities ("Mizuho"). Borrowings under these repurchase agreements are collateralized by portions of the CMBS B-Pieces, CMBS interest only strips ("CMBS I/O Strips"), MSCR Notes and mortgage backed securities.
- (5) The master repurchase agreement with Mizuho does not have a stated maturity date. The transactions in place have a one-month to two-month tenor and are expected to roll accordingly.

## ***Notes Offering***

On January 25, 2022, the Company issued \$35.0 million in aggregate principal amount of 5.75% Senior Unsecured Notes due 2026 (the “5.75% Notes”) at a price equal to 100.9% of par value, including accrued interest, for proceeds of approximately \$35.1 million after original issue discount and underwriting fees. The proceeds of the issuance were used to purchase a preferred equity investment. During 2022, the Company purchased \$5.0 million in aggregate principal amount of its 5.75% Notes which were cancelled upon settlement. As of December 31, 2022, there was \$165.0 million in aggregate principal amount of the 5.75% Notes outstanding.

## ***OP Unit Redemption***

At the 2021 annual meeting of the Company, the Company's stockholders approved the potential issuance of 13,758,905.9 shares of the Company's common stock to related parties in connection with the redemption of their OP Units or SubOP Units that may be redeemed for OP Units. During 2022, the Company issued 7,269,603 shares of the Company's common stock to redeeming unitholders. As of December 31, 2022, the Company had issued 8,748,735 shares of the Company's common stock to redeeming unitholders.

## ***At-the-Market-Program***

On March 15, 2022, the Company, the OP and the Manager entered into separate equity distribution agreements (the “2022 Equity Distribution Agreements”) with each of Raymond James & Associates, Inc. (“Raymond James”), Keefe, Bruyette & Woods, Inc., Robert W. Baird & Co. Incorporated and Virtu Americas LLC (collectively, the “Sales Agents”), pursuant to which the Company could issue and sell from time to time shares of the Company's common stock and Series A Preferred Stock having an aggregate sales price of up to \$100.0 million (the “2022 ATM Program”). The 2022 Equity Distribution Agreements provide for the issuance and sale of common stock or Series A Preferred Stock by the Company through a Sales Agent acting as a Sales Agent or directly to the Sales Agent acting as principal for its own account at a price agreed upon at the time of sale. As of December 31, 2022, pursuant to the 2022 Equity Distribution Agreements, the Company had sold 531,728 shares of its common stock and zero shares of Series A Preferred Stock for total gross sales of \$12.6 million. For additional information about the 2022 ATM Program, see Note 11 to our consolidated financial statements.

## ***Share Repurchase Program***

On March 9, 2020, the Board authorized a share repurchase program (the “Share Repurchase Program”) through which the Company could repurchase an indeterminate number of shares of our common stock at an aggregate market value of up to \$10.0 million in shares of its common stock, par value \$0.01 per share, during a two-year period that expired on March 9, 2022. On September 28, 2020, the Board authorized the expansion of the Share Repurchase Program to include the Company's Series A Preferred Stock with the same period and repurchase limit. The Company could utilize various methods to affect the repurchases, and the timing and extent of the repurchases will depend upon several factors, including market and business conditions, regulatory requirements and other corporate considerations, including whether the Company's common stock is trading at a significant discount to net asset value (“NAV”) per share. Repurchases under this program could be discontinued at any time. From inception through expiration, the Company repurchased 327,422 shares of its common stock, par value \$0.01 per share, at a total cost of approximately \$4.8 million, or \$14.61 per share. These repurchased shares of common stock are classified as treasury stock and reduce the number of shares of the Company's common stock outstanding and, accordingly, are considered in the weighted-average number of shares outstanding during the period in which the repurchases were made. On March 3, 2021, the Company cancelled 40,435 shares of common stock, reducing the total classified as treasury stock to 286,987.

## ***NexPoint Storage Partners, Inc.***

On December 8, 2022 and in connection with a restructuring of NexPoint Storage Partners, Inc. (“NSP”), the Company, through a subsidiary (“REIT Sub”), together with NexPoint Diversified Real Estate Trust, Highland Income Fund and NexPoint Real Estate Strategies Fund (collectively, the “Co-Guarantors”), as guarantors, entered into a Sponsor Guaranty Agreement in favor of Extra Space Storage, LP (“Extra Space”) pursuant to which REIT Sub and the Co-Guarantors guaranteed obligations of NSP with respect to NSP's newly created Series D Preferred Stock and two promissory notes in an aggregate principal amount of approximately \$64.2 million issued to Extra Space. The guaranties by REIT Sub and the Co-Guarantors are capped at \$97.6 million, which cap amount will be reduced as the guaranteed obligations of NSP are paid. Each of REIT Sub and the Co-Guarantors generally guaranteed the foregoing obligations of NSP up to the cap amount on a pro rata basis with respect to its percentage ownership of NSP's common stock. The maximum liability of REIT Sub under the guaranties is approximately \$83.8 million. As of December 31, 2022, the Company owns approximately 25.8% of the total outstanding shares of common stock of NSP.



## Bridge Loan Financing

On July 28, 2022, the Company entered into a \$38.7 million bridge facility (the “July 2022 Bridge Facility”) with Raymond James Bank, N.A. and immediately drew \$38.7 million. The proceeds from the July 2022 Bridge Facility were used to financing the acquisition of the FREMF 2022-KF140 securitization. On July 29, 2022, the July Bridge Facility was repaid in full and is no longer outstanding.

## Freddie Mac Credit Facility

During 2022, the Company made payments under a Credit Facility (defined below) assumed by the Company as part of the Formation Transaction in the amount of \$97.7 million. The Credit Facility is guaranteed by certain members of the Contribution Group and the OP and secured by senior pooled mortgage loans backed by SFR properties (the “Underlying Loans”). The guarantors are subject to minimum net worth liquidity covenants. The Company’s borrowings under the Credit Facility will mature on July 12, 2029; however, if an Underlying Loan matures or is paid off prior to July 12, 2029, the Company will be required to repay the portion of the Credit Facility that is allocated to that loan. No additional borrowings can be made under the Credit Facility. As of December 31, 2022, the outstanding balance on the Credit Facility was \$628.6 million.

## Convertible Promissory Note

On October 18, 2022, the Company, through a subsidiary, borrowed \$6.5 million from NFRO REIT Sub, LLC (the “Holder”) and issued \$6.5 million aggregate amount of a 7.50% note to the Holder maturing on October 18, 2027. Beginning on January 1, 2023 through June 30, 2027, the Holder may elect to convert all or any part of the outstanding principal and accrued but unpaid interest due, and all other amounts due and payable to the Holder thereunder or in connection therewith, into equity interests of an affiliate of the borrower.

## Our Portfolio

Our portfolio consists of SFR Loans, CMBS B-Pieces, CMBS I/O Strips, mezzanine loans, preferred equity investments, common stock investments, multifamily properties, MSCR Notes and mortgage-backed securities with a combined unpaid principal balance of \$2.0 billion at December 31, 2022 and assumes the assets and liabilities of the ten Freddie Mac K-Series securitization entities (the “CMBS Entities”) are not consolidated. For more information about the CMBS Entities, see Note 2 to our consolidated financial statements.

Our portfolio, based on total unpaid principal balance as of December 31, 2022, excluding the consolidation of the CMBS B-Pieces, as described further below, is approximately 42.6% SFR Loans, approximately 36.0% multifamily CMBS B-Pieces, approximately 2.9% CMBS I/O Strips, approximately 10.1% mezzanine loans, approximately 5.7% preferred equity investments, approximately 0.6% MSCR Notes, and approximately 2.1% mortgage backed securities. Total liabilities, excluding the consolidation of the CMBS B-Pieces, with respect to each of the aforementioned investment structures in our portfolio are approximately \$628.6 million, approximately \$283.9 million, approximately \$26.4 million, approximately \$59.3 million, approximately \$0.0 million, approximately \$0.0 million and approximately \$0.0 million, respectively. Our CMBS B-Piece investments as a percentage of total assets, excluding the consolidation of the CMBS B-Pieces, reflects the assets that we actually own. However, in accordance with the applicable accounting standards, we consolidate all of the assets and liabilities of the trusts that issued the CMBS B-Pieces that we own which we are deemed to control.

Our portfolio, based on total unpaid principal balance as of December 31, 2022, including the consolidation of the CMBS B-Pieces, is approximately 8.9% SFR Loans, approximately 86.7% multifamily CMBS B-Pieces, approximately 0.6% CMBS I/O Strips, approximately 2.1% mezzanine loans, approximately 1.2% preferred equity investments, approximately 0.1% MSCR Notes, and approximately 0.4% mortgage-backed securities. Total liabilities, including the consolidation of the CMBS B-Pieces, with respect to each of the aforementioned investment structures in our portfolio are approximately \$628.6 million, approximately \$6.2 billion, approximately \$26.4 million, approximately \$59.3 million, approximately \$0.0 million, approximately \$0.0 million and approximately \$0.0 million, respectively.

Our portfolio, based on net equity as of December 31, 2022, is approximately 14.8% SFR Loans, approximately 28.0% multifamily CMBS B-Pieces, approximately 3.1% CMBS I/O Strips, approximately 15.9% mezzanine loans, approximately 13.7% preferred equity investments, approximately 11.8% common stock investments, approximately 9.5% multifamily property real estate, approximately 0.7% MSCR Notes, and approximately 2.5% mortgage-backed securities. Net equity represents the carrying value less our leverage on the asset.

As a whole, we believe our portfolio of investments have a relatively low risk profile: 92.9% of the underlying properties in our portfolio are stabilized and have a weighted average occupancy of 89.5%; the portfolio-wide weighted average debt service coverage ratio (“DSCR”) is 1.78; the weighted average loan to value (“LTV”) of our investments is 68.6%; and the weighted average maturity is 5.9 years as of December 31, 2022. These metrics do not reflect our common stock investments in NSP and the Private REIT or our multifamily properties, shown as real estate investment, net on the Consolidated Balance Sheets, at December 31, 2022. For additional information related to the diversification of the collateral associated with our portfolio, including with respect to interest rate category, underlying property type, investment structure and geography, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Our Portfolio.

### ***Primary Investment Objective***

Our primary investment objective is to generate attractive, risk-adjusted returns for stockholders over the long term. We intend to achieve this objective primarily by originating, structuring and investing in our target assets. We target lending or investing in properties that are stabilized or have a light transitional business plan with positive DSCRs and high-quality sponsors.

Through active portfolio management we seek to take advantage of market opportunities to achieve a superior portfolio risk-mix that delivers attractive total returns. Our Manager regularly monitors and stress-tests each investment and the portfolio as a whole under various scenarios, enabling us to make informed and proactive investment decisions.

### ***Target Investments***

We invest primarily in first-lien mortgage loans, mezzanine loans, preferred equity, convertible notes, multifamily properties and common stock investments, as well as multifamily CMBS securitizations (including CMBS B-Pieces and CMBS I/O Strips), MSCR Notes and mortgage-backed securities, with a focus on lending or investing in properties that are stabilized or have a light transitional business plan primarily in the multifamily, SFR, self-storage, hospitality and office real estate sectors predominantly in the top 50 MSAs. These investment types are discussed below:

- **First-Lien Mortgage Loans:** We make investments in senior loans that are secured by first priority mortgage liens on real estate properties. The loans may vary in duration, bear interest at a fixed or floating rate and amortize, typically with a balloon payment of principal at maturity. These investments may include whole loans or *pari passu* participations within such senior loans.
- **Mezzanine Loans:** We originate or acquire mezzanine loans. These loans are subordinate to the first-lien mortgage loan on a property, but senior to the equity of the borrower. These loans are not secured by the underlying real estate, but generally can be converted into preferred equity of the mortgage borrower or owner of a mortgage borrower, as applicable.
- **Preferred Equity:** We make investments that are subordinate to any mortgage or mezzanine loan, but senior to the common equity of the borrower. Preferred equity investments typically receive a preferred return from the issuer’s cash flow rather than interest payments and often have the right for such preferred return to accrue if there is insufficient cash flow for current payment. These investments are not secured by the underlying real estate, but upon the occurrence of a default, the preferred equity provider typically has the right to effect a change of control with respect to the ownership of the property.
- **CMBS B-Pieces:** We make investments in the junior-most bonds comprising some or all of the BB-rated, B-rated and unrated tranches of CMBS securitization pools. In the CMBS structure, underlying commercial real estate loans are typically aggregated into a pool with the pool issuing and selling different tranches of bonds and securities to different investors. Under the pooling and servicing agreements that govern these securitization pools, the loans are administered by a trustee and servicers, who act on behalf of all CMBS investors, distribute the underlying cash flows to the different classes of securities in accordance with their seniority. Historically, a single investor acquires all of the below-investment grade securities that comprise each CMBS B-Piece. CMBS B-Pieces have been a successful and sought-after securitization program offering a wide-range of residential and multifamily products. As of December 31, 2022, there have been 510 Freddie Mac K-deal issuances for a combined \$522.1 billion and 24,997 loans originated and securitized since 2009.
- **CMBS I/O Strips:** We make investments in CMBS I/O Strips, which are interest only and inverse interest only CMBS securitization that represent the right to the interest component of the cash flow from a pool of mortgage loans of CMBS structured pass-through certificates.

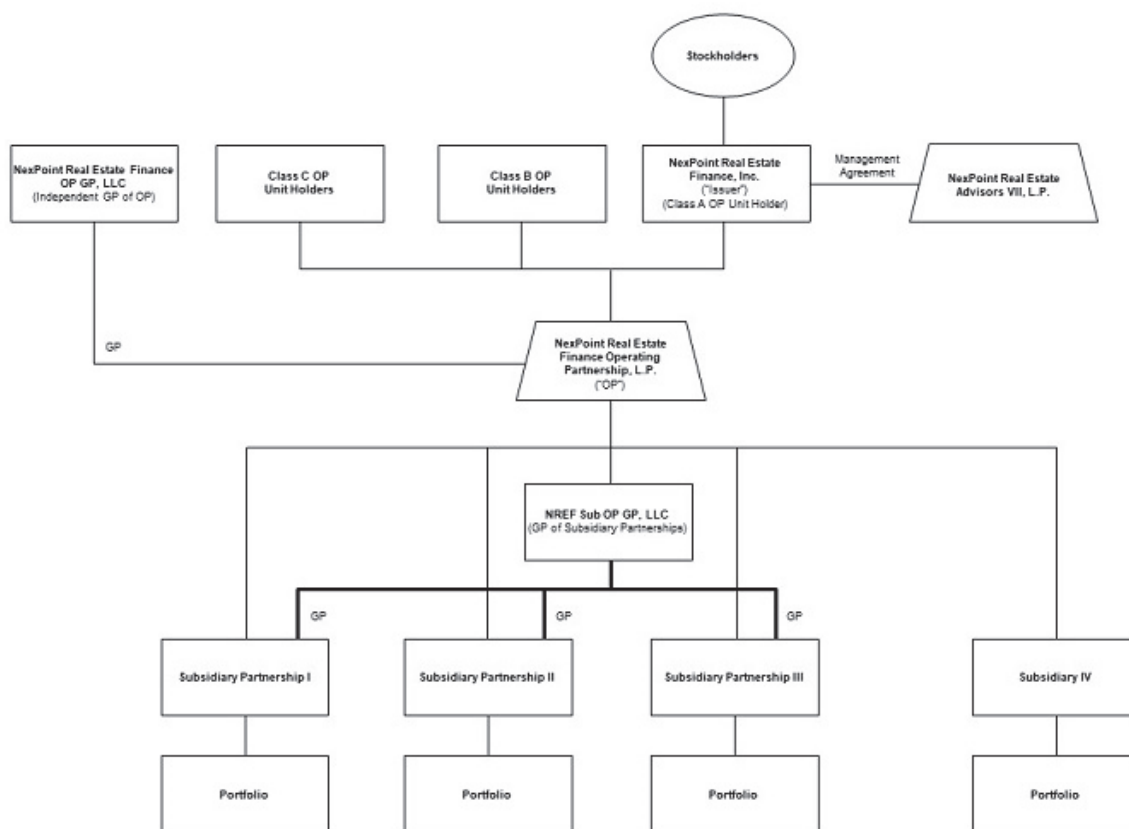
- **MSCR Notes:** We make investments in MSCR Notes, which are unguaranteed securities designed to transfer to investors a portion of the credit risk associated with eligible multifamily mortgages linked to a reference pool. MSCR Notes offer capital markets investors provide an innovative way to add U.S. multifamily housing market exposure while benefiting from Freddie Mac's industry leading underwriting and credit risk management standards.
- **Mortgage Backed Securities:** We make investments in mortgage-backed securities. Each mortgage-backed security consists of a bundle of home loans and other real estate debt bought from issuers. We receive periodic payments similar to bond coupon payments.
- **Convertible Notes:** We originate or acquire convertible notes. These notes are subordinate to any first mortgage and can be converted into common equity of the borrower.
- **Common Stock:** We acquire common stock in the real estate sector, including through convertible notes that can provide a stable source of income through dividends, opportunities for capital appreciation, and a level of diversification to our Portfolio.
- **Multifamily Property:** We make investments in multifamily properties with a value-add component in large cities and suburban submarkets of large cities primarily in the Southeastern and Southwestern United States.

## Our Financing Strategy

While we do not have any formal restrictions or policy with respect to our debt-to-equity leverage ratio, we currently expect that our leverage will not exceed a ratio of 3-to-1. We believe this leverage ratio is prudent given that leverage typically exists at the asset level. The amount of leverage we may employ for particular assets depends upon the availability of particular types of financing and our Manager's assessment of the credit, liquidity, price volatility and other risks of those assets and financing counterparties. Our decision to use leverage to finance our assets is at the discretion of our Manager, subject to review by our Board, and is not subject to the approval of our stockholders. We generally intend to match leverage term and structure to that of the underlying investment financed. For additional information on sources of and trends regarding our liquidity, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

## Our Structure

The following chart shows our ownership structure as of the date hereof:



## Our Manager

We are externally managed by our Manager through the Management Agreement dated February 6, 2020 and amended as of July 17, 2020 and November 3, 2021, for an initial three-year term that expired on February 6, 2023 and successive one-year terms thereafter unless earlier terminated. Our Manager conducts substantially all of our operations and provides asset management services for our real estate investments. We expect we will only have accounting employees while the Management Agreement is in effect. All of our investment decisions are made by our Manager, subject to general oversight by our Manager's investment committee and the Board. Our Manager is wholly owned by our Sponsor. The members of our Manager's investment committee are James Dondero, Matt McGraner, Matthew Goetz, and Brian Mitts.

## Our Management Agreement

We pay our Manager an annual management fee. We do not pay any incentive fees to our Manager. We also reimburse our Manager for expenses it incurs on our behalf.

Pursuant to the Management Agreement, subject to the overall supervision of our Board, our Manager manages our day-to-day operations, and provides investment management services to us. Under the terms of this agreement, our Manager will, among other things:

- identify, evaluate and negotiate the structure of our investments (including performing due diligence);
- find, present and recommend investment opportunities consistent with our investment policies and objectives;

- structure the terms and conditions of our investments;
- review and analyze financial information for each investment in our overall portfolio;
- close, monitor and administer our investments; and
- identify debt and equity capital needs and procure the necessary capital.

As consideration for the Manager's services, we pay our Manager an annual management fee of 1.5% of Equity (as defined below), paid monthly, in cash or shares of our common stock at the election of our Manager (the "Annual Fee").

"Equity" means (a) the sum of (1) total stockholders' equity immediately prior to the closing of the IPO, plus (2) the net proceeds received by us from all issuances of our equity securities in and after the IPO, plus (3) our cumulative Earnings Available for Distribution ("EAD") from and after the IPO to the end of the most recently completed calendar quarter, (b) less (1) any distributions to holders of our common stock from and after the IPO to the end of the most recently completed calendar quarter and (2) all amounts that we have paid to repurchase for cash the shares of our equity securities from and after the IPO to the end of the most recently completed calendar quarter. In our calculation of Equity, we will adjust our calculation of EAD to remove the compensation expense relating to awards granted under one or more of our long-term incentive plans that is added back in our calculation of EAD. Additionally, for the avoidance of doubt, Equity does not include the assets contributed to us in the Formation Transaction.

"EAD" means the net income (loss) attributable to our common stockholders computed in accordance with generally accepted accounting principles in the United States ("GAAP"), including realized gains and losses not otherwise included in net income (loss), excluding any unrealized gains or losses or other similar non-cash items that are included in net income (loss) for the applicable reporting period, regardless of whether such items are included in other comprehensive income (loss), or in net income (loss) and adding back amortization of stock-based compensation. Net income (loss) attributable to common stockholders may also be adjusted for the effects of certain adjustments made in accordance with GAAP and transactions that may not be indicative of our current operations, in each case after discussions between the Manager and the independent directors of our Board and approved by a majority of the independent directors of our Board.

Incentive compensation may be payable to our executive officers and certain other employees of our Manager or its affiliates pursuant to a long-term incentive plan adopted by us and approved by our stockholders. As discussed above, compensation expense is not considered when determining EAD, in that we add back compensation expense to net income in the calculation of EAD. However, compensation expense is considered when determining Equity, in that we will adjust our calculation of EAD to remove the compensation expense that is added back in our calculation of EAD.

We are required to pay directly or reimburse our Manager for all of the documented "operating expenses" (all out-of-pocket expenses of our Manager in performing services for us, including but not limited to the expenses incurred by our Manager in connection with any provision by our Manager of legal, accounting, financial and due diligence services performed by our Manager that outside professionals or outside consultants would otherwise perform, compensation expenses under any long-term incentive plan adopted by us and approved by our stockholders and our pro rata share of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of our Manager required for our operations) and "offering expenses" (any and all expenses (other than underwriters' discounts) paid or to be paid by us in connection with an offering of our securities, including, without limitation, our legal, accounting, printing, mailing and filing fees and other documented offering expenses) paid or incurred by our Manager or its affiliates in connection with the services it provides to us pursuant to the Management Agreement. However, our Manager is responsible, and we will not reimburse our Manager or its affiliates, for the salaries or benefits to be paid to personnel of our Manager or its affiliates who serve as our officers, except that 50% of the salary of our VP of Finance is allocated to us and we may grant equity awards to our officers under a long-term incentive plan adopted by us and approved by our stockholders. Direct payment of operating expenses by us, which includes compensation expense relating to equity awards granted under our long-term incentive plan, together with reimbursement of operating expenses to our Manager, plus the Annual Fee, may not exceed 2.5% of equity book value for any calendar year or portion thereof, provided, however, that this limitation will not apply to offering expenses, legal, accounting, financial, due diligence and other service fees incurred in connection with extraordinary litigation and mergers and acquisitions and other events outside the ordinary course of our business or any out-of-pocket acquisition or due diligence expenses incurred in connection with the acquisition or disposition of certain real estate-related investments. To the extent total corporate general and administrative ("G&A") expenses would otherwise exceed 2.5% of equity book value, our Manager will waive all or a portion of the Annual Fee to keep our total corporate G&A expenses at or below 2.5% of equity book value.



The Management Agreement has an initial three-year term that expired on February 6, 2023 and successive one-year terms thereafter unless earlier terminated. We have the right to terminate the Management Agreement on 30 days' written notice upon the occurrence of a cause event (as defined in the Management Agreement). The Management Agreement can be terminated by us or our Manager without cause upon the expiration of the then-current term with at least 180 days' written notice to the other party prior to the expiration of such term. Our Manager may also terminate the agreement with 30 days' written notice if we have materially breached the agreement and such breach has continued for 30 days before we are given such notice. In addition, the Management Agreement will automatically terminate in the event of an Advisers Act Assignment (as defined in the Management Agreement) unless we provide written consent. A termination fee will be payable to our Manager by us upon termination of the Management Agreement for any reason, including non-renewal, other than a termination by us upon the occurrence of a cause event or due to an Advisers Act Assignment. The termination fee will be equal to three times the average Annual Fee earned by our Manager during the two-year period immediately preceding the most recently completed calendar quarter prior to the effective termination date.

Under the terms of the Management Agreement, our Manager will indemnify and hold harmless us, our subsidiaries and our OP from all claims, liabilities, damages, losses, costs and expenses, including amounts paid in satisfaction of judgments, in compromises and settlements, as fines and penalties and legal or other costs and expenses of investigating or defending against any claim or alleged claim, of any nature whatsoever, known or unknown, liquidated or unliquidated, that are incurred by reason of our Manager's bad faith, fraud, willful misfeasance, intentional misconduct, gross negligence or reckless disregard of its duties; provided, however, that our Manager will not be held responsible for any action of our Board in following or declining to follow any written advice or written recommendation given by our Manager. However, the aggregate maximum amount that our Manager may be liable to us pursuant to the Management Agreement will, to the extent not prohibited by law, never exceed the amount of the Annual Fees received by our Manager under the Management Agreement prior to the date that the acts or omissions giving rise to a claim for indemnification or liability have occurred. In addition, our Manager will not be liable for special, exemplary, punitive, indirect, or consequential loss, or damage of any kind whatsoever, including without limitation lost profits. The limitations described in the preceding two sentences will not apply, however, to the extent such damages are determined in a final binding non-appealable court or arbitration proceeding to result from the bad faith, fraud, willful misfeasance, intentional misconduct, gross negligence or reckless disregard of our Manager's duties.

## **Competition**

Our profitability depends, in large part, on our ability to acquire our target assets at attractive prices. We are subject to significant competition in acquiring our target assets. In particular, we will compete with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds, commercial and investment banks, hedge funds, mortgage bankers, commercial finance and insurance companies, governmental bodies and other financial institutions. We may also compete with our Sponsor and its affiliates for investment opportunities. There are significant potential conflicts of interest that could affect our investment returns. In addition, there are several REITs with similar investment objectives and others may be organized in the future. These other REITs will increase competition for the available supply of our target assets and other real estate related assets suitable for investment. Some of our anticipated competitors have greater financial resources, access to lower costs of capital and access to funding sources that may not be available to us, such as funding from the U.S. government, if we are not eligible to participate in programs established by the U.S. government. In addition, some of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exclusion or exemption from the Investment Company Act of 1940 (the "Investment Company Act"). Furthermore, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, or pay higher prices, than we can. Current market conditions may attract more competitors, which may increase the competition for our target assets. An increase in the competition for such assets may increase the price of such assets, which may limit our ability to generate attractive risk-adjusted current income and capital appreciation for our stockholders, thereby adversely affecting the market price of our common stock.

In the face of this competition, we expect to have access to our Sponsor's professionals and their industry experience, which we believe will provide us with a competitive advantage and help us assess investment risks and determine appropriate pricing for potential investments. We expect that these relationships will enable us to compete more efficiently and effectively for attractive investment opportunities. Although we believe we are well positioned to compete effectively, there can be no assurance that we will be able to achieve our business goals or expectations due to the extensive competition in our market sector. We operate in a competitive market for investment opportunities and future competition may limit our ability to acquire desirable investments in our target assets and could also affect the pricing of our securities.

## **Operating and Regulatory Structure**

### ***REIT Qualification***

We have elected to be treated as a REIT for U.S. federal income tax purposes, beginning with our taxable year ended December 31, 2020. We believe that we have been organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our intended manner of operation will enable us to meet the requirements for qualification and taxation as a REIT. However, we cannot assure you that we will qualify and remain qualified as a REIT. To qualify as a REIT, we must meet on a continuing basis, through our organization and actual investment and operating results, various requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of shares of our stock. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to U.S. federal income tax at corporate rates and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which we failed to qualify as a REIT. Even if we qualify for taxation as a REIT, we may be subject to some U.S. federal, state and local taxes on our income or property or REIT “prohibited transactions” taxes with respect to certain of our activities. Any distributions paid by us generally will not be eligible for taxation at the preferred U.S. federal income tax rates that apply to certain distributions received by individuals from taxable corporations.

### ***Investment Company Act Exclusion***

We, as well as our subsidiaries, intend to conduct our operations so that we are not required to register as an investment company under the Investment Company Act. Section 3(a)(1)(A) of the Investment Company Act defines an investment company as any issuer that is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer’s total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis, which we refer to as the 40% test. Excluded from the term “investment securities,” among other things, are U.S. Government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exclusion from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We are organized as a holding company and conduct our business primarily through our OP and through subsidiaries of our OP. We anticipate that our OP will always be at least a majority-owned subsidiary. We intend to conduct our operations so that neither we nor our OP will hold investment securities in excess of the limit imposed by the 40% test. The securities issued by any wholly owned or majority-owned subsidiaries that we may form in the future that are excluded from the definition of “investment company” based on Section 3(c)(1) or 3(c)(7) of the Investment Company Act, together with any other investment securities we may own, may not have a value in excess of 40% of the value of our total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We will monitor our holdings to ensure continuing and ongoing compliance with this test. In addition, we believe that neither we nor our OP are considered an investment company under Section 3(a)(1)(A) of the Investment Company Act because neither of us engage primarily, propose to engage primarily, or hold ourselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, we and our OP are primarily engaged in the non-investment company businesses of our subsidiaries.

We anticipate that certain of our subsidiaries will meet the requirements of the exclusion set forth in Section 3(c)(5)(C) of the Investment Company Act, which excludes entities primarily engaged in the business of “purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.” To meet this exclusion, the Securities and Exchange Commission (the “SEC”) staff has taken the position that at least 55% of a subsidiary’s assets must constitute qualifying assets (as interpreted by the SEC staff under the Investment Company Act) and at least another 25% of assets (subject to reduction to the extent the subsidiary invested more than 55% of its total assets in qualifying assets) must constitute real estate-related assets under the Investment Company Act (and no more than 20% comprised of miscellaneous assets). In general, we also expect, with regard to our subsidiaries relying on Section 3(c)(5)(C), to rely on other guidance published by the SEC staff and on our analyses of guidance published with respect to other types of assets to determine which assets are qualifying assets and real estate-related assets. Maintaining the Section 3(c)(5)(C) exclusion, however, will limit our ability to make certain investments.

## Emerging Growth Company and Smaller Reporting Company Status

Section 107 of the Jumpstart Our Business Startups Act (the “JOBS Act”) provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), for complying with new or revised accounting standards applicable to public companies. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of this extended transition period. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates for such new or revised standards. We may elect to comply with public company effective dates at any time, and such election would be irrevocable pursuant to Section 107(b) of the JOBS Act.

We are also a “smaller reporting company” as defined in Regulation S-K under the Securities Act of 1933, as amended (the “Securities Act”), and may elect to take advantage of certain of the scaled disclosures available to smaller reporting companies. We may be a smaller reporting company even after we are no longer an “emerging growth company.”

## Human Capital Disclosure

We are externally managed by our Manager pursuant to the Management Agreement between us and our Manager. All of our executive officers are employees of our Manager or its affiliates. As of December 31, 2022, we had one employee whose salary is 50% allocated to us for reimbursement to our Manager. This employee is an accounting employee. We endeavor to maintain workplaces that are free from discrimination or harassment on the basis of color, race, sex, national origin, ethnicity, religion, age, disability, sexual orientation, gender identification or expression or any other status protected by applicable law. The basis for recruitment, hiring, development, training, compensation and advancement is an employee's qualifications performance, skills and experience. Our employee is fairly compensated, without regard to gender, race and ethnicity, and routinely recognized for outstanding performance.

## COVID-19 Pandemic Updates

For information on the effects that the COVID-19 pandemic has had on our business, see Note 2 to our consolidated financial statements and “Risk Factors—The current COVID-19 pandemic or the future outbreak of other highly infectious or contagious diseases could materially and adversely impact or disrupt our financial condition, results of operations, cash flows and performance.”

## Corporate Information

Our and our Manager's offices are located at 300 Crescent Court, Suite 700, Dallas, Texas 75201. Our and our Manager's telephone number is (214) 276-6300. Our website is located at [nref.nexpoint.com](http://nref.nexpoint.com). Information contained on, or accessible through, our website is not incorporated by reference into and does not constitute a part of this annual report or any other report or documents we file with or furnish to the SEC.

## Item 1A. Risk Factors

*You should carefully consider the following risks and other information in this annual report in evaluating us and our common stock. Any of the following risks, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our business, financial condition or results of operations, and could, in turn, impact the trading price of our common stock.*

## Summary Risk Factors

The following is a summary of some of the risks and uncertainties that could materially adversely affect our business, financial condition and results of operations. You should read this summary together with the more detailed description of each risk factor contained below.

- unfavorable changes in economic conditions and their effects on the real estate industry generally and our operations and financial condition, including inflation, rising interest rates, tightening monetary policy or recession, which may limit our ability to access funding and generate returns for our stockholders, as well as the risk we make significant changes to our strategies in a market downturn, or fail to do so;
- risks associated with ownership of real estate, including properties in transition, subjectivity of valuation, environmental matters and lack of liquidity in certain asset classes;



- the exposure of our loans and investments to risks similar to debt-oriented real estate investments generally, including the risk of delinquency, foreclosure and loss in any of our commercial real estate-related investments that are secured, directly or indirectly, by real property;
- fluctuations in interest rate and credit spreads that could reduce our ability to generate income on our loans and investments;
- competition for desirable loans and investments;
- the concentration of our loans and investments in terms of type of interest, geography, asset types and sponsors;
- the risk of downgrade of any credit ratings assigned to our loans and investments;
- the risk that any distressed loans or investments we may make may subject us to bankruptcy risks;
- risks associated with CMBS securitizations and with investments in synthetic form;
- our dependence on information systems and risks associated with breaches of our data security;
- costs associated with being a public company, including compliance with securities laws;
- the risk of adverse impact to our business if there are deficiencies in our disclosure controls and procedures or internal control over financial reporting;
- risks associated with the COVID-19 pandemic or the future outbreak of other highly infectious or contagious diseases;
- risks associated with the single material weakness that was identified in our internal control over financial reporting related to the Elysian at Hughes Center investment and the determination that our internal control over financial reporting and disclosure controls and procedures were not effective as of December 31, 2022;
- risks associated with our substantial current indebtedness and indebtedness we may incur in the future;
- risks associated with insurance, derivatives or hedging activity, including counterparty risk;
- risks associated with our limited operating history and the possibility that we may not replicate the historical results achieved by other entities managed or sponsored by affiliates of our Sponsor, members of our Manager's management team or their affiliates;
- our dependence on our Manager, its affiliates and personnel to conduct our day-to-day operations and identify and realize returns on our loans and investments within very broad investment guidelines and without fiduciary duties to us or a requirement to seek Board approval;
- risks associated with the Manager's ability to terminate the Management Agreement (as defined below) and risks associated with any potential internalization of our management functions;
- conflicts of interest and competing demands for time faced by our Manager, our Sponsor and their respective affiliates, officers and employees, and other significant potential conflicts of interest including in connection with (i) substantial fees and expenses we pay to our Manager and its affiliates which may increase the risk that you will not earn a profit on your investment and (ii) competition with entities affiliated with our Manager and our Sponsor for investments;
- the risk of failure to maintain our status as a REIT and make required distributions to maintain such status, failure of which may materially limit our cash available for distribution to our stockholders and the risk of failure to maintain our status if values of our real estate investments rapidly change;
- the risk of failure of our OP to be taxable as a partnership for U.S. federal income tax purposes, possibly causing us to fail to qualify for or to maintain REIT status;
- compliance with REIT requirements, which may limit our ability to hedge our liabilities effectively and cause us to forgo otherwise attractive opportunities, liquidate certain of our investments or incur tax liabilities;

- the risk that certain of our business activities are potentially subject to the prohibited transaction tax and that even if we qualify as a REIT we may be subject to other tax liabilities that may reduce our tax flows and distributions on our capital stock;
- the ineligibility of dividends payable by REITs for the reduced tax rates available for some dividends;
- the ability of our Board to revoke our REIT qualification without stockholder approval;
- our ability to change our major policies, operations and targeted investments without stockholder consent and our Board's issuance of and ability to further issue debt securities or equity securities that may adversely impact the value or priority of or have dilutive effect on shares of our capital stock or discourage a third-party acquisition;
- risks associated with (i) provisions in our governing documents that may limit stockholders' choice of forum for disputes with us or discourage an acquisition of our securities or a change in control, including stock ownership restrictions and limits and (ii) provisions of Maryland law, including the Maryland General Corporation Law (the "MGCL"), that may limit the ability for a third-party acquisition;
- recent and potential legislative or regulatory changes or other actions with respect to tax, securitization, financial or other matters affecting REITs, the mortgage industry or debt-oriented real estate investments generally;
- the general volatility of the capital and credit markets and the impact on the market for our capital stock;
- the risk that we may not realize gains or income from our investments, that the repayments of our loans and investments may cause our financial performance and returns to investors to suffer or that we may experience a decline in the fair value of our assets;
- risks associated with the Highland Bankruptcy (as defined below), including possible materially adverse consequences on our business, financial condition and results of operations;
- risks associated with holding shares of the Series A Preferred Stock, including limited voting rights, possible volatility in price and trading volume, subordination to our debt, dilution upon future issuances, possible lack of conversion rights on a change of control and the lack of a rating on the Series A Preferred Stock;
- risk of failure to generate sufficient cash flows to service outstanding indebtedness or pay distributions on our capital stock at expected levels, and the risk that we may borrow funds or use funds from other sources to pay distributions; and
- risks associated with the concentration of our share ownership.

## **Risks Related to Our Business**

### ***Our loans and investments expose us to risks similar to and associated with debt-oriented real estate investments generally.***

We invest primarily in investments in or relating to real estate-related businesses, assets or interests. Any deterioration of real estate fundamentals generally, and in the United States in particular, could negatively impact our performance by making it more difficult for entities in which we have an investment, or "borrower entities," to satisfy debt payment obligations, increasing the default risk applicable to borrower entities, and/or making it relatively more difficult for us to generate attractive risk-adjusted returns. Changes in general economic conditions will affect the creditworthiness of borrower entities and may include economic and/or market fluctuations, changes in environmental, zoning and other laws, casualty or condemnation losses, regulatory limitations on rents, decreases in property values, changes in the appeal of properties to tenants, changes in supply and demand, fluctuations in real estate fundamentals, energy supply shortages, various uninsured or uninsurable risks, natural disasters, pandemics, changes in government regulations (such as rent control), changes in real property tax rates and operating expenses, changes in interest rates, changes in the availability of debt financing and/or mortgage funds which may render the sale or refinancing of properties difficult or impracticable, increased mortgage defaults, increases in borrowing rates, negative developments in the economy that depress travel activity, demand and/or real estate values generally and other factors that are beyond our control. The value of securities of companies that service the real estate business sector may also be affected by such risks.

We cannot predict the degree to which economic conditions generally, and the conditions for loans and investments in real estate, will improve or deteriorate. Declines in the performance of the U.S. and global economies or in the real estate debt markets could have a material adverse effect on our business, financial condition and results from operations. In addition, market conditions relating to real estate debt and preferred equity investments have evolved since the global financial crisis,

which has resulted in a modification to certain structures and/or market terms. Any such changes in structures and/or market terms may make it relatively more difficult for us to monitor and evaluate our loans and investments.

***Our real estate investments are subject to risks particular to real property. These risks may result in a reduction or elimination of or return from an investment secured by a particular property.***

Real estate investments are subject to various risks, including:

- acts of nature, including extreme weather, earthquakes, floods and other natural disasters, as result of climate change or otherwise, which may result in uninsured losses;
- acts of war, terrorism, social unrest or civil disturbances, including the consequences of such acts;
- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations and ordinances;
- costs of remediation and liabilities associated with environmental conditions including, but not limited to, indoor mold; and
- the potential for uninsured or under-insured property losses.

If any of these or similar events occurs, it may reduce our return from an affected property or investment and reduce or eliminate our ability to pay dividends to stockholders.

***Commercial real estate-related investments that are secured, directly or indirectly, by real property are subject to delinquency, foreclosure and loss, which could result in losses to us.***

Commercial real estate debt instruments (e.g., first-lien mortgage loans, mezzanine loans, preferred equity and CMBS) that are secured by commercial property are subject to risks of delinquency and foreclosure and risks of loss that are greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property or properties typically is dependent primarily upon the successful operation of the property or properties rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things:

- tenant mix and tenant bankruptcies;
- success of tenant businesses;
- property management decisions, including with respect to capital improvements, particularly in older building structures;
- property location and condition;
- competition from other properties offering the same or similar services;
- changes in laws that increase operating expenses or limit rents that may be charged;
- any need to address environmental contamination at the property;
- changes in national, regional or local economic conditions and/or specific industry segments;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- changes in interest rates and in the state of the debt and equity capital markets, including diminished availability or lack of debt financing for commercial real estate;
- changes in real estate tax rates and other operating expenses;

- changes in governmental rules, regulations and fiscal policies, including environmental legislation;
- natural disasters, acts of war, terrorism, social unrest and civil disturbances, which may decrease the availability of or increase the cost of insurance or result in uninsured losses; and
- adverse changes in zoning laws.

In addition, we are exposed to the risk of judicial proceedings with our borrowers and entities we invest in, including bankruptcy or other litigation, as a strategy to avoid foreclosure or enforcement of other rights by us as a lender or investor. In the event that any of the properties or entities underlying or collateralizing our loans or investments experiences any of the foregoing events or occurrences, the value of, and return on, such investments, could adversely affect our results of operations and financial condition.

***Fluctuations in interest rates and credit spreads could reduce our ability to generate income on our loans and other investments, which could lead to a significant decrease in our results of operations, cash flows and the market value of our investments.***

Our primary interest rate exposures relate to the yield on our loans and other investments and the financing cost of our debt, as well as interest rate swaps that we may utilize for hedging purposes. Changes in interest rates and credit spreads may affect our net income from loans and other investments, which is the difference between the interest and related income we earn on our interest-earning investments and the interest and related expense we incur in financing these investments. Interest rate and credit spread fluctuations resulting in our interest and related expense exceeding interest and related income would result in operating losses for us. Changes in the level of interest rates and credit spreads also may affect our ability to make loans or investments, the value of our loans and investments and our ability to realize gains from the disposition of assets. Increases in interest rates and credit spreads may also negatively affect demand for loans and could result in higher borrower default rates.

Our operating results depend, in part, on differences between the income earned on our investments, net of credit losses, and our financing costs. The yields we earn on our floating-rate assets and our borrowing costs tend to move in the same direction in response to changes in interest rates. However, one can rise or fall faster than the other, causing our net interest margin to expand or contract. In addition, we could experience reductions in the yield on our investments and an increase in the cost of our financing. Although we seek to match the terms of our liabilities to the expected lives of loans that we acquire or originate, circumstances may arise in which our liabilities are shorter in duration than our assets, resulting in their adjusting faster in response to changes in interest rates. For any period during which our investments are not match-funded, the income earned on such investments may respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may immediately and significantly decrease our results of operations and cash flows and the market value of our investments. In addition, unless we enter into hedging or similar transactions with respect to the portion of our assets that we fund using our balance sheet, returns we achieve on such assets will generally increase as interest rates for those assets rise and decrease as interest rates for those assets decline.

***Macroeconomic trends including inflation, rising interest rates or recession may adversely affect our financial condition and results of operations.***

Macroeconomic trends, including increases in inflation and rising interest rates, may adversely impact our business, financial condition and results of operations. Inflation in the United States has recently accelerated to historically high levels and may continue at an elevated level in the near-term. Rising inflation could have an adverse impact on G&A expenses, as these costs could increase at a rate higher than our rental revenue, interest income or other revenue. Inflationary pressures have increased our direct and indirect operating and investment costs, including for labor at the corporate levels. With regard to our multifamily properties, inflationary pressures have increased or may have the effect of increasing our costs related to property management, third-party contractors and vendors, insurance, transportation and taxes, and our residents may also be adversely impacted by higher cost of living expenses, including food, energy and transportation, which may increase our rate of tenant defaults and harm our operating results.

The U.S. Federal Reserve began rapidly raising the federal funds rate to decade-high levels in 2022 to combat inflation and restore price stability, and has signaled that the federal funds rate may continue to rise in 2023. In addition, the Federal Reserve began a quantitative tightening program in June of 2022. The combination of these actions have resulted in an increase in prevailing interest rates and a flattening of the yield curve. Certain of our investments pay interest at a fixed rate, and the relative value of the fixed cash flows from these investments will decrease as prevailing interest rates rise or increase as prevailing interest rates fall, causing potentially significant changes in value. In addition, to the extent our exposure to increases in interest rates on any of our debt is not eliminated through interest rate swaps and interest rate protection agreements that we may utilize for hedging purposes, such increases will result in higher debt service costs which will adversely affect our cash flows. We cannot assure you that our access to capital and other sources of funding will not become constrained, which could adversely affect the availability and terms of future borrowings, renewals or refinancings. Such future constraints could increase our borrowing costs, which would make it more difficult or expensive to obtain additional financing or refinance existing obligations and commitments, which could slow or deter future growth.

In addition, these actions by the Federal Reserve, as well as efforts by other central banks globally to combat inflation and restore price stability and other global events, may raise the prospect or severity of a recession. The war in Ukraine adds, and other international tensions or escalations of conflict may add, instability to the uncertainty driving socioeconomic forces, which may continue to have an impact on global trade and result in inflation or economic instability. The COVID-19 pandemic or the future outbreak of other highly infectious or contagious diseases may also generally impair the performance of investments, increase funding costs, limit access to the capital markets or result in decisions by lenders not to extend credit. Present conditions and the state of the U.S and global economies make it difficult to predict whether and/or when and to what extent a recession will occur in the near future. Should a recession occur, or if one already exists and worsens in the future, it could negatively impact the value of commercial and residential real estate and the value of our investments, potentially materially. While the Company has taken steps to prepare for a potential downturn in the economy, should a recession occur, or if one already exists and worsens in the future, there can be no guaranty that the Company's efforts will prevent any negative impacts to the value of the Company's investments.

***Our loans and investments may be subject to fluctuations in interest rates that may not be adequately protected, or protected at all, by our hedging strategies.***

Our assets include loans with either floating interest rates or fixed interest rates. Floating rate loans earn interest at rates that adjust from time to time (typically monthly) based upon an index (typically one-month LIBOR or the Secured Overnight Financing Rate ("SOFR")). These floating rate loans are insulated from changes in value specifically due to changes in interest rates; however, the coupons they earn fluctuate based upon interest rates (again, typically one-month LIBOR or SOFR) and, in a declining and/or low interest rate environment, these loans would earn lower rates of interest and this would impact our operating performance. Conversely, in an increasing and/or high interest rate environment, these loans would earn higher rates of interest, which would also impact our operating performance. Fixed interest rate loans, however, do not have adjusting interest rates and the relative value of the fixed cash flows from these loans will decrease as prevailing interest rates rise or increase as prevailing interest rates fall, causing potentially significant changes in value. We may employ various hedging strategies to limit the effects of changes in interest rates (and in some cases credit spreads), including engaging in interest rate swaps, caps, floors and other interest rate derivative products. We believe that no strategy can completely insulate us from the risks associated with interest rate changes and there is a risk that such strategies may provide no protection at all and potentially compound the impact of changes in interest rates. Hedging transactions involve certain additional risks such as counterparty risk, leverage risk, the legal enforceability of hedging contracts, the early repayment of hedged transactions and the risk that unanticipated and significant changes in interest rates may cause a significant loss of basis in the contract and a change in current period expense. We cannot make assurances that we will be able to enter into hedging transactions or that such hedging transactions will adequately protect us against the foregoing risks.

Accounting for derivatives under GAAP may be complicated. Any failure by us to meet the requirements for applying hedge accounting in accordance with GAAP could adversely affect our earnings. In particular, derivatives are required to be highly effective in offsetting changes in the value or cash flows of the hedged items (and appropriately designated and/or documented as such). If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued and the changes in fair value of the instrument are included in our reported net income.



***Our loans and investments are concentrated in terms of type of interest, geography, asset types and sponsors and may continue to be so in the future.***

One of our loans that is a fixed rate loan has an unpaid principal balance of approximately \$508.7 million as of December 31, 2022, which equates to approximately 25.2% of the total unpaid principal balance of our portfolio. This loan is collateralized by a portfolio of 4,823 SFR properties with 47.6% of the units being located in the Atlanta-Sandy Springs-Alpharetta, Georgia MSA. In addition, approximately 33.6% of our portfolio is in the SFR asset class and approximately 53.4% of the unpaid principal balance in our portfolio is located in Florida and Georgia. In the future, our investments may continue to be concentrated in terms of type of interest (i.e. fixed vs. floating), geography, asset type and sponsors, as we are not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by our Board. Therefore, our investments in our target assets are and could in the future be, secured by properties concentrated in a limited number of geographic locations or concentrated in certain property types that are subject to higher risk of default or foreclosure.

Asset concentration may cause even modest changes in the value of the underlying real estate assets to significantly impact the value of our investments. As a result of any high levels of concentration, any adverse economic, political or other conditions that disproportionately affects those geographic areas or asset classes could have a magnified adverse effect on our results of operations and financial condition, and the value of our stockholders' investments could vary more widely than if we invested in a more diverse portfolio of loans.

***We operate in a competitive market for lending and investment opportunities and competition may limit our ability to originate or acquire desirable loans and investments in our target assets and could also affect the yields of these assets.***

A number of entities compete with us to make the types of loans and investments that we make. Our profitability depends, in large part, on our ability to originate or acquire our target assets on attractive terms. In originating or acquiring our target assets, we compete with a variety of institutional lenders and investors, including other REITs, specialty finance companies, public and private funds (including other funds managed by affiliates of our Manager and Sponsor), commercial and investment banks, commercial finance and insurance companies and other financial institutions. Several other REITs have raised, or are expected to raise, significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for lending and investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. Many of our competitors are not subject to the operating constraints associated with REIT compliance or maintenance of an exclusion from regulation under the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, offer more attractive pricing or other terms and establish more relationships than us. Furthermore, competition for originations of and investments in our target assets may lead to the yields of such assets decreasing, which may further limit our ability to generate satisfactory returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable loans and investments in our target assets may be limited in the future, and we may not be able to take advantage of attractive lending and investment opportunities that may exist from time to time, as we can provide no assurance that we will be able to identify and originate loans or make investments that are consistent with our investment objectives.

***Prepayment rates may adversely affect the value of our portfolio of assets.***

The value of our assets may be affected by prepayment rates on loans. If we originate or acquire mortgage-related securities or a pool of mortgage securities, we anticipate that the mortgage loans or the underlying mortgages will prepay at a projected rate generating an expected yield. If we purchase assets at a premium to the par value or principal balance of the security or loans, when borrowers prepay their loans faster than expected, the corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will have to amortize the related premium on an accelerated basis. Conversely, if we purchase assets at a discount to either the principal balance of the loans or the par value of the loans underlying the securities, when borrowers prepay their mortgage loans slower than expected, the decrease in corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will not be able to accrete the related discount as quickly as originally anticipated. Prepayment rates on loans may be affected by a number of factors including, but not limited to, the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the mortgage loans, possible changes in tax laws, changes in interest rates, other opportunities for investment, homeowner mobility and other economic, social, geographic, demographic and legal factors and other factors beyond our control. Consequently, such prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from prepayment or other such risks. In periods of declining interest rates, prepayment rates on loans generally increase, though prepayment rates on loans are not guaranteed to remain the same or decrease in periods of increasing interest rates. If general interest rates decline at the same time, the proceeds of such

prepayments received are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, as a result of the risk of prepayment, the market value of the prepaid assets may benefit less than other fixed income securities from declining interest rates. Prepayment rates could have an adverse effect on other of our portfolio investments, including our mezzanine loans and preferred equity investments or on additional investments we may make in the future.

***The lack of liquidity in certain of our target assets may adversely affect our business.***

The illiquidity of certain of our target assets may make it difficult for us to sell such investments if the need or desire arises. Certain target assets such as first-lien mortgage loans, common stock investments, CMBS B-Pieces, CMBS I/O Strips, MSCR Notes, mortgage-backed securities, mezzanine and other loans (including participations) and preferred equity, in particular, are relatively illiquid investments. In addition, certain of our investments may become less liquid after our investment as a result of periods of delinquencies or defaults or turbulent market conditions, which may make it more difficult for us to dispose of such assets at advantageous times or in a timely manner. Moreover, many of the loans and securities we invest in will not be registered under the relevant securities laws, resulting in prohibitions against their transfer, sale, pledge or their disposition except in transactions that are exempt from registration requirements or are otherwise in accordance with such laws. As a result, we expect many of our investments will be illiquid, and if we are required to liquidate all or a portion of our portfolio quickly, for example as a result of margin calls, we may realize significantly less than the value at which we have previously recorded our investments. Further, we may face other restrictions on our ability to liquidate an investment to the extent that we or our Manager and/or its affiliates has or could be attributed as having material, non-public information regarding such business entity. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our results of operations and financial condition.

***Our success depends on the availability of attractive loans and investments and our Manager's ability to identify, structure, consummate, leverage, manage and realize returns on our loans and investments.***

Our operating results are dependent upon the availability of attractive loans and investments, as well as our Manager's ability to identify, structure, consummate, leverage, manage and realize returns on our loans and investments. In general, the availability of favorable investment opportunities and, consequently, our returns, will be affected by the level and volatility of interest rates, conditions in the financial markets, general economic conditions, the demand for loan and investment opportunities in our target assets and the supply of capital for such opportunities. We cannot make any assurances that our Manager will be successful in identifying and consummating loans and investments that satisfy our rate of return objectives or that such loans and investments, once made, will perform as anticipated.

***Any distressed loans or investments we make, or loans and investments that later become distressed, may subject us to losses and other risks relating to bankruptcy proceedings.***

Our loans and investments may include making distressed investments from time to time (e.g., investments in defaulted, out-of-favor or distressed bank loans and debt securities) or may involve investments that become "non-performing" following our acquisition thereof. Certain of our investments may include properties that typically are highly leveraged, with significant burdens on cash flow and, therefore, involve a high degree of financial risk. During an economic downturn or recession, loans or securities of financially or operationally troubled borrowers or issuers are more likely to go into default than loans or securities of other borrowers or issuers. Loans or securities of financially or operationally troubled issuers are less liquid and more volatile than loans or securities of borrowers or issuers not experiencing such difficulties. The market prices of such securities are subject to erratic and abrupt market movements and the spread between bid and asked prices may be greater than normally expected. Investment in the loans or securities of financially or operationally troubled borrowers or issuers involves a high degree of credit and market risk.

In certain limited cases (e.g., in connection with a workout, restructuring and/or foreclosing proceedings involving one or more of our investments), the success of our investment strategy with respect thereto will depend, in part, on our ability to effectuate loan modifications and/or restructure and improve the operations of the borrower entities. The activity of identifying and implementing successful restructuring programs and operating improvements entails a high degree of uncertainty. There can be no assurance that we will be able to identify and implement successful restructuring programs and improvements with respect to any distressed loans or investments we may have from time to time.

These financial difficulties may not be overcome and may cause borrower entities to become subject to bankruptcy or other similar administrative proceedings. There is a possibility that we may incur substantial or total losses on our loans and investments and, in certain circumstances, become subject to certain additional potential liabilities that may exceed the value of our original investment therein. For example, under certain circumstances, a lender that has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In any reorganization or liquidation proceeding relating to our

investments, we may lose our entire investment, may be required to accept cash or securities with a value less than our original investment and/or may be required to accept different terms, including payment over an extended period of time. In addition, under certain circumstances, payments to us may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment, or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, bankruptcy laws and similar laws applicable to administrative proceedings may delay our ability to realize on collateral for loan positions held by us, may adversely affect the economic terms and priority of such loans through doctrines such as equitable subordination or may result in a restructuring of the debt through principles such as the “cramdown” provisions of the bankruptcy laws.

***We may not have control over certain of our loans and investments.***

Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we may:

- acquire investments subject to rights of senior classes and servicers under intercreditor or servicing agreements;
- acquire only a minority and/or a non-controlling participation in an underlying investment;
- co-invest with others through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests; or
- rely on independent third-party management or servicing with respect to the management of an asset.

Therefore, we may not be able to exercise control over all aspects of our loans or investments. Such financial assets may involve risks not present in investments where senior creditors, junior creditors, servicers or third parties controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior or junior creditors or servicers whose interests may not be aligned with ours. A partner or co-venturer may have financial difficulties resulting in a negative impact on such asset, may have economic or business interests or goals that are inconsistent with ours, or may be in a position to take action contrary to our investment objectives. In addition, we may, in certain circumstances, be liable for the actions of our partners or co-venturers.

We may make preferred equity investments in entities over which we will not have voting control. We intend to ensure that the terms of our investments require that the respective entities take all actions necessary to preserve our REIT status and avoid taxation at the REIT level. However, because we will not control such entities, they may cause us to fail one or more of the REIT tests. In that event, we intend to take advantage of all available provisions in the REIT statutes and regulations to cure any such failure, which provisions may require payments of penalties. We believe that we will be successful in maintaining our REIT status, but no assurances can be given.

***CMBS B-Pieces, CMBS I/O Strips, mezzanine loans, preferred equity and other investments that are subordinated or otherwise junior in an issuer’s capital structure and that involve privately negotiated structures expose us to greater risk of loss.***

We invest in debt instruments (including CMBS B-Pieces, CMBS I/O Strips and mezzanine loans) and preferred equity that are subordinated or otherwise junior in an issuer’s capital structure and that involve privately negotiated structures. Our investments in subordinated debt and mezzanine tranches of a borrower’s capital structure and our remedies with respect thereto, including the ability to foreclose on any collateral securing such investments, are subject to the rights of any senior creditors and, to the extent applicable, contractual intercreditor and/or participation agreement provisions. Significant losses related to such loans or investments could adversely affect our results of operations and financial condition.

Investments in subordinated debt involve greater credit risk of default than the senior classes of the issue or series. As a result, with respect to our investments in CMBS B-Pieces, CMBS I/O Strips, mezzanine loans and other subordinated debt, we would potentially receive payments or interest distributions after, and must bear the effects of losses or defaults on the senior debt (including underlying senior loans, senior mezzanine loans, subordinated promissory notes (“B-Notes”), preferred equity or senior CMBS bonds, as applicable) before the holders of other more senior tranches of debt instruments with respect to such issuer. As the terms of such loans and investments are subject to contractual relationships among lenders, co-lending agents and others, they can vary significantly in their structural characteristics and other risks. For example, the rights of holders of B-Notes to control the process following a borrower default may vary from transaction to transaction.



Like B-Notes, mezzanine loans are by their nature structurally subordinated to more senior property-level financings. If a borrower defaults on our mezzanine loan or on debt senior to our loan, or if the borrower is in bankruptcy, our mezzanine loan will be satisfied only after the property-level debt and other senior debt is paid in full. As a result, a partial loss in the value of the underlying collateral can result in a total loss of the value of the mezzanine loan. In addition, even if we are able to foreclose on the underlying collateral following a default on a mezzanine loan, we would be substituted for the defaulting borrower and, to the extent income generated on the underlying property is insufficient to meet outstanding debt obligations on the property, may need to commit substantial additional capital and/or deliver a replacement guarantee by a creditworthy entity, which could include us, to stabilize the property and prevent additional defaults to lenders with existing liens on the property.

Investments in preferred equity involve a greater risk of loss than conventional debt financing due to a variety of factors, including their non-collateralized nature and subordinated ranking to other loans and liabilities of the entity in which such preferred equity is held. Accordingly, if the issuer defaults on our investment, we would only be able to proceed against such entity in accordance with the terms of the preferred equity, and not against any property owned by such entity. Furthermore, in the event of bankruptcy or foreclosure, we would only be able to recoup our investment after all lenders to, and other creditors of, such entity are paid in full. As a result, we may lose all or a significant part of our investment, which could result in significant losses.

In addition, our investments in senior loans may be effectively subordinated to the extent we borrow under a warehouse loan (which can be in the form of a repurchase agreement) or similar facility and pledge the senior loan as collateral. Under these arrangements, the lender has a right to repayment of the borrowed amount before we can collect on the value of the senior loan, and therefore if the value of the pledged senior loan decreases below the amount we have borrowed, we would experience a loss.

***Our investments in CMBS pose additional risks, including the risk that we will not be able to recover some or all of our investment and the risk that we will not be able to hedge or transfer our CMBS B-Piece or CMBS I/O Strip investments for a significant period of time.***

We invest in pools or tranches of CMBS. The collateral underlying CMBS generally consists of commercial mortgages or real property that have a multifamily or commercial use, such as retail space, office buildings, warehouse property and hotels. CMBS have been issued in a variety of issuances, with varying structures including senior and subordinated classes. Our investments in CMBS may be subject to losses. In general, losses on a mortgaged property securing a senior loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B-Note, if any, then by the “first loss” subordinated security holder (generally, the CMBS B-Piece buyer) and then by the holder of a higher-rated security. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, mezzanine loans or B-Notes, and any classes of securities junior to those in which we invest, we will not be able to recover some or all of our investment in the securities we purchase. There can be no assurance that our CMBS underwriting practices will yield their desired results and there can be no assurance that we will be able to effectively achieve our investment objective or that projected returns will be achieved.

If we invest in a CMBS B-Piece or CMBS I/O Strip because a sponsor of a CMBS utilizes us as an eligible third-party purchaser to satisfy the risk retention rule (the “Risk Retention Rule”) under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), we will be required to meet certain conditions, including holding the related CMBS B-Piece or CMBS I/O Strip, without transferring or hedging the CMBS B-Piece or CMBS I/O Strip, for a significant period of time (at least five years), which could prevent us from mitigating losses on the CMBS B-Piece or CMBS I/O Strip. Even if we seek to transfer the CMBS B-Piece or CMBS I/O Strip after five years, any subsequent purchaser of the CMBS B-Piece or CMBS I/O Strip will be required to satisfy the same conditions that we were required to satisfy when we acquired the interest from the CMBS sponsor. Accordingly, no assurance can be given that any secondary market liquidity will exist for such CMBS B-Pieces or CMBS I/O Strip.

***Loans on properties in transition involve a greater risk of loss than conventional mortgage loans.***

We may invest in properties that have a light-transitional business plan. The typical borrower in a transitional loan has usually identified an undervalued asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to improve according to the borrower’s projections, or if the borrower fails to improve the quality of the asset’s management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional loan, and we bear the risk that we may not recover all or a portion of our investment.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a transitional loan. Transitional loans therefore are subject to the risk of a borrower's inability to obtain permanent financing to repay the transitional loan. In the event of any default under transitional loans that may be held by us, we bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest of the transitional loan. To the extent we suffer such losses with respect to these transitional loans, it could adversely affect our results of operations and financial condition.

***We may not realize gains or income from our investments.***

We seek to generate both current income and capital appreciation from our investments. However, it is possible that investments in our target assets will not appreciate in value and some investments may decline in value. In addition, the obligors on our investments may default on, or be delayed in making, interest and/or principal payments, especially given that we may invest in sub-performing and non-performing loans. Accordingly, we are subject to an increased risk of loss and may not be able to realize gains or income from our investments. Moreover, any gains that we do realize may not be sufficient to offset our losses and expenses.

***Real estate valuation is inherently subjective and uncertain.***

The valuation of real estate, and therefore the valuation of any underlying security relating to loans and/or investments made by us, is inherently subjective due to, among other factors, the individual nature of each property, its location, the expected future rental revenues from that particular property and the valuation methodology adopted. As a result, the valuations of the real estate assets against which we make loans and/or investments are subject to a large degree of uncertainty and are made on the basis of assumptions and methodologies that may not prove to be accurate, particularly in periods of volatility, low transaction flow or restricted debt availability in the commercial or residential real estate markets.

***Some of our portfolio investments may be recorded at fair value not readily available and, as a result, there will be uncertainty as to the value of these investments.***

Some or all of our portfolio investments may be in the form of positions or securities that are not publicly traded. The fair value of investments that are not publicly traded may not be readily determinable. Our Manager will value these investments at fair value which may include unobservable inputs. Because such valuations are subjective, the fair value of certain of our assets may fluctuate over short periods of time and our Manager's determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Our results of operations and financial condition could be adversely affected if our Manager's determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

***We may experience a decline in the fair value of our assets.***

A decline in the fair value of our assets may require us to recognize an "other-than-temporary" impairment against such assets under GAAP if we were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the original acquisition cost of such assets. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be other-than-temporarily impaired. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. If we experience a decline in the fair value of our assets, it could adversely affect our results of operations and financial condition.

***The due diligence process that our Manager undertakes in regard to investment opportunities may not reveal all facts that may be relevant in connection with an investment and if our Manager incorrectly evaluates the risks of our loans and investments, we may experience losses.***

Before making investments for us, our Manager will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances relevant to each potential investment. When conducting due diligence, our Manager may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of potential investment. Relying on the resources available to it, our Manager will evaluate our potential investments based on criteria it deems appropriate for the relevant investment. Our Manager's loss estimates may not prove accurate, as actual results may vary from estimates. If our Manager underestimates the asset-level losses relative to the price we pay for a particular investment, we may experience losses with respect to such investment.

***Insurance on loans and real estate securities collateral may not cover all losses.***

There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism, acts of war, social unrest and civil disturbances, which may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, also might result in insurance proceeds being insufficient to repair or replace a property if it is damaged or destroyed. Under these circumstances, the insurance proceeds received with respect to a property relating to one of our investments might not be adequate to restore our economic position with respect to our investment. Any uninsured loss could result in the corresponding nonperformance of or loss on our investment related to such property.

***Terrorist attacks, other acts of violence or war or a prolonged economic slowdown may affect the real estate industry generally and our business, financial condition and results of operations.***

We cannot predict the severity of the effect that potential future terrorist attacks or other acts of violence or war would have on us. We may suffer losses as a result of the adverse impact of any future attacks and these losses may adversely impact our performance and may cause the market value of our securities to decline or be more volatile. In addition, a prolonged economic slowdown, a recession or declining real estate values, including, among other things, as a result of pandemics, inflation or rising interest rates, could impair the performance of our investments and harm our financial condition and results of operations, increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. Losses resulting from these types of events may not be fully insurable.

The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market's overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the properties underlying our interests are unable to obtain affordable insurance coverage, the value of our interests could decline, and in the event of an uninsured loss, we could lose all or a portion of our investment.

**Risks Related to Our Industry**

***A change in the federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac and Ginnie Mae and the U.S. government, may materially adversely affect our business, financial condition and results of operations.***

Fannie Mae and Freddie Mac are a major source of financing for multifamily real estate in the United States and provide guarantees for CMBS securitizations in which we have invested and expect to continue to invest. Following significant credit losses and concerns of liquidity during the 2007-2008 global financial crisis, Fannie Mae and Freddie Mac were placed in the conservatorship of the U.S. Federal Housing Finance Agency (the "FHFA"), their federal regulator, pursuant to its powers under The Federal Housing Finance Regulatory Reform Act of 2008, which was a part of the Housing and Economic Recovery Act of 2008. Under this conservatorship, Fannie Mae and Freddie Mac issued equity and derivative securities to the U.S. government in exchange for capital infusions and were required to reduce the amount of mortgage loans they own or for which they provide guarantees. As conservator, the FHFA has assumed all the powers of the shareholders, directors and officers with the goal of preserving and conserving their assets.

Since the conservatorship began, the U.S. Congress has considered a substantial number of bills that include comprehensive or incremental approaches to ending the conservatorship, winding down Fannie Mae and Freddie Mac or changing their purposes, businesses or operations. U.S. government departments and agencies, including the U.S. Treasury and FHFA, have also published proposals which could lead to a release or exit from conservatorship. A decision by the U.S. government to eliminate or downscale Fannie Mae or Freddie Mac or to reduce government support for multifamily housing more generally may adversely affect the availability of CMBS securitizations as an investment or cause breaches in underlying loan covenants, and, as a result, may adversely affect our future growth. It may also adversely affect underlying interest rates, capital availability, development of multifamily communities and the value of multifamily assets, which may also adversely affect our future growth. In addition, reforms regarding Fannie Mae and Freddie Mac could negatively impact our ability to maintain an exclusion or exemption from the Investment Company Act.

Recent events related to the COVID-19 pandemic and the associated economic slowdown raised concerns that Fannie Mae and Freddie Mac may have needed additional capital in order to meet their obligations as guarantors on trillions of dollars of CMBS securitizations, and future events may generate similar concerns. The market value of CMBS securitizations guaranteed by Fannie Mae and Freddie Mac today are highly dependent on the continued support by the U.S. government. If such support is modified or withdrawn, if the U.S. Treasury fails to inject new capital as needed or if Fannie Mae and Freddie Mac are released from conservatorship, the market value of the CMBS securitizations they guaranteed could significantly decline, making it difficult for us to obtain repurchase agreement financing and could force us to sell assets at substantial losses. Furthermore, any policy changes to the relationship between Fannie Mae, Freddie Mac and the U.S. government may create market uncertainty and have the effect of reducing the actual or perceived credit quality of the CMBS securitizations. It may also interrupt the cash flow received by investors on the underlying CMBS.

All of the foregoing could materially adversely affect the availability, pricing, liquidity, market value and financing of our assets and materially adversely affect our business, operations, financial condition and book value per common share.

***The impact of financial reform legislation and legislation promulgated thereunder on us is uncertain.***

The Dodd-Frank Act instituted a wide range of reforms that will have an impact on all financial institutions. Many of the requirements called for in the Dodd-Frank Act will be implemented over time, most of which will be subject to implementing regulations over the course of several years. Many of these regulations have yet to be promulgated or are only recently promulgated. In February 2017, former President Trump signed an executive order for a broad review of federal regulation of the U.S. financial system by the Secretary of the Treasury, in consultation with the heads of the member agencies of the Financial Stability Oversight Council (“FSOC”), a panel comprising top U.S. financial regulators. In May 2018, Congress passed, and former President Trump signed, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the “EGRRCPA”), which among other things, modified certain provisions of the Dodd-Frank Act related to mortgage lending, consumer protection, regulatory relief for large banks, regulatory relief for community banks and regulatory relief in securities markets. The EGRRCPA will relax or eliminate so-called “enhanced regulation” of banks falling into certain ranges of asset value and will impact the application of the Volcker Rule and the Basel III guidelines as to certain banks. Specifically, the EGRRCPA relaxed (or eliminated) certain risk-based capital and leverage requirements for community banks with less than \$10 billion in assets that maintain a certain “community bank leverage ratio” that bank regulators are directed to develop, but the impact and effect of the foregoing on market liquidity is uncertain. It is possible that this or a future Congress will roll back some of the changes made by EGRRCPA to the Dodd-Frank Act and take a more active approach to banking and financial regulation than the prior executive administration, particularly to promote policy goals involving climate change, racial equity, environmental, social and governance matters, consumer financial protection and infrastructure, although it is not possible at this time to predict the nature or extent of any amendments.

In addition, the substance of regulatory supervision may be influenced through the appointment of individuals to the Board of Governors of the U.S. Federal Reserve and other financial regulatory bodies. Measures focused on deregulation of the U.S. financial services industry may, among other things, decrease the restrictions on banks and other financial institutions and allow them to compete with us for investment opportunities that were previously not available to them. Measures focused on deregulation of the U.S. financial services industry may have the effect of increasing competition for our business. Increased competition from banks and other financial institutions in the credit markets could have the effect of reducing credit spreads, which may adversely affect our revenues.

Given the uncertainty associated with financial reform legislation, including the implementation of the Dodd-Frank Act and any legislative and/or regulatory actions under this or a future executive administration or Congress, the full impact such requirements will have on our business, results of operations or financial condition is unclear. The changes resulting from the Dodd-Frank Act, the EGRRCPA, and other legislative actions may require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements or address resulting changes in the mortgage loan market. While we cannot predict what effect any changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our business. In addition, failure to comply with any such laws, regulations or principles, or changes thereto, or to adapt to any changes in the marketplace, may have a material adverse effect on our results of operations, financial condition and cash flows.



***The securitization process is subject to an evolving regulatory environment that may affect certain aspects of our current business.***

As a result of the dislocation of the credit markets during the great recession from 2007-2009, and in anticipation of more extensive regulation, including regulations promulgated pursuant to the Dodd-Frank Act, the securitization industry has crafted and continues to craft changes to securitization practices, including changes to representations and warranties in securitization transaction documents, new underwriting guidelines and disclosure guidelines. Pursuant to the Dodd-Frank Act, various federal agencies, including the SEC, have promulgated regulations with respect to issues that affect securitizations.

As required by the Dodd-Frank Act, a collection of federal agencies have adopted a joint Risk Retention Rule that generally requires the sponsor of asset-backed securities to retain not less than 5% of the credit risk of the assets collateralizing the securities. The rule generally prohibits the sponsor or its affiliates from directly or indirectly hedging or otherwise selling or transferring the retained credit risk for a specified period of time, depending on the type of asset that is securitized. For purposes of the rule, the term “asset-backed security” means a fixed-income or other security collateralized by any type of self-liquidating financial asset (including a loan, a lease, a mortgage, or a secured or unsecured receivable) that allows the holder of the security to receive payments that depend primarily on cash flow from the asset, including, among other things, a collateralized mortgage obligation or a collateralized debt obligation. The Risk Retention Rule provides a variety of exemptions, including an exemption for asset-backed securities that are collateralized exclusively by residential mortgages that qualify as “qualified residential mortgages,” which are defined in turn as qualified mortgage loans under the Bureau of Consumer Financial Protection’s Ability to Repay Rule. As part of our strategy, we may acquire target assets that are not qualified mortgage loans (such as loans made primarily for business purposes). If we sponsor the securitization of such assets, we may be required to retain 5% of the credit risk of those assets, which would expose us to loss and could increase the administrative and operational cost of asset securitization, and additionally may be required to comply with significant disclosure, review and reporting requirements applicable to asset securitization.

On February 9, 2018, a three-judge panel of the United States Court of Appeals for the District of Columbia held, in *The Loan Syndications and Trading Association v. Securities and Exchange Commission and Board of Governors of the U.S. Federal Reserve System* (the “LSTA Decision”), that collateral managers of “open market CLOs” (described in the LSTA Decision as CLOs where assets are acquired from “arms-length negotiations and trading on an open market”) are not “securitizers” or “sponsors” under the risk retention requirements of the Dodd-Frank Act and, therefore, are not subject to risk retention and do not have to comply with the Risk Retention Rule. In reaching this decision, the panel determined, among other things, that an asset manager that was not in the chain of title on the transferred assets nor possessed them could not be required to “retain” risk that it had never held. Although the LSTA Decision is limited by its terms to asset managers of open market CLOs, the court’s analysis may have broader implications with respect to compliance with the Risk Retention Rule, especially in the context of managed funds that utilize securitizations. Even though we have a Manager, we may be considered a securitizer or sponsor of securitizations, requiring us to hold risk retention in accordance with the Risk Retention Rule and to comply with disclosure, review and reporting requirements applicable to asset securitizations.

The current regulatory environment may be impacted by future legislative developments, such as amendments to key provisions of the Dodd-Frank Act, including provisions setting forth capital and risk retention requirements. In particular, the EGRRCPA makes certain modifications to post-financial crisis regulatory requirements, including, among other things, improving consumer access to mortgage credit and tailoring regulations for certain bank holding companies, including raising the relevant thresholds for the application of the U.S. Federal Reserve’s enhanced prudential standards, as well as for the designation by FSOC of non-bank financial companies as systemically important. The EGRRCPA has resulted and may further result in significant modifications to certain aspects of the Dodd-Frank Act and other post-financial crisis regulatory requirements.

These legislative developments, and other proposed regulations affecting securitization, could alter the structure of securitizations in the future, pose additional risks to our participation in future securitizations or reduce or eliminate the economic incentives for participating in future securitizations, increase the costs associated with our origination, securitization or acquisition activities, or otherwise increase the risks or costs of our doing business.

***If we were required to register with the U.S. Commodity Futures Trading Commission (the “CFTC”) as a Commodity Pool Operator, it could materially adversely affect our business, financial condition and results of operations.***

Under Title VII of the Dodd-Frank Act, the CFTC was given jurisdiction over the regulation of swaps. Under rules implemented by the CFTC, operators of certain entities (including many mortgage REITs) may fall within the statutory definition of commodity pool operator (“CPO”), and, absent an applicable exemption or other relief from the CFTC, may be required to register with the CFTC as a CPO. As a result of numerous requests for no-action relief from CPO registration, in December 2012 the CFTC’s Division of Swap Dealer and Intermediary Oversight issued a no-action letter entitled “No-

Action Relief from the Commodity Pool Operator Registration Requirement for Commodity Pool Operators of Certain Pooled Investment Vehicles Organized as Mortgage Real Estate Investment Trusts,” which permits a CPO to receive relief from registration requirements by filing a claim stating that the CPO meets the criteria specified in the no-action letter. We submitted a claim for relief within the required time period and believe we meet the criteria for such relief. There can be no assurance, however, that the CFTC will not modify or withdraw the no-action letter in the future or that we will be able to satisfy the criteria specified in the no-action letter in order to qualify for relief from CPO registration. The CFTC regulations, interpretation and guidance with respect to commodity pools may be revised, which may affect our regulatory status or cause us to modify or terminate the use of commodity interests in connection with our investment program. If we were required to register as a CPO in the future or change our business model to ensure that we can continue to satisfy the requirements of the no-action relief, it could materially and adversely affect our financial condition, our results of operations and our ability to operate our business. Furthermore, we may determine to register as a CPO hereafter, and in such event we will operate in a manner designed to comply with applicable CFTC requirements, which requirements may impose additional obligations on us or our investors.

***We may need to foreclose on certain of the loans and/or exercise our “foreclosure option” under the terms of our investments we originate or acquire, which could result in losses that harm our results of operations and financial condition.***

We may find it necessary or desirable to foreclose on certain of the loans and/or exercise our “foreclosure option” under the terms of our investments we originate or acquire, and this process may be lengthy and expensive. We cannot assure you as to the adequacy of the protection of the terms of the applicable loan or investment, including the validity or enforceability of the loan and/or investments and the maintenance of the anticipated priority and perfection of the applicable security interests, if any. Furthermore, claims may be asserted by lenders or borrowers that might interfere with enforcement of our rights. Borrowers may resist foreclosure actions by asserting numerous claims, counterclaims and defenses against us, including, without limitation, lender liability claims and defenses, even when the assertions may have no basis in fact, in an effort to prolong the foreclosure action and seek to force the lender into a modification of the loan or a favorable buy-out of the borrower’s position in the loan. In some states, foreclosure actions can take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process and potentially result in a reduction or discharge of a borrower’s debt. Foreclosure may create a negative public perception of the related property, resulting in a diminution of its value. Even if we are successful in foreclosing on a loan and/or investment, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our cost basis in the loan and/or investment, resulting in a loss to us. Furthermore, any costs or delays involved in the foreclosure of the loan and/or investment or a liquidation of the underlying property will further reduce the net proceeds and, thus, increase the loss.

***Liability relating to environmental matters may impact the value of properties that we may acquire or the properties underlying our investments.***

Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances.

The presence of hazardous substances may adversely affect an owner’s ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of a property underlying one of our investments becomes liable for removal costs, the ability of the owner to make payments to us may be reduced, which in turn may adversely affect the value of the relevant investment held by us and our ability to make distributions to our stockholders.

The presence of hazardous substances on a property may adversely affect our ability to sell the property upon a default and foreclosure of one of our investments and we may incur substantial remediation costs, thus harming our financial condition. The discovery of material environmental liabilities attached to such properties could have a material adverse effect on our results of operations and financial condition and our ability to make distributions to our stockholders.

***We may be subject to lender liability claims, and if we are held liable under such claims, we could be subject to losses.***

In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed “lender liability.” Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or stockholders. We cannot assure prospective investors that such claims will not arise or that we will not be subject to significant liability if a claim of this type did arise.

***Our ability to generate returns for our stockholders through our investment, finance and operating strategies is subject to then-existing market conditions, and we may make significant changes to these strategies in response to changing market conditions.***

We seek to provide attractive risk-adjusted returns to our stockholders over the long term. We intend to achieve this objective primarily by originating, structuring and investing in our target assets. In the future, to the extent that market conditions change and we have sufficient capital to do so, we may, depending on prevailing market conditions, change our investment guidelines in response to opportunities available in different interest rate, economic and credit environments. As a result, we cannot predict the percentage of our equity that will be invested in any of our target assets at any given time.

***If we fail to develop, enhance and implement strategies to adapt to changing conditions in the real estate industry and capital markets, our financial condition and results of operations may be materially and adversely affected.***

The manner in which we compete and the types of assets in which we seek to invest will be affected by changing conditions resulting from sudden changes in our industry, regulatory environment, the role and structures of government-sponsored enterprises (“GSEs”), the role of credit rating agencies or their rating criteria or process, or the U.S. and global economies generally. If we do not effectively respond to these changes, or if our strategies to respond to these changes are not successful, our financial condition and results of operations may be adversely affected. In addition, we may not be successful in executing our business strategies and, even if we successfully implement our business strategies, we may not generate revenues or profits after we implement them.

***Any credit ratings assigned to our loans and investments will be subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded.***

Our loans and investments may be rated by rating agencies such as Moody’s Investors Service, Fitch Ratings or Standard & Poor’s. Any credit ratings on our loans and investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our loans and investments in the future, the value and liquidity of our investments could significantly decline, which would adversely affect the value of our portfolio and could result in losses upon disposition.

***Some of our investments and investment opportunities may be in synthetic form.***

Some of our investments and investment opportunities may be in synthetic form. Synthetic investments are contracts between parties whereby payments are exchanged based upon the performance of another security or asset, or “reference asset.” In addition to the risks associated with the performance of the reference asset, these synthetic interests carry the risk of the counterparty not performing its contractual obligations. Market standards, GAAP accounting methodology, regulatory oversight and compliance requirements, tax and other regulations related to these investments are evolving, and we cannot be certain that their evolution will not adversely impact the value or sustainability of these investments. Furthermore, our ability to invest in synthetic investments, other than through taxable REIT subsidiaries (“TRSs”), may be severely limited by the REIT qualification requirements because synthetic investment contracts generally are not qualifying assets and do not produce qualifying income for purposes of the REIT asset and income tests.

***We may invest in derivative instruments, which would subject us to increased risk of loss.***

Subject to maintaining our qualification as a REIT, we may invest in derivative instruments. Derivative instruments, especially when purchased in large amounts, may not be liquid in all circumstances, so that in volatile markets we may not be able to close out a position without incurring a loss. The prices of derivative instruments, including swaps, futures, forwards and options, are highly volatile, and such instruments may subject us to significant losses. The value of such derivatives also depends upon the price of the underlying instrument or commodity. Such derivatives and other customized instruments also are subject to the risk of non-performance by the relevant counterparty. In addition, actual or implied daily limits on price fluctuations and speculative position limits on the exchanges or over-the-counter (“OTC”) markets in which we may conduct our transactions in derivative instruments may prevent prompt liquidation of positions, subjecting us to the potential of greater losses. Derivative instruments that may be purchased or sold by us may include instruments not traded on an exchange. The risk of nonperformance by the obligor on such an instrument may be greater, and the ease with which we can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In addition, significant disparities may exist between “bid” and “ask” prices for derivative instruments that are traded OTC and not on an exchange. Such OTC derivatives are also typically not subject to the same type of investor protections or governmental regulation as exchange-traded instruments.



In addition, we may invest in derivative instruments that are neither presently contemplated nor currently available, but which may be developed in the future, to the extent such opportunities are both consistent with our investment objectives and legally permissible. Any such investments may expose us to unique and presently indeterminate risks, the impact of which may not be capable of determination until such instruments are developed and/or we determine to make such an investment.

***Rapid changes in the values of our real estate investments may make it more difficult for us to maintain our qualification as a REIT or exclusion from regulation under the Investment Company Act.***

If the market value or income potential of real estate-related investments declines as a result of increased interest rates, prepayment rates or other factors, we may need to increase our real estate investments and income and/or liquidate our non-qualifying assets in order to maintain our REIT qualification or exclusion from Investment Company Act regulation. If a decline in real estate asset values and/or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets that we may own. We may have to make investment decisions that we otherwise would not make absent the REIT and Investment Company Act considerations.

As a consequence of our seeking to avoid registration under the Investment Company Act on an ongoing basis, we and/or our subsidiaries may be restricted from making certain investments or may structure investments in a manner that would be less advantageous to us than would be the case in the absence of such requirements. In particular, a change in the value of any of our assets could negatively affect our ability to avoid registration under the Investment Company Act and cause the need for a restructuring of our investment portfolio. For example, these restrictions may limit our and our subsidiaries' ability to invest directly in mortgage-backed securities that represent less than the entire ownership in a pool of senior loans, debt and equity tranches of securitizations and certain asset-backed securities, non-controlling equity interests in real estate companies or in assets not related to real estate. In addition, seeking to avoid registration under the Investment Company Act may cause us and/or our subsidiaries to acquire or hold additional assets that we might not otherwise have acquired or held or dispose of investments that we and/or our subsidiaries might not have otherwise disposed of, which could result in higher costs or lower proceeds to us than we would have paid or received if we were not seeking to comply with such requirements. Thus, avoiding registration under the Investment Company Act may hinder our ability to operate solely on the basis of maximizing profits.

There can be no assurance that we and our subsidiaries will be able to successfully avoid operating as an unregistered investment company. If it were established that we were an unregistered investment company, there would be a risk that we would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that we would be unable to enforce contracts with third parties, that third parties could seek to obtain rescission of transactions undertaken during the period it was established that we were an unregistered investment company, and that we would be subject to limitations on corporate leverage that would have an adverse impact on our investment returns.

If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use borrowings), management, operations, transactions with affiliated persons (as defined in the Investment Company Act) and portfolio composition, including disclosure requirements and restrictions with respect to diversification and industry concentration and other matters. Compliance with the Investment Company Act would, accordingly, limit our ability to make certain investments and require us to significantly restructure our business plan, which could materially adversely affect our ability to pay distributions to our stockholders.

## **Risks Related To Legal, Regulatory and Accounting Issues**

***We are an “emerging growth company” and a “smaller reporting company” under the federal securities laws and will be subject to reduced public company reporting requirements.***

We are an “emerging growth company,” as defined in the JOBS Act and are eligible to take advantage of certain exemptions from, or reduced disclosure obligations relating to, various reporting requirements that are normally applicable to public companies.

We could remain an “emerging growth company” until the earliest of (1) the last day of the fiscal year following the fifth anniversary of becoming a public company, (2) the last day of the first fiscal year in which we have total annual gross revenue of \$1.235 billion or more, (3) the date on which we are deemed to be a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act (which would occur as of the end of the fiscal year in which the market value of our common stock held by non-affiliates is \$700 million or more, measured as of the last business day of our most recently completed second fiscal quarter) or (4) the date on which we have, during the preceding three year period, issued more than \$1.0 billion in non-convertible debt. Under the JOBS Act, emerging growth companies are not required to, among other things, (1) provide an auditor’s attestation report on management’s assessment of the effectiveness of internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), (2) provide certain disclosures relating to executive compensation generally required for larger public companies or (3) hold stockholder advisory votes on executive compensation. We intend to take advantage of the JOBS Act exemptions that are applicable to us. Some investors may find our securities less attractive as a result.

Additionally, the JOBS Act provides that an “emerging growth company” may take advantage of an extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies. This means an “emerging growth company” can delay adopting certain accounting standards until such standards are otherwise applicable to private companies. We have elected to take advantage of this extended transition period. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates for such new or revised standards. We may elect to comply with public company effective dates at any time, and such election would be irrevocable pursuant to Section 107(b) of the JOBS Act.

Similarly, as a smaller reporting company, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “smaller reporting companies,” including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We may be a smaller reporting company even after we are no longer an “emerging growth company.”

***Although we are an emerging growth company and smaller reporting company, the requirements of being a public company, including compliance with the reporting requirements of the Exchange Act and the requirements of the Sarbanes-Oxley Act, may strain our resources, increase our costs and place additional demands on management, and we may be unable to comply with these requirements in a timely or cost-effective manner.***

As a public company with listed equity securities, we are required to comply with new laws, regulations and requirements, certain corporate governance provisions of the Sarbanes-Oxley Act, related regulations of the SEC, including compliance with the reporting requirements of the Exchange Act and the requirements of the New York Stock Exchange (the “NYSE”). Complying with these statutes, regulations and requirements will occupy a significant amount of time of our Board and management and will require us to incur significant costs and expenses. As a result of being a public company, we are required to:

- institute and maintain a more comprehensive compliance function;
- design, establish, evaluate and maintain a system of internal controls over financial reporting in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act and the related rules and regulations of the SEC and the Public Company Accounting Oversight Board (the “PCAOB”);
- comply with rules promulgated by the NYSE;
- prepare and distribute periodic public reports in compliance with our obligations under federal securities laws;
- establish and maintain new internal policies, such as those relating to disclosure controls and procedures and insider trading;
- involve and retain to a greater degree outside counsel and accountants in the above activities; and
- establish and maintain an investor relations function.

If our profitability is adversely affected because of these additional costs, it could have a negative effect on the trading price of our securities.

***We have identified a single material weakness in our internal control over financial reporting related to the Elysian at Hughes Center investment which could, if not remediated, adversely impact the reliability of our future financial statements, result in material misstatements in our future financial statements and cause current and potential stockholders to lose confidence in our financial reporting, which in turn could adversely affect the trading price of our common stock.***

We have concluded that there is a single material weakness in our internal control over financial reporting related to the Elysian at Hughes Center investment. For additional information on the material weakness identified and our remediation plan, see “Item 9A. Controls and Procedures.” The material weakness resulted in an immaterial revision of our consolidated financial statements as of and for the year-to-date periods ended March 31, 2022, June 30, 2022 and September 30, 2022. Thus, management has determined that our disclosure controls and procedures and internal control over financial reporting were not effective as of December 31, 2022. The financial information as of and for the year ended December 31, 2022 included herein supersedes the information disclosed in the Company’s earnings release and supplement for the three months and year ended December 31, 2022. The Company intends to post a new earnings supplement on its website on or after the date of filing this Annual Report on Form 10-K (this “Annual Report”).

Under PCAOB standards, a material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a misstatement of our consolidated annual or interim financial statements will not be prevented or detected on a timely basis. The existence of this issue could adversely affect us, our reputation or investor perceptions of us. We are taking measures to remediate the underlying cause of the material weakness noted above. As we continue to evaluate and work to remediate the material weakness, we may determine to take additional measures to address the control deficiencies. An error does not need to be material to create a material weakness and in the current case the error was determined to be immaterial.

Although we plan to complete this remediation process as quickly as possible, we cannot provide any assurance as to when the remediation process will be complete, and our measures may not prove to be successful in remediating the material weakness. If our remedial measures are insufficient to address the material weakness, or if additional material weaknesses in our internal control over financial reporting are discovered or occur in the future, our future consolidated financial statements may contain misstatements and we could be required to restate our financial results. In addition, if we are unable to successfully remediate the material weakness or if we are unable to produce accurate consolidated financial statements in the future, our stock price, liquidity and access to the capital markets may be adversely affected and we may be unable to maintain compliance with applicable stock exchange listing requirements and debt covenant requirements. Further, because of its inherent limitations, even our remediated and effective internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in our conditions, or that the degree of compliance with our policies or procedures may deteriorate.

## **Risks Related to Our Indebtedness and Financing Strategy**

***We have a substantial amount of indebtedness which may limit our financial and operating activities and may adversely affect our ability to incur additional debt to fund future needs.***

As of December 31, 2022, we had approximately \$1.0 billion of indebtedness outstanding related to our portfolio, excluding indebtedness relating to the portion of the CMBS that we do not own, but are required to consolidate pursuant to applicable accounting standards. As of December 31, 2022, we had \$165.0 million of our 5.75% Notes outstanding and our OP had \$36.5 million of its 7.50% Senior Unsecured Notes due 2025 (the “OP Notes”) outstanding. The indenture that governs the 5.75% Notes contains and the note purchase agreements that govern the OP Notes contain covenants that require us to, among others, maintain a maximum net debt to equity ratio, a minimum net asset value, a minimum senior DSCR and a minimum consolidated unencumbered assets ratio. The indenture and the note purchase agreements contain other customary covenants and events of default.

Payments of principal and interest on borrowings may leave us with insufficient cash resources to acquire additional investments or pay the dividends necessary to maintain our REIT qualification. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- require us to dedicate a substantial portion of cash flow from operations to the payment of principal, and interest on, indebtedness, thereby reducing the funds available for other purposes;
- make it more difficult for us to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;

- force us to dispose of one or more of our investments, possibly on unfavorable terms or in violation of certain covenants to which we may be subject;
- subject us to increased sensitivity to interest rate increases;
- make us more vulnerable to economic downturns, adverse industry conditions or catastrophic external events;
- limit our ability to withstand competitive pressures;
- limit our ability to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- reduce our flexibility in planning for or responding to changing business, industry and economic conditions; and/or
- place us at a competitive disadvantage to competitors that have relatively less debt than we have.

If any one of these events were to occur, our financial condition, results of operations, cash flow and trading price of our securities could be adversely affected.

***Any credit facilities (including term loans and revolving facilities), debt securities, repurchase agreements, warehouse facilities and securitizations may impose restrictive covenants, which may restrict our flexibility to determine our operating policies and investment strategy.***

We intend to enter into agreements with various counterparties to finance our operations, which may include entering into credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities and securitizations and/or issuing debt securities. The documents that govern these agreements may contain customary affirmative and negative covenants, including financial covenants applicable to us that may restrict our flexibility to determine our operating policies and investment strategy. In particular, these agreements may require us to maintain a specific net debt to equity ratio, minimum net asset value, senior DSCR, consolidated unencumbered assets ratio, or, among others, specified minimum levels of capacity under our credit facilities and cash. As a result, we may not be able to leverage our assets as fully as we would otherwise choose, which could reduce our return on assets. If we are unable to meet these collateral obligations, our financial condition and prospects could deteriorate significantly. In addition, lenders may require that our Manager continue to serve in such capacity. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights in our other debt arrangements. Further, this could also make it difficult for us to satisfy the distribution requirements necessary to maintain our qualification as a REIT for U.S. federal income tax purposes.

***Inability to access funding could have a material adverse effect on our results of operations, financial condition and business.***

Our ability to fund our loans and investments may be impacted by our ability to secure bank credit facilities (including term loans and revolving facilities), warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements and additional repurchase agreements on acceptable terms. We may also rely on short-term financing that would be especially exposed to changes in availability. Our access to sources of financing will depend upon a number of factors, over which we have little or no control, including:

- general economic or market conditions;
- the market's view of the quality of our assets;
- the market's perception of our growth potential;
- our current and potential future earnings and cash distributions; and
- the market price of our securities.

We may need to periodically access the capital markets to raise cash to fund new loans and investments. Unfavorable economic or capital market conditions may increase our funding costs, limit our access to the capital markets or could result in a decision by our potential lenders not to extend credit. An inability to successfully access the capital markets could limit

our ability to grow our business and fully execute our business strategy and could decrease our earnings and liquidity. In addition, any dislocation or weakness in the capital and credit markets could adversely affect our lenders and could cause one or more of our lenders to be unwilling or unable to provide us with financing or to increase the costs of that financing. In addition, as regulatory capital requirements imposed on our lenders are increased, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price. We cannot make assurances that we will be able to obtain any additional financing on favorable terms or at all.

***We are subject to counterparty risk associated with our debt obligations.***

Our counterparties for critical financial relationships may include both domestic and international financial institutions. These institutions could be severely impacted by credit market turmoil, changes in legislation, allegations of civil or criminal wrongdoing and may as a result experience financial or other pressures. In addition, if a lender or counterparty files for bankruptcy or becomes insolvent, our borrowings under financing agreements with them may become subject to bankruptcy or insolvency proceedings, thus depriving us, at least temporarily, of the benefit of these assets. Such an event could restrict our access to financing and increase our cost of capital. If any of our counterparties were to limit or cease operation, it could lead to financial losses for us.

***Hedging may adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.***

Subject to qualifying and maintaining our qualification as a REIT, we may pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates and fluctuations in currencies. Our hedging activity will vary in scope based on the level and volatility of interest rates, exchange rates, the type of assets held and other changing market conditions. Interest rate and currency hedging may fail to protect or could adversely affect us because, among other things:

- interest rate and/or credit hedging can be expensive and may result in us generating less net income;
- available interest rate hedges may not correspond directly with the interest rate for which protection is sought;
- due to a credit loss, prepayment or asset sale, the duration of the hedge may not match the duration of the related asset or liability;
- the amount of income that a REIT may earn from hedging transactions (other than hedging transactions that satisfy certain requirements of the Code or that are done through a TRS) to offset interest rate losses is limited by U.S. federal income tax provisions governing REITs;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction;
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay;
- we may fail to recalculate, readjust and execute hedges in an efficient manner; and
- legal, tax and regulatory changes could occur and may adversely affect our ability to pursue our hedging strategies and/or increase the costs of implementing such strategies.

Any hedging activity in which we engage may materially and adversely affect our results of operations and cash flows. Therefore, while we may enter into such transactions seeking to reduce risks, unanticipated changes in interest rates or credit spreads may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio positions or liabilities being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and furthermore may expose us to risk of loss.

In addition, some hedging instruments involve additional risk because they are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, we cannot make assurances that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in significant losses. In addition, regulatory requirements with respect to derivatives, including eligibility of counterparties, reporting, recordkeeping, exchange of margin,



financial responsibility or segregation of customer funds and positions are still under development and could impact our hedging transactions and how we and our counterparty must manage such transactions.

***We are subject to counterparty risk associated with our hedging activities.***

We are subject to credit risk with respect to the counterparties failing to meet their obligations to us under derivative contracts (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of OTC instruments), which may occur due to numerous causes, including bankruptcy, lack of liquidity, or operational failure, among others. Credit risk may also be affected by the deterioration of strength in the U.S. economy or the financial performance or condition of the counterparties. If a counterparty fails to perform its obligations to us under a derivative contract, we may experience significant delays in obtaining any recovery under the derivative contract in a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy, or other analogous proceeding. In the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. If we are owed this fair market value in the termination of the derivative transaction and its claim is unsecured, we will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying security. We may obtain only a limited recovery or may obtain no recovery in such circumstances. In addition, the business failure of a counterparty with whom we enter into a hedging transaction will most likely result in its default, which may result in the loss of potential future value and the loss of our hedge and force us to cover our commitments, if any, at the then current market price. On December 30, 2021, the Company, through a subsidiary, entered into a \$32.5 million interest rate cap agreement at a strike rate of 2.29% to hedge the variable cash flows associated with the Company's floating rate debt. The interest rate cap terminates on June 1, 2024.

***We may enter into hedging transactions that could expose us to contingent liabilities in the future.***

Subject to qualifying and maintaining our qualification as a REIT, part of our investment strategy may involve entering into hedging transactions that could require us to fund cash payments in certain circumstances (such as the early termination of the hedging instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument). The amount due with respect to an early termination would generally be equal to the unrealized loss of such open transaction positions with the respective counterparty and could also include other fees and charges. These economic losses will be reflected in our results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely affect our results of operations and financial condition.

***We may fail to qualify for, or choose not to elect, hedge accounting treatment.***

We expect to account for any derivative and hedging transactions in accordance with Topic 815 of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC"). Under these standards, we may fail to qualify for, or choose not to elect, hedge accounting treatment for a number of reasons, including if we fail to satisfy ASC Topic 815 hedge documentation and hedge effectiveness assessment requirements or our instruments are not highly effective. If we fail to qualify for, or choose not to elect, hedge accounting treatment, our operating results may suffer because losses on the derivatives that we enter into may not be offset by a change in the fair value of the related hedged transaction or item.

***Any credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities and securitizations that we may use to finance our assets may require us to provide additional collateral or pay down debt.***

We expect to utilize credit facilities, repurchase agreements, warehouse facilities, securitizations and other forms of financing to finance our assets if they are available on acceptable terms. In the event we utilize these financing arrangements, they would involve the risk that the market value of our assets pledged or sold by us to the repurchase agreement counterparty, provider of the credit facility, lender of the warehouse facility or the securitization counterparty may decline in value, in which case the applicable creditor may require us to provide additional collateral or to repay all or a portion of the funds advanced. We may not have the funds available to repay our debt at that time, which would likely result in defaults unless we are able to raise the funds from alternative sources, which we may not be able to achieve on favorable terms or at all. Posting additional collateral would reduce our liquidity and limit our ability to leverage our assets. If we cannot meet these requirements, the applicable creditor could accelerate our indebtedness, increase the interest rate on advanced funds and terminate our ability to borrow funds from them, which could materially and adversely affect our financial condition and ability to implement our business plan. In addition, in the event that the applicable creditor files for bankruptcy or becomes insolvent, our loans may become subject to bankruptcy or insolvency proceedings, thus depriving us, at least temporarily, of the benefit of these assets. Such an event could restrict our access to credit and increase our cost of capital. The applicable creditor may also require us to maintain a certain amount of cash or set aside assets sufficient to maintain a specified liquidity position that would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as

fully as we would choose which could reduce our return on assets. In the event that we are unable to meet these collateral obligations, our financial condition and prospects could deteriorate rapidly.

***If a counterparty to a repurchase agreement defaults on its obligation to resell the underlying security back to us at the end of the purchase agreement term, or if the value of the underlying asset has declined as of the end of that term, or if we default on our obligations under the repurchase agreement, we may incur losses.***

Under any repurchase agreements we enter into, we will sell the assets to lenders (i.e., repurchase agreement counterparties) and receive cash from the lenders. The lenders are obligated to resell the same assets back to us at the end of the term of the repurchase agreement. Because the cash that we receive from the lender when we initially sell the assets to the lender is less than the value of those assets (the difference being the “haircut”), if the lender defaults on its obligation to resell the same assets back to us, we would incur a loss on the repurchase agreement equal to the amount of the haircut (assuming there was no change in the value of the securities). We would also incur losses on a repurchase agreement if the value of the underlying assets has declined as of the end of the repurchase agreement term, because we would have to repurchase the assets for their initial value but would receive assets worth less than that amount. Further, if we default on our obligations under a repurchase agreement, the lender will be able to terminate the repurchase agreement and cease entering into any other repurchase agreements with us. Any repurchase agreements we enter into are likely to contain cross-default provisions, so that if a default occurs under any repurchase agreement, the lender can also declare a default with respect to all other repurchase agreements they have with us. If a default occurs under any of our repurchase agreements and a lender terminates one or more of its repurchase agreements, we may need to enter into replacement repurchase agreements with different lenders. There can be no assurance that we will be successful in entering into such replacement repurchase agreements on the same terms as the repurchase agreements that were terminated or at all. Any losses that we incur on our repurchase agreements could adversely affect our earnings and thus our cash available for distribution to stockholders.

***The elimination of, LIBOR may adversely affect interest expense related to our loans and investments.***

Approximately 3.7% of our portfolio by unpaid principal balance as of December 31, 2022 pays interest at a variable rate that is tied to LIBOR. On March 5, 2021, the Financial Conduct Authority of the U.K. announced that all of the LIBOR settings will either cease to be provided by any administrator or no longer be representative (i) immediately after December 31, 2021, in the case of the 1-week and 2-month US dollar settings; and (ii) immediately after June 30, 2023, in the case of the remaining one-month, three-month, six-month and twelve-month US dollar settings. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee convened by the Federal Reserve Board and comprised of large U.S. financial institutions, has recommended replacing U.S.-dollar LIBOR with SOFR, an index calculated by short-term repurchase agreements backed by U.S. Treasury securities. Approximately 13.3% of our portfolio by unpaid principal balance as of December 31, 2022 pays interest at a variable rate that is tied to SOFR, and it is anticipated that future investments we make may have variable interest rates tied to SOFR. Although there have been issuances utilizing SOFR or the Sterling Over Night Index Average, an alternative reference rate that is based on transactions, it is unknown whether these alternative rates will attain market acceptance as a replacement for LIBOR. In connection with the foregoing, we may need to renegotiate some of our agreements to determine a replacement index rate. As of December 31, 2022, the Company has not received any LIBOR transition notices under its loan agreements. Any changes to benchmark interest rates could increase our financing costs, which could impact our results of operations, cash flows and the market value of our investments and result in mismatches with the interest rate of investments that we are financing.

## **Risks Related to Our Corporate Structure**

***We have limited operating history as a standalone company and may not be able to operate our business successfully, find suitable investments, or generate sufficient revenue to make or sustain distributions to our stockholders.***

We were organized on June 7, 2019 and have limited operating history as a standalone company. We may not be able to operate our business successfully, find suitable investments or implement our operating policies and strategies. Our ability to provide attractive risk-adjusted returns to our stockholders over the long term depends on our ability both to generate sufficient cash flow to pay an attractive dividend and to achieve capital appreciation, and we may not be able to do either. Similarly, we may not be able to generate sufficient revenue from operations to pay our operating expenses and make distributions to stockholders. The results of our operations will depend on several factors, including the availability of opportunities for the acquisition or origination of target assets, the level and volatility of interest rates, the availability of equity capital as well as adequate short- and long-term financing, conditions in the financial markets and economic conditions.



In addition, our future operating results and financial data may vary materially from the historical operating results and financial data contained in this annual report because of a number of factors. Consequently, the historical financial statements contained in this annual report may not be useful in assessing our likely future performance.

***We depend upon key personnel of our Manager and its affiliates.***

We are an externally managed REIT and therefore we do not have any internal management capacity and only have accounting employees. We will depend to a significant degree on the diligence, skill and network of business contacts of the management team and other key personnel of our Manager, including Messrs. Dondero, Goetz, Mitts, McGraner, Sauter, Richards and Willmore, all of whom may be difficult to replace. We expect that our Manager will evaluate, negotiate, structure, close and monitor our loans and investments in accordance with the terms of the Management Agreement.

We will also depend upon the senior professionals of our Manager to maintain relationships with sources of potential loans and investments, and we intend to rely upon these relationships to provide us with potential investment opportunities. We cannot assure you that these individuals will continue to provide indirect investment advice to us. If these individuals, including the members of the management team of our Manager, do not maintain their existing relationships with our Manager, maintain existing relationships or develop new relationships with other sources of investment opportunities, we may not be able to grow our investment portfolio. In addition, individuals with whom the senior professionals of our Manager have relationships are not obligated to provide us with investment opportunities. Therefore, we can offer no assurance that these relationships will generate investment opportunities for us.

***We are dependent upon our Manager and its affiliates to conduct our day-to-day operations; thus, adverse changes in their financial health or our relationship with them could cause our operations to suffer.***

We are dependent on our Manager and its affiliates to manage our operations and originate, structure and manage our loans and investments. All of our investment decisions are made by our Manager, subject to general oversight by our Manager's investment committee and our Board. Any adverse changes in the financial condition of our Manager or its affiliates, or our relationship with our Manager, could hinder our Manager's ability to successfully manage our operations and our portfolio of loans and investments, which could materially adversely affect our business, results of operations, financial condition and ability to make distributions to our stockholders.

***Our Manager manages our portfolio pursuant to very broad investment guidelines and is not required to seek the approval of our Board for each investment, financing, asset allocation or hedging decision made by it, which may result in our making riskier investments and which could materially and adversely affect us.***

Our Manager is authorized to follow very broad investment guidelines that provide it with substantial discretion in investment, financing, asset allocation and hedging decisions. Our Board will periodically review our investment guidelines and our portfolio but will not, and is not required to, review and approve in advance all of our proposed investments or our Manager's financing, asset allocation or hedging decisions. In addition, in conducting periodic reviews, our directors may rely primarily on information provided, or recommendations made, to them by our Manager or its affiliates. Subject to qualifying and maintaining our REIT qualification and our exclusion from regulation under the Investment Company Act, our Manager has significant latitude within the broad investment guidelines in determining the types of investments it makes for us, and how such investments are financed or hedged, which could result in investment returns that are substantially below expectations or losses, which could materially and adversely affect us.

***We may not replicate the historical results achieved by other entities managed or sponsored by affiliates of our Manager, members of our Manager's management team or by our Sponsor or its affiliates.***

Our primary focus in making loans and investments generally differs from that of existing investment funds, accounts or other investment vehicles that are or have been managed by affiliates of our Manager, members of our Manager's management team, our Sponsor or affiliates of our Sponsor. Past performance is not a guarantee of future results, and there can be no assurance that we will achieve comparable results of those Sponsor affiliates. In addition, investors in our securities are not acquiring an interest in any such investment funds, accounts or other investment vehicles that are or have been managed by members of our Manager's management team or our Sponsor or its affiliates. We also cannot assure you that we will replicate the historical results achieved by members of the management team, and we caution you that our investment returns could be substantially lower than the returns achieved by them in prior periods. Additionally, all or a portion of the prior results may have been achieved in particular market conditions which may never be repeated.

***The Management Agreement may be terminated by (a) us, upon a cause event (as defined in the Management Agreement), on 30 days' written notice, (b) either party, without cause, upon the expiration of the then-current term with at least 180 days' written notice to the other party prior to the expiration of such term, (c) our Manager, upon 30 days' written notice if we materially breach the agreement and such breach continues for 30 days before we are given such notice or (d) automatically in the event of an Advisers Act Assignment unless we provide written consent. If the Management Agreement is terminated for any one of these reasons, we may not be able to find a suitable replacement, resulting in a disruption in our operations that could adversely affect our financial condition, business, results of operations and cash flows.***

The Management Agreement may be terminated by (a) us, upon a cause event (as defined in the Management Agreement), on 30 days' written notice, (b) either party, without cause, upon the expiration of the then-current term with at least 180 days' written notice to the other party prior to the expiration of such term, (c) our Manager, upon 30 days' written notice if we materially breach the agreement and such breach continues for 30 days before we are given such notice or (d) automatically in the event of an Advisers Act Assignment) unless we provide written consent. If the Management Agreement is terminated and no suitable replacement is found, we may not be able to execute our business plan. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by our Manager and its affiliates. Even if we are able to retain comparable management, the integration of such management and its lack of familiarity with our investment objectives may result in additional costs and time delays that may adversely affect our business, financial condition, results of operations and cash flows. Furthermore, we may incur certain costs in connection with a termination or non-renewal of the Management Agreement, including a termination fee equal to three times the Manager's Annual Fee (unless the Management Agreement is terminated as a result of a cause event or an Advisers Act Assignment).

***Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Our Manager's liability is limited under the Management Agreement, and we have agreed to indemnify our Manager against certain liabilities.***

Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Under the terms of the Management Agreement, our Manager and its affiliates and their respective partners, members, officers, directors, employees and agents will not be liable to us (including but not limited to (1) any act or omission in connection with the conduct of our business that is determined in good faith to be in or not opposed to our best interest, (2) any act or omission based on the suggestions of certain professional advisors, (3) any act or omission by us, or (4) any mistake, negligence, misconduct or bad faith of certain brokers or other agents), unless any act or omission constitutes bad faith, fraud, willful misfeasance, intentional misconduct, gross negligence or reckless disregard of duties. We have also agreed to indemnify our Manager and its affiliates and their respective partners, members, officers, directors, employees and agents from and against any and all claims, liabilities, damages, losses, costs and expenses that are incurred and arise out of or in connection with our business or investments, or the performance by the indemnitee of its responsibilities under the Management Agreement, provided that the conduct at issue did not constitute bad faith, fraud, willful misfeasance, intentional misconduct, gross negligence or reckless disregard of duties. As a result, we could experience poor performance or losses for which our Manager would not be liable.

Under the terms of the Management Agreement, our Manager will indemnify and hold us harmless from all claims, liabilities, damages, losses, costs and expenses, including amounts paid in satisfaction of judgments, in compromises and settlements, as fines and penalties and legal or other costs and expenses of investigating or defending against any claim or alleged claim, of any nature whatsoever, known or unknown, liquidated or unliquidated, that are incurred by reason of our Manager's bad faith, fraud, willful misfeasance, intentional misconduct, gross negligence or reckless disregard of its duties; provided, however, that our Manager will not be held responsible for any action of our Board in following or declining to follow any written advice or written recommendation given by our Manager. However, the aggregate maximum amount that our Manager may be liable to us pursuant to the Management Agreement will, to the extent not prohibited by law, never exceed the amount of the management fees received by our Manager under the Management Agreement prior to the date that the acts or omissions giving rise to a claim for indemnification or liability have occurred. In addition, our Manager will not be liable for special, exemplary, punitive, indirect, or consequential loss, or damage of any kind whatsoever, including without limitation lost profits. The limitations described in the preceding two sentences will not apply, however, to the extent such damages are determined in a final binding non-appealable court or arbitration proceeding to result from the bad faith, fraud, willful misfeasance, intentional misconduct, gross negligence or reckless disregard of our Manager's duties.

***We may change our targeted investments without stockholder consent.***

Our current portfolio of investments consists SFR Loans, CMBS B-Pieces, CMBS I/O Strips, mezzanine loans, preferred equity investments, common stock investments, multifamily properties, MSCR Notes and mortgage-backed securities. We currently concentrate on investments in real estate sectors where our senior management team has operating expertise, including in the multifamily, SFR, self-storage, life science, hospitality and office sectors predominantly in the top 50 MSAs. In addition, the Company targets lending or investing in properties that are stabilized or have a “light transitional” business plan, meaning a property that requires limited deferred funding to support leasing or ramp-up of operations and for which most capital expenditures are for value-add improvements. Though this is our current target portfolio, we may make adjustments to our target portfolio based on real estate market conditions and investment opportunities, and we may change our targeted investments and investment guidelines at any time without the consent of our stockholders. Any such change could result in our making investments that are different from, and possibly riskier than, the investments described in this annual report. These policies may change over time. A change in our targeted investments or investment guidelines, which may occur without notice to you or without your consent, may increase our exposure to interest rate risk, default risk and real estate market fluctuations, all of which could adversely affect the value of our securities and our ability to make distributions to you. We intend to disclose any changes in our investment policies in our next required periodic report.

***We will pay substantial fees and expenses to our Manager and its affiliates, which payments increase the risk that you will not earn a profit on your investment.***

Pursuant to the Management Agreement, we will pay significant fees to our Manager and its affiliates. Those fees include management fees and obligations to reimburse our Manager and its affiliates for expenses they incur in connection with their providing services to us, including certain personnel services. Additionally, we have adopted a long-term incentive plan that provides us the ability to grant awards to employees of our Manager and its affiliates. For additional information on these fees and the fees paid to our Manager, see “Item 1. Business—Our Management Agreement” and Note 13 to our consolidated financial statements for more information.

***If we internalize our management functions, we may not achieve the perceived benefits of the internalization transaction.***

In the future, our Board may consider internalizing the functions performed for us by our Manager by, among other methods, acquiring our Manager’s assets. The method by which we could internalize these functions could take many forms. There is no assurance that internalizing our management functions will be beneficial to us and our stockholders. An acquisition of our Manager could result in dilution of your interest as a stockholder and could reduce earnings per share. Additionally, we may not realize the perceived benefits or we may not be able to properly integrate a new staff of managers and employees or we may not be able to effectively replicate the services provided previously by our Manager or its affiliates. Internalization transactions, including, without limitation, transactions involving the acquisition of affiliated advisors have also, in some cases, been the subject of litigation. Even if these claims are without merit, we could be forced to spend significant amounts of money defending claims which would reduce the amount of funds available for us to invest and to pay distributions. All of these factors could have a material adverse effect on our results of operations, financial condition and ability to pay distributions.

***There are significant potential conflicts of interest that could affect our investment returns.***

As a result of our arrangements with our Sponsor and our Manager, there may be times when our Sponsor and our Manager or their affiliated persons have interests that differ from those of our stockholders, giving rise to a conflict of interest.

Our directors and management team serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do, or of investment funds managed by our Manager or its affiliates. Similarly, our Manager or its affiliates may have other clients with similar, different or competing investment objectives, including, among others, NexPoint Residential Trust, Inc. (“NXRT”), a publicly traded multifamily REIT, VineBrook Homes Trust, Inc. (“VineBrook”), an SFR REIT, NexPoint Diversified Real Estate Trust (“NXDT”), a publicly traded diversified REIT, and NexPoint Hospitality Trust, Inc. (“NHT”), a publicly traded hospitality REIT listed on the TSX Venture Exchange (“TSXV”), each of which is also managed by members of our management team. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the best interest of us or our stockholders. For example, the management team of our Manager has, and will continue to have, management responsibilities for other investment funds, accounts or other investment vehicles managed or sponsored by our Manager and its affiliates. Our investment objectives may overlap with the investment objectives of such affiliated investment funds, accounts or other investment vehicles. As a result, those individuals may face conflicts in the allocation of investment opportunities among us and other investment funds or accounts advised by or affiliated with our Manager and its affiliates. Our Manager will seek to allocate investment opportunities among eligible accounts in a manner consistent with its allocation

policy. However, we can offer no assurance that such opportunities will be allocated to us fairly or equitably in the short-term or over time.

***The Chapter 11 bankruptcy filing by Highland Capital Management, L.P. (“Highland”) may have materially adverse consequences on our business, financial condition and results of operations.***

On October 16, 2019, Highland, a former affiliate of our Sponsor, filed for Chapter 11 bankruptcy protection with the United States Bankruptcy Court for the District of Delaware (the “Highland Bankruptcy”), which was subsequently transferred to the United States Bankruptcy Court for the Northern District of Texas (the “Bankruptcy Court”). On January 9, 2020, the Bankruptcy Court approved a change of control of Highland, which involved the resignation of James Dondero as the sole director of, and the appointment of an independent board to, Highland’s general partner. On September 21, 2020, Highland filed a plan of reorganization and disclosure statement with the Bankruptcy Court, which was subsequently amended (the “Fifth Amended Plan of Reorganization”). On October 9, 2020, Mr. Dondero resigned as an employee of Highland and as portfolio manager for all Highland-advised funds. As a result of these changes, our Sponsor is no longer under common control with Highland and therefore Highland is no longer affiliated with us. On February 22, 2021, the Bankruptcy Court entered an order confirming Highlands’s Fifth Amended Plan of Reorganization (the “Plan”), which became effective on August 11, 2021. On October 15, 2021, Marc S. Kirschner, as litigation trustee of a litigation subtrust formed pursuant to the Plan, filed a lawsuit (the “Bankruptcy Trust Lawsuit”) against various persons and entities, including our Sponsor and James Dondero. The Bankruptcy Trust Lawsuit does not include claims related to our business or our assets or operations. The Highland Bankruptcy and lawsuits filed in connection therewith, including the Bankruptcy Trust Lawsuit, could expose our Sponsor, our Manager, our affiliates, our management and/or us to negative publicity, which might adversely affect our reputation and/or investor confidence in us, and/or future debt or equity capital raising activities. In addition, the Highland Bankruptcy and the Bankruptcy Trust Lawsuit may be both time consuming and disruptive to our operations and cause significant diversion of management attention and resources which may materially and adversely affect our business, financial condition and results of operations. Further, the Highland Bankruptcy has and may continue to expose our Sponsor, our Manager and our affiliates to claims arising out of our former relationship with Highland that could have an adverse effect on our business, financial condition and results of operations.

***Litigation against James Dondero and others may have materially adverse consequences on our business, financial condition and results of operations.***

On February 8, 2023, UBS Securities LLC and its affiliate (collectively, “UBS”) filed a lawsuit in the Supreme Court of the State of New York, County of New York against Mr. Dondero and a number of other persons and entities, seeking to collect on \$1.3 billion in judgments UBS obtained against entities that were managed indirectly by Highland (the “UBS Lawsuit”). The UBS Lawsuit does not include claims related to our business or our assets or operations. While neither our Sponsor nor our Manager are parties to the UBS Lawsuit, these proceedings could expose our Sponsor, our Manager, our affiliates, our management and/or us to negative publicity, which might adversely affect our reputation and/or investor confidence in us, and/or future debt or equity capital raising activities. In addition, the UBS Lawsuit may be both time consuming and disruptive to our operations and cause significant diversion of management attention and resources which may materially and adversely affect our business, financial condition and results of operations. The Board has formed an independent special committee to oversee a review of the UBS Lawsuit and its potential impact on the Company.

***We may compete with other entities affiliated with our Manager and our Sponsor for investments.***

Neither our Manager nor our Sponsor and their affiliates are prohibited from engaging, directly or indirectly, in any other business or from possessing interests in any other business ventures that compete with ours. Our Manager, our Sponsor and/or their affiliates may provide financing to similarly situated investments. Our Manager and our Sponsor may face conflicts of interest when evaluating investment opportunities for us, and these conflicts of interest may have a negative impact on our ability to make attractive investments.

***Our Manager, our Sponsor and their respective affiliates, officers and employees face competing demands relating to their time, and this may cause our operating results to suffer.***

Our Manager, our Sponsor and their respective affiliates, officers and employees are key personnel, general partners, sponsors, managers, owners and advisors of other real estate investment programs, including affiliate-sponsored investment products, some of which have investment objectives and legal and financial obligations similar to ours and may have other business interests as well. Because these persons have competing demands on their time and resources, they may have conflicts of interest in allocating their time between our business and these other activities. If this occurs, the returns on our investments may suffer.



***Our Manager and its affiliates will face conflicts of interest, including significant conflicts created by our Manager's compensation arrangements with us, including compensation which may be required to be paid to our Manager if the Management Agreement is terminated, which could result in actions that are not necessarily in the long-term best interest of our stockholders.***

Under the Management Agreement, our Manager or its affiliates are entitled to fees based on our "Equity." Because performance is only one aspect of our Manager's compensation (as a component of "Equity"), our Manager's interests are not wholly aligned with those of our stockholders. In that regard, our Manager could be motivated to recommend riskier or more speculative investments that would entitle our Manager to a higher fee. For example, because asset management fees payable to our Manager are based in part on the amount of equity raised, our Manager may have an incentive to raise additional equity capital in order to increase its fees.

***Our charter permits our Board to issue stock with terms that may subordinate the rights of our stockholders or discourage a third party from acquiring us in a manner that could otherwise result in a premium price to our stockholders.***

Our Board may classify or reclassify any unissued shares of common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption of any such stock. Thus, our Board could authorize the issuance of preferred stock with terms and conditions that could have priority as to distributions and amounts payable upon liquidation over the rights of the holders of our other stock. The issuance of such preferred stock could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to holders of our stock.

***Our rights and the rights of our stockholders to recover claims against our directors and officers are limited by Maryland law and our organizational documents, which could reduce your and our recovery against them if they cause us to incur losses.***

Maryland law provides that a director has no liability in the capacity as a director if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interest and with the care that an ordinarily prudent person in a like position would use under similar circumstances. As permitted by the MGCL, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

In addition, our charter and our bylaws require us to indemnify our directors and officers for actions taken by them in those capacities and, without requiring a preliminary determination of the ultimate entitlement to indemnification, to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding to the maximum extent permitted by Maryland law.

We have entered into indemnification agreements with each of our directors and executive officers that provide for indemnification to the maximum extent permitted by Maryland law.

As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. Accordingly, in the event that actions taken by any of our directors or officers are immune or exculpated from, or indemnified against, liability but which impede our performance, our stockholders' ability to recover damages from that director or officer will be limited.

***Our bylaws designate the Circuit Court for Baltimore City, Maryland as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders and provide that claims relating to causes of action under the Securities Act may only be brought in federal district courts, which could limit stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees and could discourage lawsuits against us and our directors, officers and employees.***

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that Court does not have subject matter jurisdiction, any state court located within the state of Maryland, or, if all such state courts do not have subject matter jurisdiction, the United States District Court for the District of Maryland, will be the sole and exclusive forum for (a) any Internal Corporate Claim, as such term is defined in the MGCL, or any successor provision thereof, (b) any derivative action or proceeding brought on behalf of the Company, (c) any action

asserting a claim of breach of any duty owed by any director or officer or other employee of the Company to the Company or to the stockholders of the Company, (d) any action asserting a claim against the Company or any director or officer or other employee of the Company arising pursuant to any provision of the MGCL, the charter or the bylaws, (e) any action or proceeding to interpret, apply, enforce or determine the validity of the charter or the bylaws of the Company (including any right, obligation, or remedy thereunder), (f) any action or proceeding as to which the MGCL confers jurisdiction on the Circuit Court for Baltimore City, Maryland, or (g) any action asserting a claim against the Company or any director or officer or other employee of the Company that is governed by the internal affairs doctrine, in all cases to the fullest extent permitted by law and subject to the court's having personal jurisdiction over the indispensable parties named as defendants, except that the foregoing does not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. Unless the Company consents in writing to the selection of an alternative forum, the federal district courts of the United States of America will, to the fullest extent permitted by law, be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. The choice of forum provision could limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which could discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our bylaws to be inapplicable or unenforceable in an action, we could incur additional costs associated with resolving such action in other jurisdictions.

***Our charter and bylaws contain provisions that may delay, defer or prevent an acquisition of our securities or a change in control.***

Our charter and bylaws contain a number of provisions, the exercise or existence of which could delay, defer or prevent a transaction or a change in control that might involve a premium price for our stockholders or otherwise be in their best interest, including the following:

- *Our Charter Contains Restrictions on the Ownership and Transfer of Our Stock.* In order to qualify as a REIT, five or fewer individuals, as defined in the Code, may not own, directly or indirectly or constructively, more than 50% in value of our issued and outstanding shares of stock at any time during the last half of each taxable year, other than the first year for which a REIT election is made. Attribution rules in the Code determine if any individual or entity actually or constructively owns shares of our capital stock under this requirement. Additionally, at least 100 persons must beneficially own shares of our capital stock during at least 335 days of a taxable year for each taxable year, other than the first year for which a REIT election is made. To help ensure that we meet these tests, among other purposes, our charter includes restrictions on the acquisition and ownership of shares of our capital stock. To assist us in complying with the limitations on the concentration of ownership of a REIT imposed by the Code, among other purposes, our charter, including the articles supplementary setting forth the terms of the Series A Preferred Stock, prohibits, with certain exceptions, any stockholder from beneficially or constructively owning, applying certain attribution rules under the Code, more than 6.2% by value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock, or more than 6.2% in value of the aggregate of the outstanding shares of our capital stock, including the Series A Preferred Stock. Our Board may, in its sole discretion, subject to such conditions as it may determine and the receipt of certain representations and undertakings, waive the 6.2% ownership limit with respect to a particular stockholder if such ownership will not then or in the future jeopardize our qualification as a REIT. Our Board granted James Dondero and his affiliates a waiver allowing them to collectively own up to 65% of our common stock, has granted waivers to others and may grant additional waivers in the future. Our charter also prohibits any person from, among other things, beneficially or constructively owning shares of our capital stock that would result in our being "closely held" under Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year), or otherwise cause us to fail to qualify as a REIT (including, but not limited to, beneficial ownership or constructive ownership that would result in us owning (actually or constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by us from such tenant would cause us to fail to satisfy any of the gross income requirements of Section 856(c) of the Code) or a "domestically controlled qualified investment entity" within the meaning of Section 897(h) of the Code. Our charter provides that any ownership or purported transfer of shares of our capital stock in violation of the foregoing restrictions will result in the shares so owned or transferred being automatically transferred to a charitable trust for the benefit of a charitable beneficiary, and the purported owner or transferee acquiring no rights in such shares. If a transfer of shares of our capital stock would result in our capital stock being beneficially owned by fewer than 100 persons or the transfer to a charitable trust would be ineffective for any reason to prevent a violation of the other restrictions on ownership and transfer of our capital stock, the transfer resulting in such violation will be void ab initio. These ownership limits may prevent a third party from acquiring control of us if our Board does not grant an exemption from the ownership limits, even if our stockholders believe the change in control is in their best interest. Waivers

with respect to the ownership limits may be subject to certain initial and ongoing conditions designed to preserve our status as a REIT.

- *Our Board Has the Power to Cause Us to Issue Additional Shares of Our Stock without Stockholder Approval.* Our charter authorizes us to issue additional authorized but unissued shares of common or preferred stock. In addition, our Board may, without stockholder approval, amend our charter to increase the aggregate number of shares of our common stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our Board may establish a series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our stock or otherwise be in the best interest of our stockholders.

***Certain provisions of the MGCL may limit the ability of a third party to acquire control of us.***

Certain provisions of the MGCL may have the effect of inhibiting a third party from acquiring us or of impeding a change of control under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of such shares.

Under the MGCL, certain “business combinations” (including a merger, consolidation, statutory share exchange or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and an “interested stockholder” (defined generally as any person who beneficially owns, directly or indirectly, 10% or more of the voting power of our outstanding shares of voting stock or an affiliate or associate of the corporation who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding stock of the corporation), or an affiliate of any such interested stockholder, are prohibited for five years after the most recent date on which such interested stockholder becomes an interested stockholder. Thereafter any such business combination must be generally recommended by the board of directors of the corporation and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation and (b) two-thirds of the votes entitled to be cast by holders of voting stock of the corporation, other than shares held by the interested stockholder who will (or whose affiliate will) be a party to the business combination or held by an affiliate or associate of the interested stockholder. These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by our Board prior to the time that someone becomes an interested stockholder or comply with certain fair price requirements set forth in the MGCL.

The MGCL provides that holders of “control shares” of our Company acquired in a “control share acquisition” (defined as the direct or indirect acquisition of issued and outstanding “control shares”, subject to certain exceptions) have no voting rights with respect to such shares except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all of the votes entitled to be cast on the matter, excluding all interested shares (defined as shares of the corporation that any of the following persons is entitled to exercise, or direct the exercise of, the voting power in the election of directors: an acquiring person, an officer of the corporation or an employee of the corporation who is also a director of the corporation).

“Control shares” are voting shares of stock that, if aggregated with all other such shares of stock owned by the acquirer, or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

Control shares do not include shares that the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval, shares acquired directly from the corporation or shares acquired in a merger, consolidation or statutory share exchange if the corporation is a party to the transaction or acquisitions approved or exempted by the charter or bylaws of the corporation.



Pursuant to the Maryland Business Combination Act, our Board has by resolution exempted from the provisions of the Maryland Business Combination Act all business combinations (1) between our Manager or its respective affiliates and us and (2) between any other person and us, provided that such business combination is first approved by our Board (including a majority of our directors who are not affiliates or associates of such person). Our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of shares of our stock. There can be no assurance that these exemptions or resolutions will not be amended or eliminated at any time in the future.

Additionally, Title 3, Subtitle 8 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors, without stockholder approval and regardless of what is currently provided in its charter or bylaws, to implement any or all of the following takeover defenses:

- a classified board;
- a two-thirds vote requirement for removing a director;
- a requirement that the number of directors be fixed only by vote of the board of directors;
- a requirement that a vacancy on the board be filled only by the remaining directors in office and (if the board is classified) for the remainder of the full term of the class of directors in which the vacancy occurred; and
- a majority requirement for the calling of a stockholder-requested special meeting of stockholders.

Our charter provides that, at such time as we are able to make a Subtitle 8 election, vacancies on the Board may be filled only by the remaining directors and that directors elected by the Board to fill vacancies will serve for the remainder of the full term of the directorship in which the vacancy occurred. Through provisions in our charter and bylaws unrelated to Subtitle 8, we already, subject to the terms of any class or series of preferred stock, (a) vest in our Board the exclusive power to fix the number of directorships, (b) require a vacancy on our Board to be filled only by the remaining directors in office, even if the remaining directors do not constitute a quorum and (c) require, unless called by our chairman of our Board, our chief executive officer, our president or our Board, the written request of stockholders entitled to cast a majority of all of the votes entitled to be cast at such a meeting to call a special meeting. If we made an election to be subject to the provisions of Subtitle 8 relating to a classified board, our Board would automatically be classified into three classes with staggered terms of office of three years each. In such instance, the classification and staggered terms of office of the directors would make it more difficult for a third party to gain control of our Board since at least two annual meetings of stockholders, instead of one, generally would be required to effect a change in the majority of the directors.

#### **Risks Related to Our REIT Status and Other Tax Items**

***We have elected to be treated as a REIT commencing with our taxable year ended December 31, 2020. Our failure to qualify or maintain our qualification as a REIT for U.S. federal income tax purposes would reduce the amount of funds we have available for distribution and limit our ability to make distributions to our stockholders.***

We have elected to be treated as a REIT under the Code commencing with our taxable year ended December 31, 2020. However, we cannot assure you that we will qualify and remain qualified as a REIT. Our qualification as a REIT depends upon our ability to meet requirements, some on an annual and quarterly basis, regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets and other tests imposed by the Code. The REIT qualification requirements are extremely complex and interpretation of the U.S. federal income tax laws governing qualification as a REIT is limited. Furthermore, future legislative, judicial or administrative changes to the U.S. federal income tax laws could be applied retroactively, which could result in our disqualification as a REIT. We believe we have been and are organized and qualify as a REIT, and we intend to operate in a manner that will permit us to continue to qualify as a REIT. However, we cannot assure you that we have qualified as a REIT, or that we will remain qualified as a REIT in the future.

If we fail to qualify as a REIT in any taxable year, we will face serious tax consequences that will substantially reduce the funds available for distributions to our stockholders because:

- we would not be allowed a deduction for dividends paid to stockholders in computing our taxable income and would be subject to U.S. federal income tax at the corporate tax rate;
- we could be subject to increased state and local taxes; and

- unless we are entitled to relief under certain U.S. federal income tax laws, we could not re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT.

In addition, if we fail to qualify as a REIT, we will no longer be required to make distributions to our stockholders. As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and it would adversely affect the value of our securities.

Furthermore, we currently own one and may acquire additional direct or indirect interests in one or more entities that will elect to be taxed as REITs under the Code (each, a “Subsidiary REIT”). A Subsidiary REIT is subject to the various REIT qualification requirements and other limitations described herein that are applicable to us. If a Subsidiary REIT were to fail to qualify as a REIT, then (i) that Subsidiary REIT would become subject to U.S. federal income tax and (ii) the Subsidiary REIT’s failure to qualify could have an adverse effect on our ability to comply with the REIT income and asset tests, and thus could impair our ability to qualify as a REIT unless we could avail ourselves of certain relief provisions.

***Even if we qualify as a REIT for U.S. federal income tax purposes, we may be subject to other tax liabilities that reduce our cash flow and our ability to make distributions to you.***

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local or non-U.S. taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, our TRS or any TRS we form will be subject to U.S. federal income tax and applicable state and local taxes on their net income. State, local and non-U.S. income tax laws may differ substantially from the corresponding U.S. federal income tax laws. Any federal or state taxes we pay will reduce our cash available for distribution to you. Prospective investors are urged to consult their tax advisors regarding the effect of other U.S. federal, state, local and non-U.S. tax laws on an investment in our stock.

***To maintain our REIT qualification, we may be forced to borrow funds during unfavorable market conditions, and the unavailability of such capital on favorable terms at the desired times, or at all, may cause us to curtail our investment activities and/or to dispose of assets at inopportune times, which could adversely affect our financial condition, results of operations, cash flow and value of our securities.***

In order to qualify and maintain our qualification as a REIT, we must distribute annually to our stockholders at least 90% of our REIT taxable income (which does not equal net income as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. We will also be subject to U.S. federal income tax on our undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (a) 85% of our ordinary income, (b) 95% of our capital gain net income and (c) 100% of our undistributed income from prior years. To maintain our REIT qualification and avoid the payment of U.S. federal income and excise taxes, we may need to borrow funds to meet the REIT distribution requirements, even if the then-prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from differences in timing between the actual receipt of income and inclusion of income for U.S. federal income tax purposes. For example, we may be required to accrue interest and discount income on SFR mortgage loans, CMBS B-Pieces, and other types of debt securities or interests in debt securities before we receive any payments of interest or principal on such assets. Our access to third-party sources of capital depends on a number of factors, including the market’s perception of our growth potential, our current debt levels, and our current and potential future earnings. We cannot assure you that we will have access to such capital on favorable terms at the desired times, or at all, which may cause us to curtail our investment activities and/or to dispose of assets at inopportune times, and could adversely affect our financial condition, results of operations, cash flow and the value of our securities. Alternatively, we may make taxable in-kind distributions of our own stock, which may cause our stockholders to be required to pay income taxes with respect to such distributions in excess of any cash they receive, or we may be required to withhold taxes with respect to such distributions in excess of any cash our stockholders receive.

***The failure of a mezzanine loan to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.***

We plan to originate mezzanine loans for which the Internal Revenue Service (the “IRS”) has provided a safe harbor but not rules of substantive law. Pursuant to the safe harbor, if a mezzanine loan meets certain requirements, it will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the 75% gross income test. We may originate mezzanine loans that do not meet all of the requirements of this safe harbor. In the event we own a mezzanine loan that does not meet the safe harbor, the IRS could challenge such loan’s treatment as a real estate asset for purposes of the REIT asset and income tests and, if such a challenge were sustained, we could fail to qualify as a REIT.

***There is a lack of clear authority governing the characterization of our mezzanine loans or preferred equity investments for REIT qualification purposes.***

There is limited case law and administrative guidance addressing whether instruments similar to any mezzanine loans or preferred equity investments that we may acquire will be treated as equity or debt for U.S. federal income tax purposes. We typically do not anticipate obtaining private letter rulings from the IRS or opinions of counsel on the characterization of those investments for U.S. federal income tax purposes. If the IRS successfully recharacterizes a mezzanine loan or preferred equity investment that we have treated as debt for U.S. federal income tax purposes as equity for U.S. federal income tax purposes, we would be treated as owning the assets held by the partnership or limited liability company that issued the security and we would be treated as receiving our proportionate share of the income of the entity. There can be no assurance that such an entity will not derive nonqualifying income for purposes of the 75% or 95% gross income test or earn income that could be subject to a 100% penalty tax. Alternatively, if the IRS successfully recharacterizes a mezzanine loan or preferred equity investment that we have treated as equity for U.S. federal income tax purposes as debt for U.S. federal income tax purposes, then that investment may be treated as producing interest income that would be qualifying income for the 95% gross income test, but not for the 75% gross income test. If the IRS successfully challenges the classification of our mezzanine loans or preferred equity investments for U.S. federal income tax purposes, no assurance can be provided that we will not fail to satisfy the 75% or 95% gross income test.

***The “taxable mortgage pool” rules may increase the taxes that we or our stockholders may incur and may limit the manner in which we effect future securitizations.***

Securitizations by us or our subsidiaries could result in the creation of taxable mortgage pools for U.S. federal income tax purposes. As a result, we could have “excess inclusion income.” Certain categories of stockholders, such as non-U.S. stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to any such excess inclusion income. In addition, to the extent that our stock is owned by tax-exempt “disqualified organizations,” such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business taxable income, we may incur a corporate level tax on a portion of any excess inclusion income. Moreover, we could face limitations in selling equity interests in these securitizations to outside investors or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

***Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments.***

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually and that, at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities, stock in REITs and other qualifying real estate assets, including certain mortgage loans and certain kinds of CMBS and debt instruments of publicly offered REITs. The remainder of our investments in securities (other than government securities, securities issued by a TRS and REIT qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities, securities issued by a TRS and securities that are qualifying real estate assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total securities can be represented by securities of one or more TRSs. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our performance. Moreover, if we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio, or contribute to a TRS, otherwise attractive investments, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the income or asset requirements for qualifying as a REIT. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

***If our OP failed to qualify as a partnership for U.S. federal income tax purposes, we would cease to qualify as a REIT.***

We believe that our OP will be treated as a partnership for U.S. federal income tax purposes, and intends to take that position for all income tax reporting positions. As a partnership, our OP generally will not be subject to U.S. federal income tax on its income. Instead, each of its partners, including us, will be allocated, and may be required to pay tax with respect to, its share of our OP’s income. We cannot assure you, however, that the IRS will not challenge the status of our OP or any other subsidiary partnership in which we own an interest as a partnership for U.S. federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating our OP or any other such subsidiary partnership as

an entity taxable as a corporation for U.S. federal income tax purposes (including by reason of being classified as a publicly traded partnership, unless at least 90% of its income was qualifying income as defined in the Code, or a “taxable mortgage pool” for U.S. federal income tax purposes), we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, we would likely cease to qualify as a REIT, unless we qualified for certain statutory savings provisions. A “publicly traded partnership” is a partnership whose partnership interests are traded on an established securities market or are readily tradable on a secondary market (or the substantial equivalent thereof). Although our OP’s partnership units are not traded on an established securities market, the OP’s units could be viewed as readily tradable on a secondary market (or the substantial equivalent thereof), and our OP may not qualify for one of the “safe harbors” under the applicable tax regulations. Qualifying income for the 90% test generally includes passive income, such as real property rents, dividends and interest. The income requirements applicable to REITs and the definition of qualifying income for purposes of this 90% test are similar in most respects. Our OP may not meet this qualifying income test. Also, the failure of our OP or any subsidiary partnerships to qualify as a partnership could cause it to become subject to U.S. federal and state corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to its partners, including us.

***Our ownership of interests in a TRS raises certain tax risks.***

A TRS is a corporation other than a REIT in which a REIT directly or indirectly holds stock, and that has made a joint election with such REIT to be treated as a TRS. A TRS also includes any corporation other than a REIT with respect to which a TRS owns securities possessing more than 35% of the total voting power or value of the outstanding securities of such corporation. Other than some activities relating to lodging and health care facilities, a TRS may generally engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT. A TRS is subject to income tax as a regular C corporation. We currently own interests in a TRS and may acquire securities in additional TRSs in the future.

We will be required to pay a 100% tax on any “redetermined rents,” “redetermined deductions,” “excess interest” or “redetermined TRS service income.” In general, redetermined rents are rents from real property that are overstated as a result of services furnished to any of our tenants by a TRS of ours. Redetermined deductions and excess interest generally represent amounts that are deducted by a TRS of ours for amounts paid to us that are in excess of the amounts that would have been deducted based on arm’s-length negotiations. Redetermined TRS service income generally represents amounts by which the gross income of a TRS attributable to its services for or on behalf of us (other than to a tenant of ours) would be increased based on arm’s length negotiations.

Our TRS is and any TRS we acquire in the future will be subject to corporate income tax at the U.S. federal, state and local levels (including on the gain realized from the sale of property held by it, as well as on income earned while such property is operated by the TRS). This tax obligation, if material, would diminish the amount of the proceeds from the sale or operation of such property, or other income earned through the TRS that would be distributable to our stockholders. U.S. federal, state and local corporate income tax rates may be increased in the future, and any such increase would reduce the amount of the net proceeds available for distribution by us to our stockholders from the sale of property or other income earned through a TRS after the effective date of any increase in such tax rates. We do not anticipate material income tax obligations in connection with our ownership of interests in TRSs.

As a REIT, the value of our interests in our TRSs generally may not exceed 20% of the total value of our total assets at the end of any calendar quarter. If the IRS were to determine that the value of our interests in all of our TRSs exceeded this limit at the end of any calendar quarter, then we would fail to qualify as a REIT. If we determine it to be in our best interest to own a substantial number of our properties through one or more TRSs, then it is possible that the IRS may conclude that the value of our interests in our TRSs exceeds 20% of the value of our total assets at the end of any calendar quarter and therefore cause us to fail to qualify as a REIT. Additionally, as a REIT, no more than 25% of our gross income with respect to any year may, in general, be from sources other than certain real estate-related assets. Dividends paid to us from a TRS are typically considered to be non-real estate income. Therefore, we may fail to qualify as a REIT if dividends from our TRSs, when aggregated with all other non-real estate income with respect to any one year, are more than 25% of our gross income with respect to such year.



***Dividends payable by REITs generally do not qualify for the reduced tax rates available for some dividends.***

Currently, the maximum tax rate applicable to qualified dividend income payable to U.S. stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, generally are not eligible for this reduced rate. However, U.S. stockholders that are individuals, trusts and estates generally may deduct up to 20% of the ordinary dividends (e.g., dividends not designated as capital gain dividends or qualified dividend income) received from a REIT for taxable years beginning before January 1, 2026. To qualify for this deduction, the U.S. stockholder receiving such dividends must hold the dividend-paying REIT stock for at least 46 days (taking into account certain special holding period rules) of the 91-day period beginning 45 days before the stock becomes ex-dividend and cannot be under an obligation to make related payments with respect to a position in substantially similar or related property. Although this deduction reduces the effective U.S. federal income tax rate applicable to certain dividends paid by REITs (generally to 29.6% assuming the stockholder is subject to the 37% maximum rate), such tax rate is still higher than the tax rate applicable to corporate dividends that constitute qualified dividend income. Accordingly, investors who are individuals, trusts and estates may perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could materially and adversely affect the value of the stock of REITs, including the per share trading price of our securities. In addition, certain U.S. stockholders may be subject to a 3.8% Medicare tax on dividends payable by REITs.

***The share ownership restrictions of the Code for REITs and the 6.2% share ownership limits in our charter may inhibit market activity in shares of our stock and restrict our business combination opportunities.***

In order to qualify as a REIT, five or fewer individuals, as defined in the Code, may not own, directly or indirectly or constructively, more than 50% in value of our issued and outstanding shares of stock at any time during the last half of each taxable year, other than the first year for which a REIT election is made. Attribution rules in the Code determine if any individual or entity actually or constructively owns shares of our capital stock under this requirement. Additionally, at least 100 persons must beneficially own shares of our capital stock during at least 335 days of a taxable year for each taxable year, other than the first year for which a REIT election is made. To help ensure that we meet these tests, among other purposes, our charter includes restrictions on the acquisition and ownership of shares of our capital stock.

To assist us in complying with the limitations on the concentration of ownership of a REIT imposed by the Code, among other purposes, our charter, including the articles supplementary setting forth the terms of the Series A Preferred Stock, prohibits, with certain exceptions, any stockholder from beneficially or constructively owning, applying certain attribution rules under the Code, more than 6.2% by value or number of shares, whichever is more restrictive, of the aggregate of the outstanding shares of our common stock, or 6.2% by value of the aggregate of the outstanding shares of our capital stock, including the Series A Preferred Stock.

Our Board may, in its sole discretion, subject to such conditions as it may determine and the receipt of certain representations and undertakings, waive the 6.2% ownership limit with respect to a particular stockholder if such ownership will not then or in the future jeopardize our qualification as a REIT. Our Board granted James Dondero and his affiliates a waiver allowing them to collectively own up to 65% of our common stock, has granted waivers to others and may grant additional waivers in the future. Our charter also prohibits any person from, among other things, beneficially or constructively owning shares of our capital stock that would result in our being “closely held” under Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year), or otherwise cause us to fail to qualify as a REIT or a “domestically controlled qualified investment entity” within the meaning of Section 897(h) of the Code.

Our charter provides that any ownership or purported transfer of our capital stock in violation of the foregoing restrictions will result in the shares so owned or transferred being automatically transferred to a charitable trust for the benefit of a charitable beneficiary, and the purported owner or transferee acquiring no rights in such shares. If a transfer of shares of our capital stock would result in our capital stock being beneficially owned by fewer than 100 persons or the transfer to a charitable trust would be ineffective for any reason to prevent a violation of the other restrictions on ownership and transfer of our capital stock, the transfer resulting in such violation will be void ab initio.

Waivers with respect to the ownership limits may be subject to certain initial and ongoing conditions designed to preserve our status as a REIT. These restrictions on transferability and ownership will not apply, however, if our Board determines that it is no longer in our best interest to qualify as a REIT or that compliance with the restrictions is no longer required in order for us to so qualify as a REIT.

These ownership limits could delay or prevent a transaction or a change in control that might involve a premium price for our securities or otherwise be in the best interest of the stockholders.

***Complying with REIT requirements may limit our ability to hedge our liabilities effectively and may cause us to incur tax liabilities.***

The REIT provisions of the Code may limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes, price changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets or to offset certain other positions, if properly identified under applicable Treasury regulations, does not constitute “gross income” for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions will likely be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a domestic TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses from hedges held in a TRS generally will not provide any tax benefit, except for being carried forward against future taxable income of such TRS.

***Certain of our business activities are potentially subject to the prohibited transaction tax, which could reduce the return on your investment.***

For so long as we qualify as a REIT, our ability to dispose of assets may be restricted to a substantial extent as a result of our REIT qualification. Under applicable provisions of the Code regarding prohibited transactions by REITs, while we qualify as a REIT, we will be subject to a 100% penalty tax on any gain recognized on the sale or other disposition of any asset (other than foreclosure property) that we own or hold an interest in, directly or indirectly through any subsidiary entity, including our OP, but generally excluding TRSs, that is deemed to be inventory or property held primarily for sale to customers in the ordinary course of a trade or business. Whether property is inventory or otherwise held primarily for sale to customers in the ordinary course of a trade or business depends on the particular facts and circumstances surrounding each property. During such time as we qualify as a REIT, we intend to avoid the 100% prohibited transaction tax by (a) conducting activities that may otherwise be considered prohibited transactions through a TRS (but such TRS will incur corporate rate income taxes with respect to any income or gain recognized by it), (b) conducting our operations in such a manner so that no sale or other disposition of an asset we own or hold an interest in, directly or through any subsidiary, will be treated as a prohibited transaction, or (c) structuring certain dispositions to comply with the requirements of the prohibited transaction safe harbor available under the Code that, among other requirements, have been held for at least two years. No assurance can be given that any particular asset that we own or hold an interest in, directly or through any subsidiary entity, including our OP, but generally excluding TRSs, will not be treated as inventory or property held primarily for sale to customers in the ordinary course of a trade or business.

The 100% tax described above may limit our ability to enter into transactions that would otherwise be beneficial to us. For example, if circumstances make it not profitable or otherwise uneconomical for us to remain in certain states or geographical markets, the 100% tax could delay our ability to exit those states or markets by selling our assets in those states or markets other than through a TRS, which could harm our operating profits.

***We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.***

We may acquire CMBS or debt instruments in the secondary market for less than their face amount. The amount of such discount will generally be treated as “market discount” for U.S. federal income tax purposes. Accrued market discount is reported as income when, and to the extent that, any payment of principal of the debt instrument is made, unless we elect to include accrued market discount in income as it accrues. Principal payments on certain loans are made monthly, and consequently accrued market discount may have to be included in income each month as if the debt instrument were assured of ultimately being collected in full. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions.

Similarly, some of the CMBS that we acquire may have been issued with original issue discount. We will be required to report such original issue discount based on a constant yield method and will be taxed based on the assumption that all future projected payments due on such CMBS will be made. If such CMBS turns out not to be fully collectible, an offsetting loss deduction will become available only in the later year that uncollectibility is provable. Finally, in the event that any debt instruments or CMBS acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular debt instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. Similarly, we may be required to accrue interest income with respect to subordinate CMBS at their stated rate regardless of whether corresponding cash payments are received or are ultimately collectable. In each case, while we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectible, the utility of that deduction could depend on our having taxable income in that later year or thereafter.

The interest apportionment rules under Treasury Regulation Section 1.856-5(c) provide that, if a mortgage is secured by both real property and other property, a REIT is required to apportion its annual interest income to the real property security based on a fraction, the numerator of which is the value of the real property securing the loan, determined when the REIT commits to acquire the loan, and the denominator of which is the highest “principal amount” of the loan during the year. In IRS Revenue Procedure 2014-51, the IRS interprets the “principal amount” of the loan to be the face amount of the loan, despite the Code requiring taxpayers to treat any market discount, that is the difference between the purchase price of the loan and its face amount, for all purposes (other than certain withholding and information reporting purposes) as interest rather than principal.

If we invest in mortgage loans to which the interest apportionment rules described above would apply and the IRS were to assert successfully that our mortgage loans were secured by property other than real estate, the interest apportionment rules applied for purposes of our REIT testing, and that the position taken in IRS Revenue Procedure 2014-51 should be applied to our portfolio, then depending upon the value of the real property securing our mortgage loans and their face amount, and the sources of our gross income generally, we may fail to meet the 75% gross income test. If we do not meet this test, we could potentially lose our REIT qualification or be required to pay a penalty to the IRS.

***The ability of our Board to revoke our REIT qualification without stockholder approval may cause adverse consequences to our stockholders.***

Our charter provides that our Board may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we will not be allowed a deduction for dividends paid to stockholders in computing our taxable income and will be subject to U.S. federal income tax at regular corporate rates and state and local taxes, which may have adverse consequences on our total return to our stockholders.

***Legislative or other actions affecting REITs could have a negative effect on our stockholders or us.***

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could materially and adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, Treasury regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the U.S. federal income tax consequences of such qualification, or the U.S. federal income tax consequences of an investment in us. Also, the law relating to the tax treatment of other entities, or an investment in other entities, could change, making an investment in such other entities more attractive relative to an investment in a REIT. Prospective investors are urged to consult with their tax advisors regarding the effect of potential changes to the U.S. federal tax laws on an investment in our stock.

***We and our subsidiaries and stockholders may be subject to state, local or foreign tax filing and payment obligations taxation in various jurisdictions including those in which we or they transact business, own property or reside.***

We may own assets located in, or transact business in, numerous jurisdictions, and may be required to file tax returns in some or all of those jurisdictions. Our state, local or foreign tax treatment and that of our stockholders may not conform to the U.S. federal income tax treatment discussed above. Prospective investors should consult their tax advisors regarding the application and effect of state and local income and other tax laws on an investment in our stock.

***Foreign investors may be subject to U.S. federal withholding tax and may be subject to U.S. federal income tax on distributions received from us and upon disposition of shares of our common stock.***

Subject to certain exceptions, distributions received from us will be treated as dividends of ordinary income to the extent of our current or accumulated earnings and profits. Such dividends paid to a non-U.S. stockholder ordinarily will be subject to U.S. withholding tax at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty, unless the distributions are treated as “effectively connected” with the conduct by the non-U.S. stockholder of a U.S. trade or business. Pursuant to the Foreign Investment in Real Property Tax Act of 1980 (“FIRPTA”), capital gain distributions attributable to sales or exchanges of “U.S. real property interests” (“USRPIs”), generally will be taxed to a non-U.S. stockholder as if such gain were effectively connected with a U.S. trade or business. However, a capital gain dividend will not be treated as effectively connected income if (1) the distribution is received with respect to a class of stock that is regularly traded on an established securities market located in the United States and (2) the non-U.S. stockholder does not own more than 10% of the class of our stock at any time during the one-year period ending on the date the distribution is received.



Gain recognized by a non-U.S. stockholder upon the sale or exchange of our common stock generally will not be subject to U.S. federal income taxation unless such stock constitutes a USRPI under FIRPTA. Our common stock will not constitute a USRPI so long as we are a “domestically-controlled” REIT. A REIT is “domestically controlled” if less than 50% of the REIT’s stock, by value, has been owned directly or indirectly by persons who are not qualifying U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT’s existence. We cannot assure you that we will qualify as a “domestically controlled” REIT. If we were to fail to so qualify, gain realized by foreign investors on a sale of shares of our stock would be subject to FIRPTA tax, unless the shares of our stock were traded on an established securities market and the foreign investor did not at any time during a specified testing period directly or indirectly own more than 10% of the value of our outstanding common stock.

## **Risks Related to the Ownership of Our Common Stock**

### ***The concentration of our share ownership may limit your ability to influence corporate matters.***

Our Sponsor is the ultimate parent of our Manager and may be deemed to beneficially own approximately 16.8% of our outstanding voting securities as of December 31, 2022. James Dondero is the sole member of the general partner of our Sponsor. As a result of this relationship, Mr. Dondero has shared voting and dispositive power with respect to shares beneficially owned by our Sponsor. In addition, Mr. Dondero has relationships with certain other holders of our common stock which may result in Mr. Dondero being deemed to have aggregate beneficial ownership of approximately 8,790,788 shares (or 51.5% of our common stock) and shared voting and dispositive power over approximately 8,739,833 shares (or 51.2% of our common stock) as of December 31, 2022.

The concentration of our share ownership may limit your ability to influence corporate matters. Mr. Dondero and his affiliates may exert substantial influence on actions requiring a stockholder vote, potentially in a manner that you do not support, including amendments to our charter and approval of major corporate transactions, including the decision to enter into any corporate transaction. Such concentration of voting power could have the effect of delaying, deterring, or preventing a change of control or other business combination, which could, in turn, have an adverse effect on the market price of our common stock or prevent our stockholders from realizing a premium over the then-prevailing market price for their common stock. Moreover, the interests of this concentration of ownership may not always coincide with our interests or the interests of other stockholders, and accordingly, they could cause us to enter into transactions or agreements that we would not otherwise consider.

In addition, sales of significant amounts of shares beneficially held by our Sponsor or other holders of our common stock with whom Mr. Dondero has relationships, or the prospect of these sales, could adversely affect the market price of our common stock. This concentrated stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

### ***Broad market fluctuations could negatively impact the market price of our common stock.***

The market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could affect our stock price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results, financial condition, cash flow and liquidity, or changes in investment strategy or prospects;
- changes in our operations or earnings estimates or publication of research reports about us or the real estate industry;
- loss of a major funding source or inability to obtain new favorable funding sources in the future;
- our financing strategy and leverage;
- actual or anticipated accounting problems;
- changes in market valuations of similar companies;
- increases in interest rates that lead purchasers of our shares to demand a higher yield;
- adverse market reaction to any increased indebtedness we incur in the future;

- additions or departures of key management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community;
- the realization of any of the other risk factors presented in this annual report;
- the extent of investor interest in our securities;
- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- our underlying asset value;
- investor confidence and price and volume fluctuations in the stock and bond markets, generally;
- changes in laws, regulatory policies or tax guidelines, or interpretations thereof, particularly with respect to REITs;
- future equity issuances by us, or share resales by our stockholders, or the perception that such issuances or resales may occur;
- failure to meet income estimates;
- failure to meet and maintain REIT qualifications or exclusion from Investment Company Act regulations or listing on the NYSE; and
- general market and economic conditions.

In the past, class-action litigation has often been instituted against companies following periods of volatility in the price of their common stock. This type of litigation could result in substantial costs and divert our management's attention and resources, which could have an adverse effect on our financial condition, results of operations, cash flow and trading price of our common stock.

***The form, timing and/or amount of dividend distributions on our common stock in future periods may vary and be impacted by economic and other considerations.***

The form, timing and/or amount of dividend distributions on our common stock will be declared at the discretion of our Board and will depend on actual cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other factors as our Board may consider relevant. Our Board may modify our dividend policy from time to time.

***We may be unable to make distributions on our common stock at expected levels, which could result in a decrease in the market price of our common stock.***

If sufficient cash is not available for distribution from our operations, we may have to fund distributions on our common stock from working capital, borrow to provide funds for such distributions, reduce the amount of such distributions, or issue stock dividends. To the extent we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been. If cash available for distribution generated by our assets is less than we expect, our inability to make the expected distributions could result in a decrease in the market price of our common stock.

All distributions on our common stock will be made at the discretion of our Board and will be based upon, among other factors, our historical and projected results of operations, financial condition, cash flows and liquidity, maintenance of our REIT qualification and other tax considerations, and other expense obligations, debt covenants, contractual prohibitions or other limitations and applicable law and such other matters as our Board may deem relevant from time to time. We may not be able to make distributions in the future, and our inability to make distributions, or to make distributions at expected levels, could result in a decrease in the market price of our common stock.

***Future issuances of debt securities and equity securities may negatively affect the market price of shares of our common stock and, in the case of equity securities, may be dilutive to owners of our common stock and could reduce the overall value of an investment in our common stock.***

In the future, we may issue debt or equity securities or incur other financial obligations, including stock dividends and shares that may be issued in exchange for common stock. Upon liquidation, holders of our debt securities and other loans and preferred stock will receive a distribution of our available assets before common stockholders. We are not required to offer any such additional debt or equity securities to stockholders on a preemptive basis. Therefore, additional common stock issuances, directly or through convertible or exchangeable securities (including common stock and convertible preferred stock), warrants or options, will dilute the holdings of our existing common stockholders and such issuances or the perception of such issuances may reduce the market price of shares of our common stock. Any convertible preferred stock would have, and any series or class of our preferred stock would likely have, a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to common stockholders.

Holders of shares of our common stock do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue 600,000,000 shares of capital stock, of which 500,000,000 shares are shares of common stock and 100,000,000 shares are shares of preferred stock, of which 11,300,000 shares have been classified as our Series A Preferred Stock. Our Board may increase the number of authorized shares of capital stock without stockholder approval. In the future, our Board may elect to (1) sell additional shares in future public offerings; (2) issue equity interests in private offerings; (3) issue shares of our common stock under a long-term incentive plan to our non-employee directors or to employees of our Manager or its affiliates; (4) issue shares to our Manager, its successors or assigns, in payment of an outstanding fee obligation or as consideration in a related-party transaction; or (5) issue shares of our common stock in connection with a redemption of OP Units. To the extent we issue additional equity interests in the future, the percentage ownership interest held by holders of shares of our common stock will be diluted. Further, depending upon the terms of such transactions, most notably the offering price per share, holders of shares of our common stock may also experience a dilution in the book value of their investment in us.

***Common stock eligible for future sale may have adverse effects on our share price.***

We cannot predict the effect, if any, of future sales of our common stock, or the availability of shares for future sales, on the market price of our common stock.

Sales of substantial amounts of common stock or the perception that such sales could occur may adversely affect the prevailing market price for our common stock.

We may issue additional shares in future public offerings or private placements to make new investments or for other purposes. We are not required to offer any such shares to stockholders on a preemptive basis. Therefore, it may not be possible for stockholders to participate in such future share issuances, which may dilute such stockholders' interests in us.

***The rights of our common stockholders are limited by and subordinate to the rights of the holders of Series A Preferred Stock and these rights may have a negative effect on the value of shares of our common stock.***

The holders of shares of our Series A Preferred Stock have rights and preferences generally senior to those of the holders of our common stock. The existence of these senior rights and preferences may have a negative effect on the value of shares of our common stock. These rights are more fully set forth in the articles supplementary setting forth the terms of the Series A Preferred Stock, and include, but are not limited to: (i) the right to receive a liquidation preference, prior to any distribution of our assets to the holders of our common stock; and (ii) the right to convert into shares of our common stock upon the occurrence of a Change of Control (as defined in the articles supplementary setting forth the terms of the Series A Preferred Stock), which may be adjusted as set forth therein. In addition, the Series A Preferred Stock rank senior to our common stock with respect to priority of such dividend payments, which may limit our ability to make distributions to holders of our common stock.

## **Risks Related to the Ownership of the Series A Preferred Stock**

***Holders of Series A Preferred Stock have extremely limited voting rights.***

Holders of Series A Preferred Stock have limited voting rights. Our shares of common stock are the only class of our securities that carry full voting rights. Voting rights for holders of Series A Preferred Stock exist primarily with respect to the ability to elect, together with holders of our capital stock having similar voting rights, two additional directors to our Board in the event that six quarterly dividends (whether or not consecutive) payable on the Series A Preferred Stock are in arrears, and with respect to voting on amendments to our charter or articles supplementary relating to the Series A Preferred Stock

that materially and adversely affect the rights of the holders of Series A Preferred Stock or create additional classes or series of our capital stock expressly designated as ranking senior to the Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up. Other than the limited circumstances described in the articles supplementary setting forth the terms of the Series A Preferred Stock, holders of Series A Preferred Stock do not have any voting rights.

***The market price and trading volume of the Series A Preferred Stock may fluctuate significantly and be volatile due to numerous circumstances beyond our control.***

The Series A Preferred Stock is listed on the NYSE, but there can be no assurance that an active trading market will be maintained on the NYSE. Further, the Series A Preferred Stock may trade at prices lower than the public offering price, and the market price of the Series A Preferred Stock depends on many factors, including, but not limited to:

- prevailing interest rates;
- the market for similar securities;
- general economic and financial market conditions;
- our issuance, as well as the issuance by our subsidiaries, of additional preferred equity or debt securities; and
- our financial condition, cash flows, liquidity, results of operations, funds from operations and prospects.

The trading prices of common and preferred equity securities issued by REITs and other real estate companies historically have been affected by changes in interest rates. One of the factors that may influence the market price of the Series A Preferred Stock is the annual yield from distributions on the Series A Preferred Stock as compared to yields on other financial instruments. An increase in interest rates may lead prospective purchasers of the Series A Preferred Stock to demand a higher annual yield, which could reduce the market price of the Series A Preferred Stock.

Future offerings of debt securities or shares of our capital stock, including future offerings of traded or non-traded preferred stock, expressly designated as ranking senior to the Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up may adversely affect the market price of the Series A Preferred Stock.

***Our cash available for distribution may not be sufficient to pay dividends on the Series A Preferred Stock at expected levels, and we cannot assure you of our ability to pay dividends in the future. We may use borrowed funds or funds from other sources to pay dividends, which may adversely impact our operations.***

We intend to pay regular quarterly dividends to our preferred stockholders. Distributions declared by us will be authorized by our Board in its sole discretion out of assets legally available for distribution and will depend upon a number of factors, including our earnings, our financial condition, the requirements for qualification as a REIT, restrictions under applicable law, our need to comply with the terms of our existing financing arrangements, the capital requirements of the Company and other factors as our Board may deem relevant from time to time. We may have to fund distributions from working capital, borrow to provide funds for such distributions, use proceeds of future offerings or sell assets to the extent distributions exceed earnings or cash flows from operations. Funding distributions from working capital would restrict our operations. If we are required to sell assets to fund dividends, such asset sales may occur at a time or in a manner that is not consistent with our disposition strategy. If we borrow to fund dividends, our leverage ratios and future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been. We may not be able to pay dividends in the future. In addition, some of our distributions may be considered a return of capital for income tax purposes. If we decide to make distributions in excess of our current and accumulated earnings and profits, such distributions would generally be considered a return of capital for U.S. federal income tax purposes to the extent of the holder's adjusted tax basis in their shares. A return of capital is not taxable, but it has the effect of reducing the holder's adjusted tax basis in its investment. If distributions exceed the adjusted tax basis of a holder's shares, they will be treated as gain from the sale or exchange of such stock.

***Holders of Series A Preferred Stock may not be permitted to exercise conversion rights upon a change of control. If exercisable, the change of control conversion feature of the Series A Preferred Stock may not adequately compensate such holders, and the change of control conversion and redemption features of the Series A Preferred Stock may make it more difficult for a party to take over our company or discourage a party from taking over our company.***

Beginning on July 24, 2021 upon the occurrence of a Change of Control, holders of Series A Preferred Stock have the right to convert some or all of their Series A Preferred Stock into our common stock (or equivalent value of alternative consideration). Notwithstanding that we generally may not redeem the Series A Preferred Stock prior to July 24, 2025, we have a special optional redemption right to redeem the Series A Preferred Stock in the event of a Change of Control, and holders of Series A Preferred Stock will not have the right to convert any shares that we have elected to redeem prior to the Change of Control Conversion Date (as defined in the articles supplementary setting forth the terms of the Series A Preferred Stock). Upon such a conversion, the holders will be limited to a maximum number of shares of our common stock equal to the Share Cap (as defined in the articles supplementary setting forth the terms of the Series A Preferred Stock) multiplied by the number of Series A Preferred Stock converted. If the Common Stock Price (as defined in the articles supplementary setting forth the terms of the Series A Preferred Stock) is less than \$7.58 (which is approximately 50% of the per-share closing sale price of our common stock on July 17, 2020), subject to adjustment, each holder will receive a maximum of 3.2982 shares of our common stock per share of Series A Preferred Stock, which may result in a holder receiving value that is less than the liquidation preference of the Series A Preferred Stock. In addition, those features of the Series A Preferred Stock may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change of control of our company under circumstances that otherwise could provide the holders of our common stock and Series A Preferred Stock with the opportunity to realize a premium over the then-current market price or that stockholders may otherwise believe is in their best interest.

***The Series A Preferred Stock is subordinate to our existing and future debt, and such interests could be diluted by the issuance of additional shares of preferred stock and by other transactions.***

The Series A Preferred Stock ranks junior to all of our existing and future indebtedness, any classes and series of our capital stock expressly designated as ranking senior to the Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up, and other non-equity claims on us and our assets available to satisfy claims against us, including claims in bankruptcy, liquidation or similar proceedings. Our charter currently authorizes the issuance of up to 100,000,000 shares of preferred stock in one or more classes or series, 11,300,000 of which have been classified as Series A Preferred Stock. Subject to limitations prescribed by Maryland law and our charter, our Board is authorized to issue, from our authorized but unissued shares of capital stock, preferred stock in such classes or series as our Board may determine and to establish from time to time the number of shares of preferred stock to be included in any such class or series. The issuance of additional shares of Series A Preferred Stock or additional shares of our capital stock ranking on parity with the Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up, would dilute the interests of the holders of Series A Preferred Stock, and the issuance of shares of any class or series of our capital stock expressly designated as ranking senior to the Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up or the incurrence of additional indebtedness could affect our ability to pay dividends on, redeem or pay the liquidation preference on the Series A Preferred Stock. Other than the conversion right afforded to holders of Series A Preferred Stock that may become exercisable in connection with certain changes of control as described in the articles supplementary setting forth the terms of the Series A Preferred Stock, none of the provisions relating to the Series A Preferred Stock contain any terms relating to or limiting our indebtedness or affording the holders of Series A Preferred Stock protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all our assets, that might adversely affect the holders of Series A Preferred Stock, so long as the rights of the holders of Series A Preferred Stock are not materially and adversely affected.

***The Series A Preferred Stock has not been rated.***

We have not sought to obtain a rating for the Series A Preferred Stock. No assurance can be given, however, that one or more rating agencies might not independently determine to issue such a rating or that such a rating, if issued, would not adversely affect the market price of the Series A Preferred Stock. In addition, we may elect in the future to obtain a rating of the Series A Preferred Stock, which could adversely impact the market price of the Series A Preferred Stock. Ratings only reflect the views of the rating agency or agencies issuing the ratings and such ratings could be revised downward or withdrawn entirely at the discretion of the issuing rating agency if in its judgment circumstances so warrant. Any such downward revision or withdrawal of a rating could have an adverse effect on the market price of the Series A Preferred Stock.



***The 5.75% Notes, OP Notes and future offerings of debt securities or shares of our capital stock expressly designated as ranking senior to our Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up may adversely affect the market price of our Series A Preferred Stock.***

The indenture governing the 5.75% Notes and the note purchase agreements governing the OP Notes restrict our operating flexibility and if we decide to issue additional debt securities or shares of our capital stock, including traded or non-traded preferred stock, expressly designated as ranking senior to the Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up in the future, it is possible that those securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable debt securities that we issue in the future may have rights, preferences and privileges more favorable than those of the Series A Preferred Stock and may result in dilution to owners of the Series A Preferred Stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt securities or shares of our capital stock expressly designated as ranking senior to the Series A Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of the Series A Preferred Stock will bear the risk of our future offerings reducing the market price of the Series A Preferred Stock and diluting the value of their share holdings in us.

## **General Risks**

***We are highly dependent on information technology and security breaches or systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our securities and our ability to pay dividends.***

Our business is highly dependent on information technology. In the ordinary course of our business, we may store sensitive data, including our proprietary business information and that of our business partners, on our networks. The secure maintenance and transmission of this information is critical to our operations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disrupt our operations, disrupt our trading activities, or damage our reputation, which could have a material adverse effect on our financial results and negatively affect the market price of our securities and our ability to pay dividends to stockholders. In addition, although our Manager maintains insurance coverage that may cover certain aspects of our cyber and information security risks, such insurance coverage may be insufficient to cover all losses, such as litigation costs or financial losses that exceed policy limits or are not covered under any of our Manager's current insurance policies.

The resources required to protect our information technology and infrastructure, and to comply with the laws and regulations related to data and privacy protection, are subject to uncertainty. Even in circumstances where we are able to successfully protect such technology and infrastructure from attacks, we may incur significant expenses in connection with our responses to such attacks. In addition, recent well-publicized security breaches have led to enhanced government and regulatory scrutiny of the measures taken by companies to protect against cyber-security attacks, and may in the future result in heightened cyber-security requirements and/or additional regulatory oversight. As cyber-security threats and government and regulatory oversight of associated risks continue to evolve, we may be required to expend additional resources to enhance or expand upon the security measures we currently maintain. Any such actions may adversely impact our results of operations and financial condition.

Furthermore, if some of our or our Manager's employees are required to work remotely in the future due to the COVID-19 pandemic or other pandemics or infectious diseases, or if we or our Manager allow permanent or significant remote work by any of our or its employees, there may be an increased risk of disruption to our operations because they may be utilizing residential networks and infrastructure which may not be as secure as in our office environment.

***The current COVID-19 pandemic or the future outbreak of other highly infectious or contagious diseases could materially and adversely impact or disrupt our financial condition, results of operations, cash flows and performance.***

The COVID-19 pandemic has had, and other pandemics in the future could have, repercussions across regional and global economies and financial markets. The outbreak of COVID-19 has significantly adversely impacted global economic activity and has contributed to significant volatility and negative pressure in financial markets. The global impact of the outbreak evolved rapidly and continues to evolve. Additionally, the emergence of new variants of COVID-19 are unpredictable and current vaccines and treatments may not be effective against new variants.



As a result, the COVID-19 pandemic negatively impacted, and the COVID-19 pandemic or other pandemics or infectious diseases in the future could negatively impact, almost every industry directly or indirectly, which may adversely impact our performance or the ability of underlying real estate collateral relating to our investments, increase the default risk applicable to borrowers and making it relatively more difficult for us to generate attractive risk adjusted returns.

The COVID-19 pandemic, and other future pandemics, could also materially and adversely impact or disrupt our financial condition, results of operations, cash flows and performance due to, among other factors:

- reduced economic activity may cause certain borrowers underlying our real estate related assets and senior loans to become delinquent or default on their loans, or seek to defer payment on, or refinance, their loans;
- reduced economic activity could result in a prolonged recession, which could negatively impact the value of commercial and residential real estate, which further negatively impacts the value of our investments, potentially materially;
- difficulty accessing debt and equity capital on attractive terms, or at all, impacts to our credit ratings, and a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may affect our access to capital necessary to fund business operations or address maturing liabilities on a timely basis, or at all;
- the financial impact of the COVID-19 or a future pandemic could negatively impact our future compliance with financial covenants in our debt obligations and result in a default and potentially an acceleration of indebtedness;
- uncertainties created by the COVID-19 or a future pandemic could make it difficult to estimate provisions for loan losses;
- a general decline in business activity and demand for mortgage financing, servicing and other real estate and real estate related transactions, which could adversely affect our ability to make new investments or to redeploy the proceeds from repayments of our existing investments;
- the potential negative impact on the health of the employees of our Manager, particularly if a significant number of them are impacted, could result in a deterioration in our ability to ensure business continuity during this disruption; and
- the timing of the development and distribution of effective treatments for COVID-19 and future pandemics.

We are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business.

The extent to which COVID-19 continues to impact our business will depend on future developments, which are highly uncertain and cannot be predicted. The fluidity of this situation precludes any prediction as to the full adverse impact of the COVID-19 pandemic. Nevertheless, the COVID-19 pandemic presents material uncertainty and risk with respect to our financial condition, results of operations, cash flows and performance. Moreover, many risk factors set forth in this annual report should be interpreted as heightened risks as a result of the impact of the COVID-19 pandemic.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

The Company owns the Hudson Montford, which is a 204-unit multifamily property in Charlotte, North Carolina. The Company's ownership is subject to mortgage debt with an outstanding principal balance of approximately \$32.5 million as of December 31, 2022. The Company owns the Hudson Montford indirectly through wholly owned subsidiaries.

The Company consolidated ownership of the Elysian at Hughes Center, which is a 368-unit multifamily property in Las Vegas, Nevada, as of December 31, 2022. The Company's ownership is subject to mortgage debt with an outstanding principal balance of approximately \$89.6 million as of December 31, 2022.

For additional information regarding these properties, see Note 8 to our consolidated financial statements.

**Item 3. Legal Proceedings**

From time to time, we are party to legal proceedings that arise in the ordinary course of our business. Management is not aware of any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on our results of operations or financial condition, nor are we aware of any such legal proceedings contemplated by government agencies.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Stockholder Information

On March 31, 2023, we had 17,471,218 shares of common stock outstanding held by a total of seven record holders. The number of record holders is based on the records of American Stock Transfer & Trust Company, LLC, who serves as our transfer agent. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one record holder.

#### Market Information

Our common stock trades on the NYSE under the ticker symbol "NREF."

#### Item 6. [Reserved]

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following is a discussion and analysis of our financial condition and results of operations. The following should be read in conjunction with our financial statements and accompanying notes. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those projected, forecasted, or expected in these forward-looking statements as a result of various factors, including, but not limited to, those discussed below and elsewhere in this annual report. See "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors" in this annual report. Our management believes the assumptions underlying the Company's financial statements and accompanying notes are reasonable. However, the Company's financial statements and accompanying notes may not be an indication of our financial condition and results of operations in the future.*

#### Overview

We are a commercial mortgage REIT incorporated in Maryland on June 7, 2019. Our strategy is to originate, structure and invest in first-lien mortgage loans, mezzanine loans, preferred equity, convertible notes, multifamily properties and common stock investments, as well as multifamily CMBS securitizations, MSCR Notes and mortgage-backed securities, or our target assets. We primarily focus on investments in real estate sectors where our senior management team has operating expertise, including in the multifamily, SFR, self-storage, life science, hospitality and office sectors predominantly in the top 50 MSAs. In addition, we target lending or investing in properties that are stabilized or have a light-transitional business plan.

Our investment objective is to generate attractive, risk-adjusted returns for stockholders over the long term. We seek to employ a flexible and relative-value focused investment strategy and expect to re-allocate capital periodically among our target investment classes. We believe this flexibility will enable us to efficiently manage risk and deliver attractive risk-adjusted returns under a variety of market conditions and economic cycles. For highlights of our acquisition, financing and other activity during 2022, see "Item 1. Business—2022 Highlights."

We are externally managed by our Manager, a subsidiary of our Sponsor, an SEC-registered investment advisor, which has extensive real estate experience, having completed as of December 31, 2022 approximately \$18.4 billion of gross real estate transactions since the beginning of 2012. In addition, our Sponsor, together with its affiliates, including NexBank, is one of the most experienced global alternative credit managers managing approximately \$19.8 billion of loans and debt or credit related investments as of December 31, 2022 and has managed credit investments for over 25 years. We believe our relationship with our Sponsor benefits us by providing access to resources including research capabilities, an extensive relationship network, other proprietary information, scalability, and a vast wealth of knowledge of information on real estate in our target assets and sectors.

We elected to be treated as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2020. We also intend to operate our business in a manner that will permit us to maintain one or more exclusions or exemptions from registration under the Investment Company Act.

On October 15, 2021, the Bankruptcy Trust Lawsuit was filed by a litigation subtrust formed in connection with the Highland Bankruptcy against various persons and entities, including our Sponsor and James Dondero. In addition, on February 8, 2023, the UBS Lawsuit was filed against Mr. Dondero and a number of other persons and entities. Neither the

Bankruptcy Trust Lawsuit nor the UBS Lawsuit include claims related to our business or our assets or operations. Our Sponsor and Mr. Dondero have informed us they believe the Bankruptcy Trust Lawsuit has no merit, and Mr. Dondero has informed us he believes the UBS Lawsuit has no merit; we have been advised that the defendants named in each of the lawsuits intend to vigorously defend against the claims. We do not expect the Bankruptcy Trust Lawsuit or the UBS Lawsuit will have a material effect on our business, results of operations or financial condition.

## Components of Our Revenues and Expenses

### *Net Interest Income for the Years Ended December 31, 2022, 2021 and 2020*

*Interest income.* Our earnings are primarily attributable to the interest income from mortgage loans, mezzanine loan and preferred equity investments. Loan premium/discount amortization and prepayment penalties are also included as components of interest income.

*Interest expense.* Interest expense represents interest accrued on our various financing obligations used to fund our investments and is shown as a deduction to arrive at net interest income.

### *The year ended December 31, 2022 as compared to the year ended December 31, 2021*

The following table presents the components of net interest income for the years ended December 31, 2022 and 2021 (dollars in thousands):

	For the Year Ended December 31,							
	2022			2021				
	Interest income/ (expense)	Average Balance (1)	Yield (2)	Interest income/ (expense)	Average Balance (1)	Yield (2)	\$ Change	% Change
Interest income								
SFR Loans, held-for-investment.....	\$ 43,946	\$ 746,111	5.89 %	\$ 37,652	\$ 890,009	4.23 %	\$ 6,294	16.7 %
Mezzanine loans, held-for-investment .....	15,464	157,789	9.80 %	11,754	129,968	8.81 %	3,710	31.6 %
Preferred equity, held-for-investment .....	9,263	102,471	9.04 %	2,586	27,711	9.04 %	11,405	441.0 %
Convertible bond, held-for-investment .....	2,545	47,821	5.32 %	26	224	9.33 %	2,519	9688.5 %
CMBS structured pass through certificates, at fair value .....	4,682	66,442	7.05 %	3,453	55,225	11.61 %	1,229	35.6 %
Bridge loan .....	346	6,787	5.10 %	356	4,039	6.25 %	(10)	(2.8)%
MSCR notes.....	590	4,385	13.46 %	—	—	N/A	590	N/A
Mortgage backed securities .....	1,152	11,025	10.45 %	—	—	N/A	1,152	N/A
Total interest income.....	\$ 77,988	\$ 1,142,830	6.82 %	\$ 55,827	\$ 1,107,176	6.72 %	\$ 26,889	48.2 %
Interest expense								
Repurchase agreements	(11,280)	(147,850)	7.63 %	(4,294)	(147,850)	2.90 %	(6,986)	162.7 %
Long-term seller financing .....	(15,817)	(822,820)	1.92 %	(18,991)	(822,820)	2.31 %	3,174	(16.7)%
Bridge financing .....	—	—	— %	(101)	(55)	183.64 %	101	(100.0)%
Unsecured Notes .....	(13,158)	(201,697)	6.52 %	(6,386)	(91,733)	6.96 %	(6,772)	106.0 %
Total interest expense..	\$ (40,255)	\$ (1,172,367)	3.43 %	\$ (29,772)	\$ (1,062,458)	2.80 %	\$ (10,483)	35.2 %
Net interest income (3)..	\$ 37,733			\$ 26,055			\$ 16,406	63.0 %

- (1) Average balances for the SFR Loans, the mezzanine loan and preferred equity are calculated based upon carrying values.
- (2) Yield calculated on an annualized basis.
- (3) Net interest income is calculated as the difference between total interest income and total interest expense.

***The year ended December 31, 2021 as compared to the year ended December 31, 2020***

The following table presents the components of net interest income for the years ended December 31, 2021 and 2020 (dollars in thousands):

	For the Year Ended December 31,							
	2021			2020				
	Interest income/ (expense)	Average Balance (1)	Yield (2)	Interest income/ (expense)	Average Balance (1)	Yield (2)	\$ Change	% Change
Interest income								
SFR Loans, held-for-investment.....	\$ 37,652	\$ 890,009	4.23 %	\$ 32,797	\$ 927,479	3.85 %	\$ 4,855	14.8 %
Mezzanine loans, held-for-investment .....	11,754	129,968	8.81 %	2,136	28,381	8.20 %	9,618	450.3 %
Preferred equity, held-for-investment .....	2,586	27,711	9.04 %	2,829	24,088	12.80 %	(243)	(8.6)%
Convertible bond, held-for-investment .....	26	224	9.33 %	—	—	N/A	26	N/A
CMBS structured pass through certificates, at fair value .....	3,453	55,225	11.61 %	1,216	23,466	7.27 %	2,237	184.0 %
Bridge loan .....	356	4,039	6.25 %	—	—	N/A	356	N/A
MSCR notes.....	—	—	N/A	—	—	N/A	—	N/A
Mortgage backed securities .....	—	—	N/A	—	—	N/A	—	N/A
Total interest income.....	\$ 55,827	\$ 1,107,176	6.72 %	\$ 38,978	\$ 1,003,414	4.23 %	\$ 16,849	43.2 %
Interest expense								
Repurchase agreements	(4,294)	(147,850)	2.90 %	(2,082)	(101,551)	2.23 %	(2,212)	106.2 %
Long-term seller financing .....	(18,991)	(822,820)	2.31 %	(18,596)	(786,913)	2.57 %	(395)	2.1 %
Bridge financing .....	(101)	(55)	183.64 %	—	—	N/A	(101)	N/A
Unsecured Notes .....	(6,386)	(91,733)	6.96 %	(634)	(36,500)	8.23 %	(5,752)	907.3 %
Total interest expense..	\$ (29,772)	\$ (1,062,458)	2.80 %	\$ (21,312)	\$ (924,964)	2.51 %	\$ (8,460)	39.7 %
Net interest income (3).. <u></u>	<u>\$ 26,055</u>			<u>\$ 17,666</u>			<u>\$ 8,389</u>	<u>47.5 %</u>

(1) Average balances for the SFR Loans, the mezzanine loan and preferred equity are calculated based upon carrying values.

(2) Yield calculated on an annualized basis.

(3) Net interest income is calculated as the difference between total interest income and total interest expense.

***Other Income (Loss)***

*Change in net assets related to consolidated CMBS variable interest entities.* Includes unrealized gain (loss) based on changes in the fair value of the assets and liabilities of the CMBS trusts and net interest earned on the consolidated CMBS trusts. See Note 4 to our consolidated financial statements for additional information.

*Change in unrealized gain (loss) on CMBS structured pass-through certificates.* Includes unrealized gain (loss) based on changes in the fair value of the CMBS I/O Strips. See Note 6 to our consolidated financial statements for additional information.

*Change in unrealized gain on common stock investments.* Includes unrealized gain (loss) based on changes in the fair value of our common stock investments in NSP and the Private REIT. See Note 5 to our consolidated financial statements for additional information.

*Change in unrealized gain (loss) on MSCR notes.* Includes unrealized gain (loss) based on changes in the fair value of our MSCR Notes. See Note 6 to our consolidated financial statements for additional information.

*Change in unrealized gain on mortgage-backed securities.* Includes unrealized gain (loss) based on changes in the fair value of our mortgage backed securities. See Note 6 to our consolidated financial statements for additional information.

*Loan loss benefit (provision).* Loan loss benefit (provision) represents the change in our allowance for loan losses. See Note 2 to our consolidated financial statements for additional information.

*Realized losses.* Realized losses include the excess, or deficiency, of net proceeds received, less the carrying value of such investments, as realized losses. The Company reverses cumulative unrealized gains or losses previously reported in its Consolidated Statements of Operations with respect to the investment sold at the time of the sale.

*Revenues from consolidated real estate owned (Note 8).* Reflects the total revenues for our multifamily properties. Revenues include rental income and other income of the multifamily properties.

*Other income.* Includes placement fees, exit fees and other miscellaneous income items.

### ***Operating Expenses***

*G&A expenses.* G&A expenses include, but are not limited to, audit fees, legal fees, listing fees, Board fees, equity-based and other compensation expenses, investor-relations costs and payments of reimbursements to our Manager. The Manager will be reimbursed for expenses it incurs on behalf of the Company. However, our Manager is responsible, and we will not reimburse our Manager or its affiliates, for the salaries or benefits to be paid to personnel of our Manager or its affiliates who serve as our officers, except that 50% of the salary of our VP of Finance is allocated to us and we may grant equity awards to our officers under the NexPoint Real Estate Finance, Inc. 2020 Long Term Incentive Plan (the “2020 LTIP”). Direct payment of operating expenses by us, which includes compensation expense relating to equity awards granted under the 2020 LTIP, together with reimbursement of operating expenses to our Manager, plus the Annual Fee, may not exceed 2.5% of equity book value determined in accordance with GAAP, for any calendar year or portion thereof, provided, however, that this limitation will not apply to Offering Expenses, legal, accounting, financial, due diligence and other service fees incurred in connection with extraordinary litigation and mergers and acquisitions and other events outside the ordinary course of our business or any out-of-pocket acquisition or due diligence expenses incurred in connection with the acquisition or disposition of certain real estate related investments. To the extent total corporate G&A expenses would otherwise exceed 2.5% of equity book value, our Manager will waive all or a portion of its Annual Fee to keep our total corporate G&A expenses at or below 2.5% of equity book value.

*Loan servicing fees.* We pay various service providers fees for loan servicing of our SFR Loans, mezzanine loans and consolidated CMBS trusts. We classify the expenses related to the administration of the SFR Loans and mezzanine loans as servicing fees while the fees associated with the CMBS trusts are included as a component of the change in net assets related to consolidated CMBS variable interest entities (“VIEs”).

*Management fees.* Management fees include fees paid to our Manager pursuant to the Management Agreement.

*Expenses from consolidated real estate owned (Note 8).* Reflects the total expenses for our multifamily properties. Expenses include interest, real estate taxes and insurance, operating, general and administrative, management fees, depreciation and amortization, rate cap (income) expense, and debt service bridge expenses of the multifamily properties.



## Results of Operations for the Years Ended December 31, 2022, 2021, and 2020

### The year ended December 31, 2022 as compared to the year ended December 31, 2021

The following table sets forth a summary of our operating results for the years ended December 31, 2022 and 2021 (in thousands):

	For the Year Ended December 31,		\$ Change	% Change
	2022	2021		
Net interest income .....	\$ 37,733	\$ 26,055	\$ 11,678	44.8 %
Other income (loss) .....	2,661	71,263	(68,602)	(96.3)%
Operating expenses .....	(26,180)	(13,846)	(12,334)	89.1 %
Net income .....	14,214	83,472	(69,258)	(83.0)%
Net (income) attributable to preferred shareholders .....	(3,512)	(3,508)	(4)	0.1 %
Net (income) attributable to redeemable noncontrolling interests .....	(4,969)	(40,387)	35,418	(87.7)%
Net (income) loss attributable to redeemable noncontrolling interests in subsidiaries .....	(2,499)	—	(2,499)	N/A
Net income attributable to common stockholders .....	\$ 3,234	\$ 39,577	\$ (36,343)	(91.8)%

The change in our net income for the year ended December 31, 2022 as compared to the net income for the year ended December 31, 2021 primarily relates to an increase in operating expenses and a decrease in other income including changes in net assets related to consolidated CMBS VIEs partially offset by increases in net interest income. Our net income attributable to common stockholders for the year ended December 31, 2022 was approximately \$3.2 million. We earned approximately \$37.7 million in net interest income, generated income of \$2.7 million in other income, incurred operating expenses of \$26.2 million, allocated \$3.5 million of income to preferred stockholders, allocated \$5.0 million of income to redeemable noncontrolling interests and allocated \$2.5 million of income to redeemable non controlling interests in subsidiaries for the year ended December 31, 2022.

### Revenues

*Net interest income.* Net interest income was \$37.7 million for the year ended December 31, 2022 compared to \$26.1 million for the year ended December 31, 2021 which was an increase of approximately \$11.7 million. The increase between the periods is primarily due to an increase in investments compared to the prior period. Additionally, prepayment penalties related to early paydowns offset by accelerated premium amortization contribute to the increase between the periods. As of December 31, 2022 we own 83 discrete investments compared to 74 as of December 31, 2021.

*Other income (loss).* Other income (loss) was \$2.7 million for the year ended December 31, 2022 compared to \$71.3 million for the year ended December 31, 2021 which was a decrease of approximately \$68.6 million. This was primarily due to an increase in unrealized losses related to consolidated CMBS VIEs and a decrease in fair value marks between the periods.

### Expenses

*G&A expenses.* G&A expenses were \$7.2 million for the year ended December 31, 2022 compared to \$6.4 million for the year ended December 31, 2021 which was an increase of approximately \$0.8 million. The increase between the periods was primarily due to a \$1.3 million increase in stock compensation expense and a \$0.7 million increase in legal fees compared to the prior period.

*Loan servicing fees.* Loan servicing fees were \$4.4 million for the year ended December 31, 2022 compared to \$5.2 million for the year ended December 31, 2021 which was a decrease of approximately \$0.8 million. The decrease between the periods was primarily due to a decrease in SFR Loans and mezzanine loans in the portfolio compared to the prior period.

*Management fees.* Management fees were \$3.2 million for the year ended December 31, 2022 compared to \$2.3 million for the year ended December 31, 2021 which was an increase of approximately \$0.9 million. The increase between the periods was primarily due to an increase in equity as defined by the Management Agreement.

***The year ended December 31, 2021 as compared to the year ended December 31, 2020***

The following table sets forth a summary of our operating results for the years ended December 31, 2021 and 2020 (in thousands):

	<b>For the Year Ended December 31,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2021</b>	<b>2020</b>		
Net interest income .....	\$ 26,055	\$ 17,666	\$ 8,389	47.5 %
Other income (loss).....	71,263	25,752	45,511	176.7 %
Operating expenses .....	(13,846)	(9,248)	(4,598)	49.7 %
Net income.....	83,472	34,170	49,302	144.3 %
Net (income) attributable to preferred shareholders.....	(3,508)	(1,748)	(1,760)	100.7 %
Net (income) attributable to redeemable noncontrolling interests .....	(40,387)	(21,323)	(19,064)	89.4 %
Net income attributable to common stockholders.....	\$ 39,577	\$ 11,099	\$ 28,478	256.6 %

The change in our net income for the year ended December 31, 2021 as compared to the net income for the year ended December 31, 2020 primarily relates to increases in net interest income and other income including changes in net assets related to consolidated CMBS VIEs partially offset by an increase in operating expenses. Our net income attributable to common stockholders for the year ended December 31, 2021 was approximately \$39.6 million. We earned approximately \$26.1 million in net interest income, \$71.3 million in other income, incurred operating expenses of \$13.8 million, allocated \$3.5 million of income to preferred stockholders and allocated \$40.4 million of income to redeemable noncontrolling interests for the year ended December 31, 2021.

***Revenues***

*Net interest income.* Net interest income was \$26.1 million for the year ended December 31, 2021 compared to \$17.7 million for the year ended December 31, 2020 which was an increase of approximately \$8.4 million. The increase between the periods is primarily due to an increase in investments and the number of days in operation compared to the prior period. Additionally, prepayment penalties related to early paydowns offset by accelerated premium amortization contribute to the increase between the periods. As of December 31, 2021 we owned 74 discrete investments compared to 60 as of December 31, 2020.

*Other income.* Other income was \$71.3 million for the year ended December 31, 2021 compared to \$25.8 million for the year ended December 31, 2020 which was an increase of approximately \$45.5 million. This was primarily due to an increase in net assets related to consolidated CMBS VIEs and an increase in fair value marks between the periods.

***Expenses***

*G&A expenses.* G&A expenses were \$6.4 million for the year ended December 31, 2021 compared to \$3.4 million for the year ended December 31, 2020 which was an increase of approximately \$3.0 million. The increase between the periods was primarily due to a \$1.5 million increase in stock compensation expense and a \$0.8 million increase in legal fees compared to the prior period.

*Loan servicing fees.* Loan servicing fees were \$5.2 million for the year ended December 31, 2021 compared to \$4.3 million for the year ended December 31, 2020 which was an increase of approximately \$0.9 million. The increase between the periods was primarily due to an increase in loans in the portfolio and the number of days in operation compared to the prior period.

*Management fees.* Management fees were \$2.3 million for the year ended December 31, 2021 compared to \$1.6 million for the year ended December 31, 2020 which was an increase of approximately \$0.7 million. The increase between the periods was primarily due to an increase in equity as defined by the Management Agreement and the number of days in operation compared to the prior period.

## Key Financial Measures and Indicators

As a real estate finance company, we believe the key financial measures and indicators for our business are earnings per share, dividends declared, EAD, CAD and book value per share.

### *Earnings Per Share and Dividends Declared*

The following table sets forth the calculation of basic and diluted net income per share and dividends declared per share (in thousands, except per share data):

	For the Year Ended December 31,		
	2022	2021	2020
Net income (loss) attributable to redeemable noncontrolling interests...	\$ 4,969	\$ 40,387	\$ 21,323
Net income attributable to common stockholders.....	3,233	39,577	11,099
Weighted-average number of shares of common stock outstanding			
Basic.....	14,686	6,601	5,206
Diluted.....	14,686	20,366	18,648
Net income per share, basic .....	\$ 0.22	\$ 6.00	\$ 2.13
Net income per share, diluted .....	\$ 0.22	\$ 3.93	\$ 1.74
Dividends declared per share .....	\$ 2.0000	\$ 1.9000	\$ 1.4198

### *Earnings Available for Distribution and Cash Available for Distribution*

EAD is a non-GAAP financial measure. EAD has replaced our prior presentation of Core Earnings. In addition, Core Earnings results from prior reporting periods have been relabeled EAD. In line with evolving industry practices, we believe EAD more accurately reflects the principal purpose of the measure than the term Core Earnings and will serve as a useful indicator for investors in evaluating our performance and our long-term ability to pay distributions. EAD is defined as the net income (loss) attributable to our common stockholders computed in accordance with GAAP, including realized gains and losses not otherwise included in net income (loss), excluding any unrealized gains or losses or other similar non-cash items that are included in net income (loss) for the applicable reporting period, regardless of whether such items are included in other comprehensive income (loss), or in net income (loss) and adding back amortization of stock-based compensation. Net income (loss) attributable to common stockholders may also be adjusted for the effects of certain GAAP adjustments and transactions that may not be indicative of our current operations, in each case after discussions between the Manager and the independent directors of our Board and approved by a majority of the independent directors of our Board.

We use EAD to evaluate our performance which excludes the effects of certain GAAP adjustments and transactions that we believe are not indicative of our current operations and to assess our long-term ability to pay distributions. We believe providing EAD as a supplement to GAAP net income (loss) to our investors is helpful to their assessment of our performance and our long term ability to pay distributions. EAD does not represent net income or cash flows from operating activities and should not be considered as an alternative to GAAP net income, an indication of our GAAP cash flows from operating activities, a measure of our liquidity or an indication of funds available for our cash needs. Our computation of EAD may not be comparable to EAD reported by other REITs.

We also use EAD as a component of the management fee paid to our Manager. As consideration for the Manager's services, we will pay our Manager an annual management fee of 1.5% of Equity, paid monthly, in cash or shares of our common stock at the election of our Manager. "Equity" means (a) the sum of (1) total stockholders' equity immediately prior to the closing of our IPO, plus (2) the net proceeds received by us from all issuances of our equity securities in and after the IPO, plus (3) our cumulative EAD from and after the IPO to the end of the most recently completed calendar quarter, (b) less (1) any distributions to our holders of common stock from and after the IPO to the end of the most recently completed calendar quarter and (2) all amounts that we have paid to repurchase for cash the shares of our equity securities from and after the IPO to the end of the most recently completed calendar quarter. In our calculation of Equity, we will adjust our calculation of EAD to remove the compensation expense relating to awards granted under one or more of our long-term incentive plans that is added back in our calculation of EAD. Additionally, for the avoidance of doubt, Equity does not include the assets contributed to us in the Formation Transaction.

CAD is a non-GAAP financial measure. We calculate CAD by adjusting EAD by adding back amortization of premiums, depreciation and amortization of real estate investment, amortization of deferred financing costs and by removing accretion of discounts and non-cash items, such as stock dividends. We use CAD to evaluate our performance and our current ability to pay distributions. We also believe that providing CAD as a supplement to GAAP net income (loss) to our investors is helpful to their assessment of our performance and our current ability to pay distributions. CAD does not represent net income or cash flows from operating activities and should not be considered as an alternative to GAAP net income, an indication of our GAAP cash flows from operating activities, a measure of our liquidity or an indication of funds available for our cash needs. Our computation of CAD may not be comparable to CAD reported by other REITs.

The following table provides a reconciliation of EAD and CAD to GAAP net income attributable to common stockholders for the years ended December 31, 2022, 2021, and 2020 (in thousands, except per share amounts):

	For the Year Ended December 31,			% Change	% Change
	2022	2021	2020	2022 - 2021	2021 - 2020
<b>Net income attributable to common stockholders</b> .....	\$ 3,234	\$ 39,577	\$ 11,099	(91.8)%	256.6 %
<b>Adjustments</b>					
Amortization of stock-based compensation .....	3,286	2,023	548	62.4 %	269.2 %
Unrealized (gains) or losses (1) .....	33,539	(23,811)	(2,263)	(240.9)%	952.2 %
One-time non-cash item (2) .....	—	—	(1,053)	N/A	N/A
Loan loss (benefit) provision (3) .....	—	—	94	N/A	N/A
<b>EAD attributable to common stockholders</b> .....	<u>\$ 40,059</u>	<u>\$ 17,789</u>	<u>\$ 8,425</u>	<u>125.2 %</u>	<u>111.1 %</u>
<b>EAD per Diluted Weighted-Average Share</b> .....	<u>\$ 2.63</u>	<u>\$ 2.53</u>	<u>\$ 1.57</u>	<u>4.0 %</u>	<u>61.1 %</u>
<b>Adjustments</b>					
Amortization of premiums .....	\$ 16,397	\$ 5,408	\$ 2,160	203.2 %	150.4 %
Accretion of discounts .....	(10,655)	(5,587)	(1,053)	(90.7)%	430.6 %
Depreciation and amortization of real estate investment .....	2,280	—	—	N/A	N/A
Amortization of deferred financing costs .....	38	—	—	N/A	N/A
Stock dividends received .....	—	—	(538)	N/A	N/A
<b>CAD attributable to common stockholders</b> .....	<u>\$ 48,119</u>	<u>\$ 17,610</u>	<u>\$ 8,994</u>	<u>173.2 %</u>	<u>95.8 %</u>
<b>CAD per Diluted Weighted-Average Share</b> .....	<u>\$ 3.15</u>	<u>\$ 2.50</u>	<u>\$ 1.67</u>	<u>26.0 %</u>	<u>49.7 %</u>
<b>Weighted-average common shares outstanding - basic</b> .....	<u>14,686</u>	<u>6,601</u>	<u>5,206</u>	<u>122.5 %</u>	<u>26.8 %</u>
<b>Weighted-average common shares outstanding - diluted (4)</b> .....	<u>15,257</u>	<u>7,045</u>	<u>5,378</u>	<u>116.6 %</u>	<u>31.0 %</u>

(1) Unrealized gains are the net change in unrealized loss on investments held at fair value

(2) One-time non-cash item is the make-whole premium in the Jernigan Capital, Inc. ("JCAP") preferred stock investment conversion to common stock. See Note 5 to our consolidated financial statements for additional disclosures.

- (3) We have modified our calculation of EAD and CAD to exclude any add back of loan loss (benefit) provision beginning with our fiscal year 2021.
- (4) Weighted-average diluted shares outstanding does not include dilutive effect of redeemable non-controlling interests

The following table provides a reconciliation of EAD and CAD to GAAP net income including the dilutive effect of non-controlling interests for the years ended December 31, 2022, 2021, and 2020 (in thousands, except per share amounts):

	<b>For the Year Ended December 31,</b>			<b>% Change</b>	<b>% Change</b>
	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2022 - 2021</b>	<b>2021 - 2020</b>
<b>Net income attributable to common stockholders</b> .....	\$ 3,234	\$ 39,577	\$ 11,099	(91.8)%	256.6 %
<b>Net income attributable to redeemable noncontrolling interests</b> .....	4,969	40,387	21,323	(81.9)%	89.4 %
<b>Adjustments</b>					
Amortization of stock-based compensation .....	3,286	2,023	548	62.4 %	269.2 %
Unrealized (gains) or losses (1) .....	44,765	(43,503)	(3,981)	202.9 %	992.8 %
One-time non-cash item (2) .....	—	—	(2,094)	N/A	N/A
Loan loss (benefit) provision (3) .....	—	—	320	N/A	N/A
<b>EAD attributable to common stockholders</b> .....	<u>\$ 56,254</u>	<u>\$ 38,484</u>	<u>\$ 27,215</u>	<u>52.3 %</u>	<u>41.4 %</u>
<b>EAD</b>	<u>\$ 2.50</u>	<u>\$ 1.89</u>	<u>\$ 1.46</u>	<u>38.1 %</u>	<u>29.5 %</u>
<b>Adjustments</b>					
Amortization of premiums .....	\$ 20,840	\$ 15,769	\$ 8,280	32.2 %	90.4 %
Accretion of discounts .....	(13,312)	(9,196)	(3,160)	(44.8)%	191.0 %
Depreciation and amortization of real estate investment .....	2,895	—	—	N/A	N/A
Amortization of deferred financing costs .....	48	—	—	N/A	N/A
Stock dividends received .....	—	—	(1,254)	N/A	N/A
<b>CAD</b> .....	<u>\$ 66,725</u>	<u>\$ 45,057</u>	<u>\$ 31,081</u>	<u>53.3 %</u>	<u>45.0 %</u>
<b>CAD per Diluted Weighted-Average Share</b> .....	<u>\$ 2.97</u>	<u>\$ 2.21</u>	<u>\$ 1.67</u>	<u>38.9 %</u>	<u>32.3 %</u>
<b>Weighted-average common shares outstanding - basic</b> .....	<u>14,686</u>	<u>6,601</u>	<u>5,206</u>	<u>122.5 %</u>	<u>26.8 %</u>
<b>Weighted-average common shares outstanding - diluted</b> .....	<u>22,476</u>	<u>20,366</u>	<u>18,648</u>	<u>10.4 %</u>	<u>9.2 %</u>

- (1) Unrealized gains are the net change in unrealized loss on investments held at fair value
- (2) One-time non-cash item is the make-whole premium in the JCAP preferred stock investment conversion to common stock. See Note 5 to our consolidated financial statements for additional disclosures.
- (3) We have modified our calculation of EAD and CAD to exclude any add back of loan loss (benefit) provision beginning with our fiscal year 2021.



## Book Value per Share / Unit

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

	December 31, 2022	December 31, 2021
Common stockholders' equity .....	\$ 346,474	\$ 200,503
Shares of common stock outstanding at period end .....	17,080	9,164
Book value per share of common stock .....	<u>\$ 20.29</u>	<u>\$ 21.88</u>

Due to the large noncontrolling interest in the OP and formerly the Subsidiary OPs (see Note 13 to our consolidated financial statements, for more information), we believe it is useful to also look at book value on a combined basis as shown in the table below (in thousands, except per share data):

	December 31, 2022	December 31, 2021
Common stockholders' equity .....	\$ 346,474	\$ 200,503
Redeemable noncontrolling interests in the OP .....	96,501	261,423
Total equity .....	<u>\$ 442,975</u>	<u>\$ 461,926</u>
Redeemable OP Units and SubOP Units at period end .....	5,038	12,308
Shares of common stock outstanding at period end .....	17,080	9,164
Combined shares of common stock and redeemable OP Units and SubOP Units .....	<u>22,118</u>	<u>21,472</u>
Combined book value per share / unit .....	<u>\$ 20.03</u>	<u>\$ 21.51</u>

## Our Portfolio

Our portfolio consists of SFR Loans, CMBS B-Pieces, CMBS I/O Strips, mezzanine loans, preferred equity investments, common stock investments, multifamily properties, MSCR Notes and mortgage backed securities with a combined unpaid principal balance of \$2.0 billion at December 31, 2022 and assumes the CMBS Entities' assets and liabilities are not consolidated. The following table sets forth additional information relating to our portfolio as of December 31, 2022 (dollars in thousands):

	Investment (1)	Investment Date	Current Principal Amount	Net Equity (2)	Location	Property Type	Coupon	Current Yield (3)	Remaining Term (4) (years)
<b>SFR Loans</b>									
1	Senior loan .....	2/11/2020	\$ 508,700	\$ 73,291	Various	Single-family	4.65 %	4.39 %	5.67
2	Senior loan .....	2/11/2020	10,143	1,536	Various	Single-family	5.35 %	5.24 %	5.09
3	Senior loan .....	2/11/2020	5,396	675	Various	Single-family	5.33 %	5.28 %	0.58
4	Senior loan .....	2/11/2020	10,179	1,473	Various	Single-family	5.30 %	5.01 %	5.67
5	Senior loan .....	2/11/2020	5,458	787	Various	Single-family	5.24 %	4.93 %	5.76
6	Senior loan .....	2/11/2020	51,304	6,944	Various	Single-family	4.74 %	4.59 %	2.75
7	Senior loan .....	2/11/2020	9,494	1,362	Various	Single-family	6.10 %	5.70 %	5.76
8	Senior loan .....	2/11/2020	36,762	5,175	Various	Single-family	5.55 %	5.14 %	5.84
9	Senior loan .....	2/11/2020	5,760	827	Various	Single-family	5.99 %	5.59 %	5.92
10	Senior loan .....	2/11/2020	5,177	755	Various	Single-family	5.46 %	5.15 %	6.01
11	Senior loan .....	2/11/2020	8,779	1,293	Various	Single-family	5.88 %	5.55 %	6.01
12	Senior loan .....	2/11/2020	6,309	870	Various	Single-family	4.83 %	4.77 %	1.09
13	Senior loan .....	2/11/2020	7,480	1,105	Various	Single-family	5.34 %	5.07 %	6.09
14	Senior loan .....	2/11/2020	6,582	974	Various	Single-family	5.46 %	5.19 %	6.17
15	Senior loan .....	2/11/2020	10,523	1,509	Various	Single-family	4.72 %	4.60 %	3.17
<b>Total .....</b>			<b>688,046</b>	<b>98,576</b>			<b>4.81 %</b>	<b>4.55 %</b>	<b>5.36</b>
<b>CMBS B-Piece</b>									
1	CMBS B-Piece .....	2/11/2020	24,348 (5)	9,154	Various	Multifamily	8.95 %	8.96 %	3.16

2	CMBS B-Piece .....	2/11/2020	29,596 (5)	11,429	Various	Multifamily	9.80 %	9.79 %	3.90
3	CMBS B-Piece .....	4/23/2020	81,999 (5)	27,424	Various	Multifamily	3.50 %	5.39 %	7.16
4	CMBS B-Piece .....	7/30/2020	21,342 (5)	9,459	Various	Multifamily	12.80 %	12.80 %	4.48
5	CMBS B-Piece .....	8/6/2020	108,643 (5)	24,603	Various	Multifamily	0.00 %	8.22 %	7.49
6	CMBS B-Piece .....	4/20/2021	43,340 (5)	14,866	Various	Multifamily	9.29 %	9.29 %	8.16
7	CMBS B-Piece .....	6/30/2021	108,305 (5)	30,299	Various	Multifamily	0.00 %	9.13 %	4.00
8	CMBS B-Piece .....	12/9/2021	57,289 (5)	22,231	Various	Multifamily	8.29 %	8.29 %	1.82
9	CMBS B-Piece .....	5/2/2022	35,811 (5)	10,214	Various	Multifamily	4.22 %	4.55 %	15.91
10	CMBS B-Piece .....	7/28/2022	70,481 (5)	26,899	Various	Multifamily	8.29 %	8.29 %	6.57
<b>Total .....</b>			<b>581,154</b>	<b>186,578</b>			<b>4.61 %</b>	<b>8.14 %</b>	<b>6.22</b>

#### CMBS I/O Strips

1	CMBS I/O Strip .....	5/18/2020	17,590 (6)	495	Various	Multifamily	2.02 %	14.56 %	23.75
2	CMBS I/O Strip .....	8/6/2020	108,643 (6)	6,268	Various	Multifamily	2.98 %	15.98 %	7.49
3	CMBS I/O Strip .....	4/28/2021 (7)	64,768 (6)	1,409	Various	Multifamily	1.59 %	15.52 %	7.07
4	CMBS I/O Strip .....	5/27/2021	20,000 (6)	1,024	Various	Multifamily	3.39 %	15.73 %	7.40
5	CMBS I/O Strip .....	6/7/2021	4,266 (6)	127	Various	Multifamily	2.31 %	18.91 %	5.91
6	CMBS I/O Strip .....	6/11/2021 (8)	115,523 (6)	1,872	Various	Multifamily	1.19 %	13.34 %	6.40
7	CMBS I/O Strip .....	6/24/2021	26,191 (6)	435	Various	Multifamily	1.18 %	16.77 %	7.40
8	CMBS I/O Strip .....	8/10/2021	25,000 (6)	635	Various	Multifamily	1.89 %	15.87 %	7.32
9	CMBS I/O Strip .....	8/11/2021	6,942 (6)	440	Various	Multifamily	3.10 %	13.74 %	8.57
10	CMBS I/O Strip .....	8/24/2021	1,625 (6)	250	Various	Multifamily	2.61 %	14.44 %	8.07
11	CMBS I/O Strip .....	9/1/2021	34,625 (6)	3,726	Various	Multifamily	1.92 %	15.03 %	7.49
12	CMBS I/O Strip .....	9/11/2021	20,902 (6)	3,822	Various	Multifamily	2.95 %	13.70 %	8.74
<b>Total .....</b>			<b>446,075</b>	<b>20,503</b>			<b>2.04 %</b>	<b>15.01 %</b>	<b>7.83</b>

#### Mezzanine Loan

1	Mezzanine .....	6/12/2020	7,500	7,500	Houston, TX	Multifamily	11.00 %	11.00 %	0.50
2	Mezzanine .....	10/20/2020	5,470	2,267	Wilmington, DE	Multifamily	7.50 %	7.31 %	6.34
3	Mezzanine .....	10/20/2020	10,380	4,320	White Marsh, MD	Multifamily	7.42 %	7.22 %	8.50
4	Mezzanine .....	10/20/2020	14,253	5,929	Philadelphia, PA	Multifamily	7.59 %	7.38 %	6.42
5	Mezzanine .....	10/20/2020	3,700	1,531	Daytona Beach, FL	Multifamily	7.83 %	7.63 %	5.76
6	Mezzanine .....	10/20/2020	12,000	4,993	Laurel, MD	Multifamily	7.71 %	7.50 %	8.25
7	Mezzanine .....	10/20/2020	3,000	1,249	Temple Hills, MD	Multifamily	7.32 %	7.12 %	8.59
8	Mezzanine .....	10/20/2020	1,500	624	Temple Hills, MD	Multifamily	7.22 %	7.02 %	8.59
9	Mezzanine .....	10/20/2020	5,540	2,296	Lakewood, NJ	Multifamily	7.33 %	7.14 %	6.34
10	Mezzanine .....	10/20/2020	6,829	2,828	Rosedale, MD	Multifamily	7.53 %	7.34 %	6.01
11	Mezzanine .....	10/20/2020	3,620	1,507	North Aurora, IL	Multifamily	7.42 %	7.22 %	8.50
12	Mezzanine .....	10/20/2020	9,610	4,000	Cockeysville, MD	Multifamily	7.42 %	7.22 %	8.50
13	Mezzanine .....	10/20/2020	7,390	3,076	Laurel, MD	Multifamily	7.42 %	7.22 %	8.50
14	Mezzanine .....	10/20/2020	2,135	884	Tyler, TX	Multifamily	7.74 %	7.54 %	5.76
15	Mezzanine .....	10/20/2020	1,190	493	Las Vegas, NV	Multifamily	7.71 %	7.51 %	6.17
16	Mezzanine .....	10/20/2020	3,310	1,372	Atlanta, GA	Multifamily	6.91 %	6.73 %	6.50
17	Mezzanine .....	10/20/2020	2,880	1,192	Des Moines, IA	Multifamily	7.89 %	7.69 %	5.84
18	Mezzanine .....	10/20/2020	4,010	1,660	Urbandale, IA	Multifamily	7.89 %	7.69 %	5.84
19	Mezzanine .....	1/21/2021	24,844	24,644	Los Angeles, CA	Multifamily	17.00 %	17.14 %	1.06
20	Mezzanine .....	11/18/2021	12,600	12,491	Irving, TX	Multifamily	14.77 %	14.90 %	5.92
21	Mezzanine .....	12/29/2021	7,760	7,695	Rogers, AR	Multifamily	14.77 %	14.90 %	2.03
22	Mezzanine .....	6/9/2022	4,500	4,462	Rogers, AR	Multifamily	14.45 %	14.57 %	2.44
23	Mezzanine .....	7/1/2022	9,000	8,918	Medley, FL	Self-Storage	11.00 %	11.10 %	4.50
<b>Total .....</b>			<b>163,021</b>	<b>105,931</b>			<b>10.42 %</b>	<b>10.34 %</b>	<b>5.39</b>

#### Preferred Equity

1	Preferred Equity .....	5/29/2020	10,000	10,000	Houston, TX	Multifamily	11.00 %	11.00 %	7.34
2	Preferred Equity .....	9/29/2021	7,606	7,591	Holly Springs, NC	Life Science	10.00 %	10.02 %	0.75
3	Preferred Equity .....	10/26/2021	9,750	9,687	Atlanta, GA	Multifamily	11.00 %	11.07 %	1.85
4	Preferred Equity .....	1/14/2022	19,496	19,509	Vacaville, CA	Life Science	10.00 %	9.99 %	0.75
5	Preferred Equity .....	4/7/2022 (9)	4,000	3,963	Beaumont, TX	Self-Storage	13.77 %	13.90 %	7.67

6	Preferred Equity .....	6/8/2022	4,000	3,962	Temple, TX	Self-Storage	13.05 %	13.17 %	7.67
7	Preferred Equity .....	8/10/2022	8,500	8,423	Plano, TX	Multifamily	14.61 %	14.74 %	2.69
8	Preferred Equity .....	9/30/2022	9,000	8,915	Fort Worth, TX	Multifamily	13.76 %	13.89 %	2.75
9	Preferred Equity .....	10/5/2022	4,030	3,991	Kirkland, WA	Multifamily	14.52 %	14.66 %	5.01
10	Preferred Equity .....	10/19/2022	15,000	14,925	Woodbury, MN	Life Science	10.00 %	10.05 %	0.75
<b>Total.....</b>			<b>91,382</b>	<b>90,966</b>			<b>11.51 %</b>	<b>11.57 %</b>	<b>2.76</b>
<b>Common Stock</b>									
1	Common Stock.....	11/6/2020	N/A	50,380	N/A	Self-Storage	N/A	N/A	N/A
2	Common Stock.....	4/14/2022	N/A	27,884	N/A	Ground Lease	N/A	N/A	N/A
<b>Total.....</b>				<b>78,264</b>					
<b>Real Estate</b>									
1	Real Estate .....	12/31/2021 (10)	N/A	27,267	Charlotte, NC	Multifamily	N/A	N/A	N/A
2	Real Estate .....	2/1/2022 (11)	N/A	36,283	Las Vegas, NV	Multifamily	N/A	N/A	N/A
<b>Total.....</b>				<b>63,550</b>					
<b>MSCR Notes</b>									
1	MSCR Note.....	5/25/2022	4,000	2,021	Various	Multifamily	13.02 %	13.02 %	29.42
2	MSCR Note.....	5/25/2022	5,000	2,315	Various	Multifamily	10.02 %	10.02 %	29.42
3	MSCR Note.....	9/23/2022	1,500	637	Various	Multifamily	10.37 %	11.40 %	28.92
<b>Total.....</b>			<b>10,500</b>	<b>4,973</b>			<b>11.21 %</b>	<b>11.36 %</b>	<b>29.35</b>
<b>Mortgage Backed Securities</b>									
1	Mortgage Backed Securities .....	6/1/2022	10,074	3,102	Various	Single-family	4.87 %	5.08 %	2.89
2	Mortgage Backed Securities .....	6/1/2022	10,419	3,425	Various	Single-family	7.08 %	7.39 %	3.30
3	Mortgage Backed Securities .....	7/28/2022	575	261	Various	Single-family	6.23 %	6.33 %	4.80
4	Mortgage Backed Securities .....	7/28/2022	1,057	403	Various	Single-family	3.60 %	4.23 %	5.47
5	Mortgage Backed Securities .....	9/12/2022	4,473	1,789	Various	Single-family	9.29 %	9.27 %	8.07
6	Mortgage Backed Securities .....	9/29/2022	8,000	7,906	Various	Single-family	9.57 %	9.59 %	4.71
<b>Total.....</b>			<b>34,598</b>	<b>16,886</b>			<b>7.18 %</b>	<b>7.36 %</b>	<b>4.21</b>

- (1) Our total portfolio represents the current principal amount of the consolidated SFR Loans, CMBS I/O Strips, mezzanine loans, preferred equity, multifamily properties, MSCR Notes and mortgage backed securities as well as the net equity of our CMBS B-Piece investments.
- (2) Net equity represents the carrying value less borrowings collateralized by the investment.
- (3) Current yield is the annualized income earned divided by the cost basis of the investment.
- (4) The weighted-average life is weighted on current principal balance and assumes no prepayments. The maturity date for preferred equity investments represents the maturity date of the senior mortgage, as the preferred equity investments require repayment upon the sale or refinancing of the asset.
- (5) The CMBS B-Pieces are shown on an unconsolidated basis reflecting the value of our investments.
- (6) The number shown represents the notional value on which interest is calculated for the CMBS I/O Strips. CMBS I/O Strips receive no principal payments and the notional value decreases as the underlying loans are paid off.
- (7) The Company, through the Subsidiary OPs, purchased approximately \$50.0 million and \$15.0 million aggregate notional amount of the X1 interest-only tranche of the FHMS K-107 CMBS I/O Strip on April 28, 2021 and May 4, 2021, respectively.
- (8) The Company, through the Subsidiary OPs, purchased approximately \$80.0 million, \$35.0 million, \$40.0 million and \$50.0 million aggregate notional amount of the X1 interest-only tranche of the FRESB 2019-SB64 CMBS I/O Strip on June 11, 2021 and September 29, 2021, February 3, 2022 and March 18, 2022, respectively.
- (9) The Company, through the Subsidiary OPs, invested \$2.7 million and \$1.3 million in this preferred equity investment on April 7, 2022 and May 3, 2022, respectively.
- (10) Real Estate is a 204-unit multifamily property.
- (11) The Company, through the Subsidiary OPs, purchased this real estate investment for \$184.1 million on February 1, 2022, using cash on hand of \$39.5 million and debt financing of \$144.6 million. This is the Elysian at Hughes Center investment that was previously presented as a preferred equity investment but has been consolidated as of

December 31, 2022. Pursuant to an expected restructuring of the transaction subsequent to December 31, 2022, this investment is expected to be deconsolidated in 2023 and presented solely as a preferred equity investment. See Note 16 to our consolidated financial statements for additional information.

The following table details overall statistics for our portfolio as of December 31, 2022 (dollars in thousands):

	<b>Total Portfolio</b>	<b>Floating Rate Investments</b>	<b>Fixed Rate Investments</b>	<b>Common Stock Investment</b>	<b>Real Estate Investment</b>
Number of investments .....	83	22	57	2	2
Principal balance (1) .....	\$ 1,628,772	\$ 368,021	\$ 1,260,751	N/A	N/A
Carrying value.....	\$ 1,866,802	\$ 362,173	\$ 1,181,142	\$ 78,264	\$ 245,222
Weighted-average cash coupon .....	5.67 %	8.21 %	4.79 %	N/A	N/A
Weighted-average all-in yield.....	6.41 %	10.31 %	5.21 %	N/A	N/A

(1) Cost is used in lieu of principal balance for CMBS I/O Strips.

### **Liquidity and Capital Resources**

Our short-term liquidity requirements consist primarily of funds necessary to pay for our ongoing commitments to repay borrowings, maintain our investments, make distributions to our stockholders and other general business needs. Our investments generate liquidity on an ongoing basis through principal and interest payments, prepayments and dividends. We believe that our available cash, expected operating cash flows, and potential debt or equity financings will provide sufficient funds for our operations, anticipated scheduled debt service payments, potential obligations to purchase up to \$3.7 million of the Preferred Units (defined below) and dividend requirements for the twelve-month period following December 31, 2022.

Our long-term liquidity requirements consist primarily of acquiring additional investments, scheduled debt payments and distributions. We expect to meet our long-term liquidity requirements through various sources of capital, which may include future debt or equity issuances, net cash provided by operations and other secured and unsecured borrowings. Our leverage is matched in term and structure to provide stable contractual spreads which will protect us from fluctuations in market interest rates over the long-term. However, there are a number of factors that may have a material adverse effect on our ability to access these capital sources, including the state of overall equity and credit markets, our degree of leverage, borrowing restrictions imposed by lenders, general market conditions for REITs and our operating performance and liquidity. We believe that our various sources of capital, which may include future debt or equity issuances, net cash provided by operations and other secured and unsecured borrowings, will provide sufficient funds for our operations, anticipated debt service payments, potential obligations to purchase Preferred Units and dividend requirements for the long-term.

Investment	Asset Metrics			Debt Metrics			Net Spread
	Fixed/Floating Rate	Interest Rate	Maturity Date	Fixed/Floating Rate	Interest Rate	Maturity Date	
SFR Loans							
Senior loan...	Fixed	4.65%	9/1/2028	Fixed	2.24%	9/1/2028	2.41%
Senior loan...	Fixed	5.35%	2/1/2028	Fixed	3.51%	2/1/2028	1.84%
Senior loan...	Fixed	5.33%	8/1/2023	Fixed	2.48%	8/1/2023	2.85%
Senior loan...	Fixed	5.30%	9/1/2028	Fixed	2.79%	9/1/2028	2.51%
Senior loan...	Fixed	5.24%	10/1/2028	Fixed	2.64%	10/1/2028	2.60%
Senior loan...	Fixed	4.74%	10/1/2025	Fixed	2.14%	10/1/2025	2.60%
Senior loan...	Fixed	6.10%	10/1/2028	Fixed	3.30%	10/1/2028	2.80%
Senior loan...	Fixed	5.55%	11/1/2028	Fixed	2.70%	11/1/2028	2.85%
Senior loan...	Fixed	5.99%	12/1/2028	Fixed	3.14%	12/1/2028	2.85%
Senior loan...	Fixed	5.46%	1/1/2029	Fixed	2.97%	1/1/2029	2.49%
Senior loan...	Fixed	5.88%	1/1/2029	Fixed	3.14%	1/1/2029	2.74%
Senior loan...	Fixed	4.83%	2/1/2024	Fixed	2.40%	2/1/2024	2.43%
Senior loan...	Fixed	5.34%	2/1/2029	Fixed	2.98%	2/1/2029	2.36%
Senior loan...	Fixed	5.46%	3/1/2029	Fixed	2.99%	3/1/2029	2.47%
Senior loan...	Fixed	4.72%	3/1/2026	Fixed	2.45%	3/1/2026	2.27%
Mezzanine Loans							
Mezzanine...	Fixed	7.50%	5/1/2029	Fixed	0.30%	5/1/2029	7.20%
Mezzanine...	Fixed	7.42%	7/1/2031	Fixed	0.30%	7/1/2031	7.12%
Mezzanine...	Fixed	7.59%	6/1/2029	Fixed	0.30%	6/1/2029	7.29%
Mezzanine...	Fixed	7.83%	10/1/2028	Fixed	0.30%	10/1/2028	7.53%
Mezzanine...	Fixed	7.71%	4/1/2031	Fixed	0.30%	4/1/2031	7.41%
Mezzanine...	Fixed	7.32%	8/1/2031	Fixed	0.30%	8/1/2031	7.02%
Mezzanine...	Fixed	7.22%	8/1/2031	Fixed	0.30%	8/1/2031	6.92%
Mezzanine...	Fixed	7.33%	5/1/2029	Fixed	0.30%	5/1/2029	7.03%
Mezzanine...	Fixed	7.53%	7/1/2031	Fixed	0.30%	7/1/2031	7.23%
Mezzanine...	Fixed	7.42%	1/1/2029	Fixed	0.30%	1/1/2029	7.12%
Mezzanine...	Fixed	7.42%	7/1/2031	Fixed	0.30%	7/1/2031	7.12%
Mezzanine...	Fixed	7.42%	4/1/2031	Fixed	0.30%	4/1/2031	7.12%
Mezzanine...	Fixed	7.74%	10/1/2028	Fixed	0.30%	10/1/2028	7.44%
Mezzanine...	Fixed	7.71%	3/1/2029	Fixed	0.30%	3/1/2029	7.41%
Mezzanine...	Fixed	6.91%	7/1/2029	Fixed	0.30%	7/1/2029	6.61%
Mezzanine...	Fixed	7.89%	11/1/2028	Fixed	0.30%	11/1/2028	7.59%
Mezzanine...	Fixed	7.89%	11/1/2028	Fixed	0.30%	11/1/2028	7.59%

Our primary sources of liquidity and capital resources to date consist of cash generated from our operating results and the following:

#### ***Freddie Mac Credit Facilities***

Prior to the Formation Transaction, two of our subsidiaries entered into a loan and security agreement, dated July 12, 2019, with Freddie Mac (the “Credit Facility”). Under the Credit Facility, these entities borrowed approximately \$788.8 million in connection with their acquisition of senior pooled mortgage loans backed by SFR properties (the “Underlying Loans”). No additional borrowings can be made under the Credit Facility, and our obligations will be secured by the Underlying Loans. The Credit Facility was assumed by the Company as part of the Formation Transaction. As such, the remaining outstanding balance of \$788.8 million was contributed to the Company on February 11, 2020. Our borrowings under the Credit Facility will mature on July 12, 2029; however, if an Underlying Loan matures prior to July 12, 2029, we will be required to repay the portion of the Credit Facility that is allocated to that loan (see Note 9 to our consolidated financial statements for additional information). As of December 31, 2022, the outstanding balance on the Credit Facility was \$628.6 million.



## Repurchase Agreements

From time to time, we may enter into repurchase agreements to finance the acquisition of our target assets. Repurchase agreements will effectively allow us to borrow against loans and securities that we own in an amount equal to (1) the market value of such loans and/or securities multiplied by (2) the applicable advance rate. Under these agreements, we will sell our loans 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 will receive the principal and interest on the related loans and securities and pay interest to the lender under the repurchase agreement. At any point in time, the amounts and the cost of our repurchase borrowings will be based on the assets being financed. For example, higher risk assets will result in lower advance rates (i.e., levels of leverage) at higher borrowing costs. In addition, these facilities may include various financial covenants and limited recourse guarantees.

As discussed in Note 9 to our consolidated financial statements, in connection with our recent CMBS acquisitions, we, through the OP and the Subsidiary OPs, have borrowed approximately \$331.0 million under our repurchase agreements and posted approximately \$974.4 million par value of our CMBS B-Piece, CMBS I/O Strip, MSCR Notes and mortgage backed security investments as collateral. The CMBS B-Pieces, CMBS I/O Strips, MSCR Notes and mortgage backed securities held as collateral are illiquid and irreplaceable in nature. These assets are restricted solely to satisfy the interest and principal balances owed to the lender.

The table below provides additional details regarding recent borrowings under the master repurchase agreements (dollars in thousands):

	December 31, 2022									
	Facility					Collateral				
	Date issued	Outstanding face amount	Carrying value	Final stated maturity	Weighted average interest rate (1)	Weighted average life (years) (2)	Outstanding face amount	Amortized cost basis	Carrying value (3)	Weighted average life (years) (2)
<b>Master Repurchase Agreements</b>										
CMBS										
Mizuho <sup>(4)</sup>	4/15/2020	331,020	331,020	N/A (5)	5.83 %	0.20	974,440	543,919	539,736	7.0

- (1) Weighted-average interest rate using unpaid principal balances.
- (2) Weighted-average life is determined using the maximum maturity date of the corresponding loans, assuming all extension options are exercised by the borrower.
- (3) CMBS are shown at fair value on an unconsolidated basis.
- (4) On April 15, 2020, three of our subsidiaries entered into a master repurchase agreement with Mizuho. Borrowings under these repurchase agreements are collateralized by portions of the CMBS B-Pieces, CMBS I/O Strips, MSCR Notes and mortgage backed securities.
- (5) The master repurchase agreement with Mizuho does not have a stated maturity date. The transactions in place have a one-month to two-month tenor and are expected to roll accordingly.

## At-The-Market Offering

On March 31, 2021, the Company, the OP and the Manager entered into separate equity distribution agreements (the "2021 Equity Distribution Agreements") with the Sales Agents, pursuant to which the Company could issue and sell from time to time shares of the Company's common stock and Series A Preferred Stock having an aggregate sales price of up to \$100.0 million (the "2021 ATM Program"). The 2021 Equity Distribution Agreements provided for the issuance and sale of common stock or Series A Preferred Stock by the Company through a sales agent acting as a sales agent or directly to the sales agent acting as principal for its own account at a price agreed upon at the time of sale. Effective as of December 16, 2021, the Company terminated each 2021 Equity Distribution Agreement. As of the termination date, pursuant to the Equity Distribution Agreements, the Company had sold 532,694 shares of its common stock and zero shares of Series A Preferred Stock for total gross sales of \$11.3 million. For additional information about the 2021 ATM Program, see Note 11 to our consolidated financial statements.

On March 15, 2022, the Company, the OP and the Manager separately entered into the 2022 Equity Distribution Agreements with the Sales Agents, pursuant to which the Company may issue and sell from time to time shares of the Company's common stock and Series A Preferred Stock having an aggregate sales price of up to \$100.0 million in the 2022 ATM Program. The 2022 Equity Distribution Agreements provide for the issuance and sale of common stock or Series A Preferred Stock by the Company through a sales agent acting as a sales agent or directly to the sales agent acting as principal for its own account at a price agreed upon at the time of sale. As of December 31, 2022, pursuant to the 2022 Equity Distribution Agreements, the Company had sold 531,728 shares of its common stock and zero shares of Series A Preferred Stock for total gross sales of \$12.6 million. For additional information about the 2022 ATM Program, see Note 11 to our consolidated financial statements.

### ***Company Notes Offering***

On April 20, 2021, the Company issued \$75.0 million in aggregate principal amount of its 5.75% Notes at a price equal to 99.5% of par value for proceeds of approximately \$73.1 million after original issue discount and underwriting fees.

On December 20, 2021, the Company issued \$60.0 million in aggregate principal amount of its 5.75% Notes at a price equal to 102.8% par value, including accrued interest, for proceeds of approximately \$60.9 million after original issue discount and underwriting fees.

On January 25, 2022, the Company issued \$35.0 million in aggregate principal amount of its 5.75% Notes at a price equal to 100.9% par value, including accrued interest, for proceeds of approximately \$35.1 million after original issue discount and underwriting fees.

On May 20, 2022, the Company purchased \$3.0 million aggregate principal amount of its 5.75% Notes at a price equal to 96.3% par value, including accrued interest, for approximately \$2.9 million. The purchased 5.75% Notes were cancelled upon settlement.

On June 30, 2022, the Company purchased \$2.0 million aggregate principal amount of its 5.75% Notes at a price equal to 96.5% par value, including accrued interest, for approximately \$2.0 million. The purchased 5.75% Notes were cancelled upon settlement.

### ***Secondary Public Offering***

On August 18, 2021, the Company the OP and the Manager entered into an underwriting agreement (the "Underwriting Agreement") with Raymond James as representative of the several underwriters, pursuant to which the Company agreed to sell 2,000,000 firm shares at a public offering price of \$21.00 per share. The Company also granted the underwriters a 30-day option to purchase up to an additional 300,000 option shares. The firm shares were issued on August 20, 2021. On September 8, 2021, the underwriters partially exercised the option to purchase 59,700 option shares. The 59,700 option shares were issued on September 10, 2021. For additional information about this public offering, see Note 11 to our consolidated financial statements.

### ***LIBOR Transition***

Approximately 3.7% of our portfolio by unpaid principal balance as of December 31, 2022 pays interest at a variable rate that is tied to LIBOR. On March 5, 2021, the Financial Conduct Authority of the U.K. announced that all of the LIBOR settings will either cease to be provided by any administrator or no longer be representative (i) immediately after December 31, 2021, in the case of the 1-week and 2-month US dollar settings; and (ii) immediately after June 30, 2023, in the case of the remaining one-month, three-month, six-month and twelve-month US dollar settings. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee convened by the U.S. Federal Reserve Board and comprised of large U.S. financial institutions, has recommended replacing U.S. dollar LIBOR with the SOFR, an index calculated by short-term repurchase agreements backed by U.S. Treasury securities. Approximately 13.3% of our portfolio by unpaid principal balance as of December 31, 2022 pays interest at a variable rate that is tied to SOFR, and it is anticipated that future investments we make may have variable interest rates tied to SOFR. Although there have been issuances utilizing SOFR, or the Sterling Over Night Index Average, an alternative reference rate that is based on transactions, it is unknown whether these alternative rates will attain market acceptance as a replacement for LIBOR. In connection with the foregoing, we may need to renegotiate some of our agreements to determine a replacement index rate. As of December 31, 2022, the Company has not received any LIBOR transition notices under its loan agreements. Any changes to benchmark interest rates could increase our financing costs, which could impact our results of operations, cash flows and the market value of our investments and result in mismatches with the interest rate of investments that we are financing.

### ***Elysian at Hughes Center***

Subsequent to December 31, 2022, the Company expects to restructure this investment such that it does not meet the requirements for consolidation under ASC 810 – Consolidation and is expected to be deconsolidated in 2023 and presented solely as a preferred equity investment. As of December 31, 2022, the Company owned a preferred equity investment and the common equity interests in Elysian at Hughes Center, which resulted in the consolidation at year end. However, the common equity interests are expected to be transferred to an affiliate of the Manager, such affiliate which is expected to guarantee payments due to the Company in respect of its preferred equity investment if the investment is not redeemed prior to the close of the ongoing private offering of Class I Beneficial Interests in the Trust, which will continue until the maximum offering amount of \$115.3 million has been reached or, if earlier, until December 31, 2023.

### ***Elysian at Hughes Center Equity Offering***

On March 9, 2022, the Company, through a subsidiary, NexPoint Hughes DST (the “Trust”) began offering to sell (the “Hughes Offering”) up to 100% of the Class I Beneficial Interests in the Trust (the “Interests”) to accredited investors pursuant to the terms of a private placement memorandum. The Trust is the sole owner of the Elysian at Hughes Center, a multifamily apartment complex located in Las Vegas, Nevada. The property consists of 6.08 acres of land upon which two residential buildings are situated comprising 368 apartment units. From March 9, 2022 to December 31, 2022, the Company sold approximately 64.0% of the outstanding Interests, raising approximately \$67.3 million in net proceeds after selling costs and commissions. The net proceeds were used to repay the \$55 million bridge loan with the remainder being distributed to the Company. The Hughes Offering will continue until the maximum offering amount of \$115.3 million has been reached or, if earlier, until December 31, 2023.

### ***Other Potential Sources of Financing***

We may seek additional sources of liquidity from further repurchase facilities, other borrowings and future offerings of common and preferred equity and debt securities and contributions from existing holders of the OP or Subsidiary OPs. In addition, we may apply our existing cash and cash equivalents and cash flows from operations to any liquidity needs. As of December 31, 2022, our cash and cash equivalents were \$20.3 million.

### ***Cash Flows***

The following table presents selected data from our Consolidated Statements of Cash Flows for the years ended December 31, 2022, 2021, and 2020 (in thousands):

	<b>For the Year Ended December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Net cash provided by (used in) operating activities .....	\$ 65,801	\$ 49,298	\$ 32,902
Net cash provided by (used in) investing activities.....	950,578	517,878	(68,261)
Net cash provided by (used in) financing activities .....	(1,029,264)	(567,415)	68,830
Net increase (decrease) in cash, cash equivalents and restricted cash.....	(12,885)	(239)	33,471
Cash, cash equivalents and restricted cash, beginning of period .....	33,232	33,471	—
Cash, cash equivalents and restricted cash, end of period.....	<u>\$ 20,347</u>	<u>\$ 33,232</u>	<u>\$ 33,471</u>

*The year ended December 31, 2022 as compared to the year ended December 31, 2021*

***Cash flows from operating activities.*** During the year ended December 31, 2022, net cash provided by operating activities was \$65.8 million compared to net cash provided by operating activities of \$49.3 million for the year ended December 31, 2021. This increase was primarily due to the interest income generated by our investments.

***Cash flows from investing activities.*** During the year ended December 31, 2022, net cash provided by investing activities was \$950.6 million compared to net cash provided by investing activities of \$517.9 million for the year ended December 31, 2021. This increase was primarily driven by proceeds received from payments on mortgage loans held in VIEs.

***Cash flows from financing activities.*** During the year ended December 31, 2022, net cash used in financing activities was \$1.0 billion compared to net cash used in financing activities of \$567.4 million for the year ended December 31, 2021. This increase was primarily driven by distributions to bondholders of VIEs.

*The year ended December 31, 2021 as compared to the year ended December 31, 2020*

*Cash flows from operating activities.* During the year ended December 31, 2021, net cash provided by operating activities was \$49.3 million compared to net cash provided by operating activities of \$32.9 million for the year ended December 31, 2020. This increase was primarily due to the interest income generated by our investments and the change in unrealized loss on investments held at fair value.

*Cash flows from investing activities.* During the year ended December 31, 2021, net cash provided by investing activities was \$517.9 million compared to net cash used in investing activities of \$68.3 million for the year ended December 31, 2020. This increase was primarily driven by proceeds received from payments on mortgage loans held in VIEs.

*Cash flows from financing activities.* During the year ended December 31, 2021, net cash used in financing activities was \$567.4 million compared to net cash provided by financing activities of \$68.8 million for the year ended December 31, 2020. This increase was primarily driven by distributions to bondholders of VIEs.

## **Emerging Growth Company and Smaller Reporting Company Status**

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Exchange Act, for complying with new or revised accounting standards applicable to public companies. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of this extended transition period. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates for such new or revised standards. We may elect to comply with public company effective dates at any time, and such election would be irrevocable pursuant to Section 107(b) of the JOBS Act.

We are also a “smaller reporting company” as defined in Regulation S-K under the Securities Act, and may elect to take advantage of certain of the scaled disclosures available to smaller reporting companies. We may be a smaller reporting company even after we are no longer an “emerging growth company.”

## **Income Taxes**

We elected to be treated as a REIT for U.S. federal income tax purposes, beginning with our taxable year ended December 31, 2020. We believe that our organization and proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to stockholders. As a REIT, we will be subject to federal income tax on our undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (1) 85% of our ordinary income, (2) 95% of our capital gain net income and (3) 100% of our undistributed income from prior years. Taxable income from certain non-REIT activities is managed through a TRS and is subject to applicable federal, state, and local income and margin taxes. We had no significant taxes associated with our TRS for the year ended December 31, 2022.

If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax on our taxable income at regular corporate income tax rates, and dividends paid to our stockholders would not be deductible by us in computing taxable income. Any resulting corporate liability could be substantial and could materially and adversely affect our net income and net cash available for distribution to stockholders. Unless we were entitled to relief under certain Code provisions, we also would be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year in which we failed to qualify to be taxed as a REIT.

We evaluate the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” (greater than 50 percent probability) of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Our management is required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which include federal and certain states. We have no examinations in progress, and none are expected at this time.

We recognize our tax positions and evaluate them using a two-step process. First, we determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Second, we will determine the amount of benefit to recognize and record the amount that is more likely than not to be realized upon ultimate settlement. We had no material unrecognized tax benefit or expense, accrued interest or penalties as of December 31, 2022.

## **Dividends**

We intend to make regular quarterly dividend payments to holders of our common stock. We also intend to make the accrued dividend payments on the Series A Preferred Stock, which are payable quarterly in arrears as provided in the articles supplementary setting forth the terms of the Series A Preferred Stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains. As a REIT, we will be subject to federal income tax on our undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (1) 85% of our ordinary income, (2) 95% of our capital gain net income and (3) 100% of our undistributed income from prior years. We intend to make regular quarterly dividend payments of all or substantially all of our taxable income, which is not used to pay a dividend on the Series A Preferred Stock, to holders of our common stock out of assets legally available for this purpose, if and to the extent authorized by our Board. Before we make any dividend payments, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our debt payable. If our cash available for distribution is less than our taxable income, we could be required to sell assets, borrow funds or raise additional capital to make cash dividends or we may make a portion of the required dividend in the form of a taxable distribution of stock or debt securities.

We will make dividend payments to holders of our common stock based on our estimate of taxable earnings per share of common stock, but not earnings calculated pursuant to GAAP. Our dividends and taxable income and GAAP earnings will typically differ due to items such as depreciation and amortization, fair-value adjustments, differences in premium amortization and discount accretion and non-deductible G&A expenses. Our quarterly dividends per share of our common stock may be substantially different than our quarterly taxable earnings and GAAP earnings per share. Our Board declared our fourth quarterly dividend of 2022 to common stockholders of \$0.50 per share on October 24, 2022, which was paid on December 30, 2022 to common stockholders of record as of December 15, 2022. On December 15, 2022, our Board declared a preferred stock dividend of \$0.53125 per share, which was paid on January 25, 2023 to preferred stockholders of record as of January 13, 2023.

## **Off-Balance Sheet Arrangements**

As of December 31, 2022, we had one off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

On December 8, 2022 and in connection with a restructuring of NSP, the Company, through REIT Sub, together with the Co-Guarantors, as guarantors, entered into a Sponsor Guaranty Agreement in favor of Extra Space pursuant to which REIT Sub and the Co-Guarantors guaranteed obligations of NSP with respect to NSP's newly created Series D Preferred Stock and two promissory notes in an aggregate principal amount of approximately \$64.2 million issued to Extra Space. The guaranties by REIT Sub and the Co-Guarantors are capped at \$97.6 million, which amount will be reduced as the guaranteed obligations of NSP are paid. Each of REIT Sub and the Co-Guarantors generally guaranteed the foregoing obligations of NSP up to the cap amount on a pro rata basis with respect to its percentage ownership of NSP's common stock. The maximum liability of REIT Sub under the guaranties is approximately \$83.8 million. As of December 31, 2022, the Company owns approximately 25.8% of the total outstanding shares of common stock of NSP.

## **Commitments and Contingencies**

Except as otherwise disclosed in Note 15 to our consolidated financial statements, the Company is not aware of any contractual obligations, legal proceedings, or any other contingent obligations incurred in the normal course of business that would have a material adverse effect on our consolidated financial statements.

## **Critical Accounting Policies and Estimates**

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires our management to make judgments, assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate these judgments, assumptions and estimates for changes that would affect the reported amounts. These estimates are based on management's historical industry experience and on various other judgments and assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these judgments, assumptions and estimates. Below is a discussion of the accounting policies and estimates that involve significant estimation uncertainty that have or are reasonably likely to have a material impact on our financial condition or results of operations. A discussion of recent accounting pronouncements and



our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 2 to our consolidated financial statements.

#### *Allowance for Loan Losses*

The Company performs a quarterly evaluation of loans classified as held for investment for impairment on a loan-by-loan basis in accordance with ASC 310-10-35, *Receivables, Subsequent Measurement* (“ASC 310-10-35”). If we deem that it is probable that we will be unable to collect all amounts owed according to the contractual terms of a loan, impairment of that loan is indicated. If we consider a loan to be impaired, we will establish an allowance for loan losses, through a valuation provision in earnings that reduces carrying value of the loan to the present value of expected future cash flows discounted at the loan’s contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral. For non-impaired loans with no specific allowance, the Company determines an allowance for loan losses in accordance with ASC 450-20, *Loss Contingencies* (“ASC 450-20”), which represents management’s best estimate of incurred losses inherent in the portfolio at the balance sheet date, excluding impaired loans and loans carried at fair value. Management considers quantitative factors likely to cause estimated credit losses, including default rate and loss severity rates. The Company also evaluates qualitative factors such as macroeconomic conditions, evaluations of underlying collateral, trends in delinquencies and non-performing assets. Increases to (or reversals of) the allowance for loan loss are included in “Loan loss benefit (provision)” on the accompanying Consolidated Statements of Operations.

Significant judgment is required in determining impairment and in estimating the resulting loss allowance, and actual losses, if any, could materially differ from those estimates.

#### *Valuation of Common Stock*

As of December 31, 2022, the Company owns approximately 25.8% of the total outstanding shares of NSP and thus can exercise significant influence over NSP. The Company elected the fair-value option in accordance with ASC 825-10-10. On a quarterly basis, the Company, with the assistance of an independent third-party valuation firm, determines the fair value for subsequent measurement absent a readily available market price. The valuation is determined using widely accepted valuation techniques consistent with the principles of ASC 820. Specifically, these techniques include the discounted cash flow methodology whereby observable market terminal capitalization rates and discount rates are applied to projected cash flows generated by self-storage assets owned by NSP. The necessary inputs for the valuation include projected cash flows of NSP, terminal capitalization rates and discount rates. These inputs are reflective of public company comparables, but are assumptions and estimates. As a result, the determination of fair value involves significant estimation uncertainty because it involves subjective judgments and estimates that are based on unobservable inputs. For the year ended December 31, 2022, the unrealized loss related to the change in fair value estimate is \$8.1 million. See Notes 5 and 10 for additional disclosures regarding the valuation of NSP.

As of December 31, 2022, the Company owns approximately 6.36% of the total outstanding shares of the Private REIT. The Company records the Private REIT at fair value in accordance with ASC 321. The valuation is determined using a market approach as the Private REIT is a recent transaction. The necessary input for the valuation includes the recent transaction price of the Private REIT. As a result, the determination of fair value is uncertain because it involves subjective judgments and estimates that are unobservable. For the year ended December 31, 2022, the unrealized gain related to the change in fair value estimate is \$2.9 million. See Notes 5 and 10 for additional disclosures regarding the valuation of the Private REIT.

#### **REIT Tax Election**

We elected to be treated as a REIT under Sections 856 through 860 of the Code. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our “REIT taxable income,” as defined by the Code, to our stockholders. Taxable income from certain non-REIT activities is managed through a TRS and is subject to applicable federal, state, and local income and margin taxes. We had no significant taxes associated with our TRS for the years ended December 31, 2022 and December 31, 2021. We believe that our organization and current and proposed method of operation will allow us to qualify for taxation as a REIT, but no assurance can be given that we will operate in a manner so as to qualify as a REIT.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not required for smaller reporting companies.

## **Item 8. Financial Statements and Supplementary Data**

The information required by this Item 8 is included in our consolidated financial statements and the notes thereto beginning on page F-1 in this Annual Report.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) and Rule 15d-15(b) under the Exchange Act, our management, including our President and Chief Financial Officer, evaluated, as of December 31, 2022, the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) and Rule 15d-15(e). Based on that evaluation, our President and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2022 due to the material weakness described in Management's Annual Report on Internal Control over Financial Reporting below.

Management nonetheless determined that the consolidated financial statements and related financial information included in this Annual Report fairly present in all material respects our financial condition, results of operations and cash flows as of the dates presented, and for the periods ended on such dates, in conformity with GAAP. Management's determination is based on a number of factors, including, but not limited to, management's performance of extensive analysis and other post-closing procedures as of and for the year ended December 31, 2022. As of December 31, 2022, the Company owned a preferred equity investment and common equity interests in Elysian at Hughes Center, which resulted in the consolidation at year end. However, pursuant to an expected restructuring of the transaction subsequent to December 31, 2022, this investment is expected to be deconsolidated in 2023 and presented solely as a preferred equity investment.

### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) and for our assessment of the effectiveness of internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our President and our Chief Financial Officer, and effected by our Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our President and Chief Financial Officer, has conducted an assessment regarding the effectiveness of our internal control over financial reporting as of December 31, 2022, based on the framework established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under the criteria described above, management has concluded that our internal control over financial reporting was not effective as of December 31, 2022.

A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis.

Our management concluded there is a material weakness in internal controls as of December 31, 2022 relating to missing controls over obtaining and reviewing final executed documents as a result of inadequate risk assessment decisions. This resulted in an internal control gap when evaluating the accounting for new investments.

### **Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Remediation Plan**

Management is committed to implementing changes to our internal control over financial reporting to ensure that the material weakness is remediated. We have evaluated the impact of the material weakness and will implement the following changes:

We are implementing a pre-close and post-close acquisition checklist for proposed investments. The pre-close checklist will include a formal accounting analysis and review of the contract terms and structure of the proposed investment. Subsequently, after a transaction closes, accounting personnel will obtain the final executed documents and compare and review for any changes to initial accounting conclusions reached in the pre-check review. Any differences will be corrected prior to the quarter close. Management believes that this control will prevent the conditions that led to the material weakness described above.

While we believe that these actions will remediate the material weakness, we have not completed all of the corrective processes, procedures and related evaluation or remediation that we believe are necessary. As we continue to evaluate and work to remediate the material weakness, we may take additional measures to address the material weakness.

Until the remediation steps set forth above, including the efforts to implement the necessary control activities we identify, are fully implemented and concluded to be operating effectively for a sufficient period of time, the material weakness described above will not be considered remediated.

### **Item 9B. Other Information**

None.

### **Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.

### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required in response to this Item 10 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report.

#### **Item 11. Executive Compensation**

The information required in response to this Item 11 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required in response to this Item 12 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required in response to this Item 13 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report.

#### **Item 14. Principal Accountant Fees and Services**

The information required in response to this Item 14 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report.

## PART IV

### Item 15. Exhibit and Financial Statement Schedules

(a) The following documents are filed as part of this Report:

1.*Financial Statements.* See Index to Consolidated Financial Statements and Schedules of NexPoint Real Estate Finance, Inc. on page F-1 of this Report.

2.*Financial Statement Schedules.* See Index to Consolidated Financial Statements and Schedules of NexPoint Real Estate Finance, Inc. on page F-1 of this Report. All other schedules are omitted because they are not required, are inapplicable, or the required information is included in the financial statements or notes thereto.

3.*Exhibits.* The exhibits filed with this Report are set forth in the Exhibit Index.

### EXHIBIT INDEX

Exhibit Number	Description
2.1	Contribution and Assignment of Interests Agreement, by and among NexPoint Real Estate Finance, Inc. and the Contribution Group (incorporated by reference to Exhibit 2.1 to the Quarterly Report on Form 10-Q, filed by the Company on May 8, 2020)
3.1	Articles of Amendment and Restatement of NexPoint Real Estate Finance, Inc. (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q, filed by the Company on May 8, 2020)
3.2	Articles Supplementary to the Articles of Amendment and Restatement of NexPoint Real Estate Finance, Inc., designating the Company's 8.50% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed by the Company on July 20, 2020).
3.3	Articles Supplementary to the Articles of Amendment and Restatement of NexPoint Real Estate Finance, Inc., designating additional shares of the Company's 8.50% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed by the Company on March 31, 2021)
3.4	Amended and Restated Bylaws of NexPoint Real Estate Finance, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed by the Company on February 27, 2023)
4.1	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (incorporated by reference to Exhibit 4.1 to the Annual Report on Form 10-K, filed by the Company on February 25, 2021)
4.2	Indenture, dated April 13, 2021, between NexPoint Real Estate Finance, Inc. and UMB Bank, National Association (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed by the Company on April 13, 2021)
4.3	First Supplemental Indenture, dated April 20, 2021, between NexPoint Real Estate Finance, Inc. and UMB Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed by the Company on April 20, 2021)
10.1	Second Amended and Restated Limited Partnership Agreement of NexPoint Real Estate Finance Operating Partnership, L.P., dated September 8, 2021 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed by the Company on September 9, 2021)



10.2†	Management Agreement, by and between NexPoint Real Estate Finance, Inc. and NexPoint Real Estate Advisors VII, L.P. (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q, filed by the Company on May 8, 2020)
10.3†	First Amendment to Management Agreement, dated July 17, 2020, by and between NexPoint Real Estate Finance, Inc. and NexPoint Real Estate Advisors VII, L.P. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed by the Company on July 20, 2020)
10.4†	Second Amendment to Management Agreement, dated November 3, 2021, by and between NexPoint Real Estate Finance, Inc. and NexPoint Real Estate Advisors VII, L.P. (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q, filed by the Company on September 30, 2021)
10.5	Loan and Security Agreement, dated as of July 12, 2019, by and among NexPoint WLIF I Borrower, LLC, NexPoint WLIF II Borrower, LLC, and NexPoint WLIF III Borrower, LLC, as Borrower, and Federal Home Loan Mortgage Corporation, as Lender, together with the letter agreements of the Lender dated February 6, 2020 and June 22, 2021 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q, filed by the Company on August 3, 2021)
10.6†	NexPoint Real Estate Finance, Inc. 2020 Long Term Incentive Plan (incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q, filed by the Company on May 8, 2020)
10.7†	Form of Restricted Stock Units Agreement (Directors) (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-11 filed with the SEC on July 15, 2020)
10.8†	Form of Restricted Stock Units Agreement (Officers) (incorporated by reference to Exhibit 10.10 to the Annual Report on Form 10-K, filed by the Company on February 25, 2021)
10.9†	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.6 to Amendment No. 2 to the Registration Statement on Form S-11, filed by the Company on January 27, 2020)
10.10	Registration Rights Agreement, by and between NexPoint Real Estate Finance, Inc. and NexPoint Real Estate Advisors VII, L.P. (incorporated by reference to Exhibit 10.9 to the Quarterly Report on Form 10-Q, filed by the Company on May 8, 2020)
10.11	Amended and Restated Limited Liability Company Agreement of NexPoint Buffalo Pointe Holdings, LLC (incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-11 filed with the SEC on July 15, 2020)
10.12*	Amended and Restated Sponsor Guaranty Agreement, dated December 8, 2022, by NREF OP IV REIT Sub, LLC, NexPoint Diversified Real Estate Trust, Highland Income Fund, NexPoint Real Estate Strategies Fund, and NexPoint Storage Partners, Inc., in favor of Extra Space Storage, LP.
21.1*	List of Subsidiaries of the Registrant
23.1*	Consent of KPMG LLP
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS*	Inline XBRL Instance 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.
†	Management contract, compensatory plan or arrangement
+	Furnished herewith.

## SIGNATURES

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

### NEXPOINT REAL ESTATE FINANCE, INC.

/s/ Jim Dondero

March 31, 2023

Jim Dondero

President (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Jim Dondero</u> Jim Dondero	President and Director (Principal Executive Officer)	March 31, 2023
<u>/s/ Brian Mitts</u> Brian Mitts	Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)	March 31, 2023
<u>/s/ Edward Constantino</u> Edward Constantino	Director	March 31, 2023
<u>/s/ Dr. Arthur Laffer</u> Dr. Arthur Laffer	Director	March 31, 2023
<u>/s/ Scott Kavanaugh</u> Scott Kavanaugh	Director	March 31, 2023
<u>/s/ Catherine Wood</u> Catherine Wood	Director	March 31, 2023
<u>/s/ Dr. Carol Swain</u> Carol Swain	Director	March 31, 2023

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## INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
<b>Financial Statements</b>	
<b>NexPoint Real Estate Finance, Inc.—Consolidated Financial Statements</b>	
Report of Independent Registered Public Accounting Firm (PCAOB ID# 185) .....	F-2
Consolidated Balance Sheets as of December 31, 2022 and 2021 .....	F-3
Consolidated Statement of Operations for the Years Ended December 31, 2022, 2021, and 2020 .....	F-4
Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 2022, 2021, and 2020 .....	F-5
Consolidated Statement of Cash Flows for the Years Ended December 31, 2022, 2021, and 2020 .....	F-7
Notes to Consolidated Financial Statements .....	F-9

## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and the Board of Directors  
NexPoint Real Estate Finance, Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of NexPoint Real Estate Finance, Inc. and subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2019.

Dallas, Texas  
March 31, 2023



**NEXPOINT REAL ESTATE FINANCE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share amounts)

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
<b>ASSETS</b>		
Cash and cash equivalents .....	\$ 20,048	\$ 26,459
Restricted cash.....	299	6,773
Real estate investments, net (Note 8).....	245,222	62,269
Loans, held-for-investment, net .....	256,147	241,517
Common stock investments, at fair value .....	78,264	58,460
Mortgage loans, held-for-investment, net .....	726,531	847,364
Accrued interest and dividends.....	15,665	8,319
Mortgage loans held in variable interest entities, at fair value.....	6,720,246	7,192,547
CMBS structured pass-through certificates, at fair value (Note 6) .....	46,876	69,816
MSCR notes, at fair value .....	10,313	—
Mortgage backed securities, at fair value.....	32,328	—
Accounts receivable and other assets.....	2,197	393
<b>TOTAL ASSETS</b> .....	<b>\$ 8,154,136</b>	<b>\$ 8,513,917</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Secured financing agreements, net .....	\$ 687,885	\$ 786,226
Master repurchase agreements.....	331,020	286,324
Unsecured notes, net .....	204,960	168,325
Mortgages payable, net.....	121,236	32,176
Accounts payable and other accrued liabilities .....	6,231	3,903
Accrued interest payable.....	7,986	3,985
Bonds payable held in variable interest entities, at fair value .....	6,249,804	6,726,272
<b>Total Liabilities</b> .....	<b>7,609,122</b>	<b>8,007,211</b>
Redeemable noncontrolling interests in the OP .....	96,501	261,423
Stockholders' Equity:		
Noncontrolling interest in CMBS variable interest entities .....	—	7,175
Noncontrolling interest in subsidiary .....	64,529	95
Preferred stock, \$0.01 par value: 100,000,000 shares authorized; 2,000,000 and 2,000,000 shares issued and 1,645,000 and 1,645,000 shares outstanding, respectively .....	16	16
Common stock, \$0.01 par value: 500,000,000 shares authorized; 17,366,930 and 9,450,921 shares issued and 17,079,943 and 9,163,934 shares outstanding, respectively .....	171	92
Additional paid-in capital .....	392,124	222,300
Retained earnings .....	4,435	28,367
Preferred stock held in treasury at cost; 355,000 shares and 355,000, respectively.....	(8,567)	(8,567)
Common stock held in treasury at cost; 286,987 shares and 286,987 shares, respectively .....	(4,195)	(4,195)
<b>Total Stockholders' Equity</b> .....	<b>448,513</b>	<b>245,283</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> .....	<b>\$ 8,154,136</b>	<b>\$ 8,513,917</b>

See Notes to Consolidated Financial Statements

**NEXPOINT REAL ESTATE FINANCE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
(in thousands, except per share amounts)

	For the Year Ended December 31,		
	2022	2021	2020
<b>Net interest income</b>			
Interest income.....	\$ 77,988	\$ 55,827	\$ 38,978
Interest expense.....	(40,255)	(29,772)	(21,312)
Total net interest income.....	\$ 37,733	\$ 26,055	\$ 17,666
<b>Other income (loss)</b>			
Change in net assets related to consolidated CMBS variable interest entities.....	10,239	57,618	19,932
Change in unrealized gain (loss) on CMBS structured pass-through certificates.....	(12,664)	(483)	(49)
Change in unrealized gain (loss) on common stock investments .....	(5,196)	13,834	—
Change in unrealized gain (loss) on MSCR notes.....	(53)	—	—
Change in unrealized (loss) on mortgage backed securities .....	(1,230)	—	—
Loan loss benefit (provision).....	(169)	(189)	(320)
Dividend income, net .....	—	—	6,309
Realized losses .....	(1,084)	(257)	(493)
Other income .....	399	780	373
Gain on extinguishment of debt .....	17	—	—
Revenues from consolidated real estate owned (Note 8).....	12,402	10	—
Total other income (loss) .....	\$ 2,661	\$ 71,313	\$ 25,752
<b>Operating expenses</b>			
General and administrative expenses .....	7,243	6,371	3,382
Loan servicing fees .....	4,388	5,179	4,314
Management fees .....	3,151	2,296	1,552
Expenses from consolidated real estate owned (Note 8).....	11,398	50	—
Total operating expenses.....	\$ 26,180	\$ 13,896	\$ 9,248
<b>Net income (loss)</b> .....	14,214	83,472	34,170
<b>Net (income) attributable to preferred shareholders</b> .....	(3,512)	(3,508)	(1,748)
<b>Net (income) loss attributable to redeemable noncontrolling interests ....</b>	(4,969)	(40,387)	(21,323)
<b>Net (income) loss attributable to redeemable noncontrolling interests in subsidiaries</b> .....	(2,499)	—	—
<b>Net income (loss) attributable to common stockholders</b> .....	\$ 3,234	\$ 39,577	\$ 11,099
 <b>Weighted-average common shares outstanding - basic</b> .....	 14,686	 6,601	 5,206
<b>Weighted-average common shares outstanding - diluted</b> .....	14,686	20,366	18,648
 <b>Earnings per share - basic</b> .....	 \$ 0.22	 \$ 6.00	 \$ 2.13
<b>Earnings per share - diluted (1)</b> .....	\$ 0.22	3.93	1.74
 <b>Dividends declared per common share</b> .....	 \$ 2.0000	 \$ 1.9000	 \$ 1.4198

(1) Diluted earnings per share ("EPS") calculations were higher than basic EPS and thus anti-dilutive for the year ended December 31, 2022. As such, the Company is presenting diluted EPS as equal to basic EPS.

See Notes to Consolidated Financial Statements

**NEXPOINT REAL ESTATE FINANCE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(dollars in thousands)

	Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings Less Dividends	Common Stock Held in Treasury at Cost	Preferred Stock Held in Treasury at Cost	Noncontrolling interest in CMBS VIEs	Noncontrolling interest in Subsidiary	Total
	Number of Shares	Par Value	Number of Shares	Par Value							
<b>Balances, December 31, 2019.</b>	—	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$—
Issuance of common stock through public offering, net.....	—	—	5,350,000	54	91,434	—	—	—	—	—	91,488
Issuance of preferred stock through public offering, net.....	2,000,000	20.00	—	—	46,061	—	—	—	—	—	46,081
Vesting of stock-based compensation .....	—	—	—	—	548	—	—	—	—	—	548
Repurchase of common stock .....	—	—	(327,422)	(4)	—	—	(4,784)	—	—	—	(4,788)
Repurchase of preferred stock ..	(355,000)	(4.00)	—	—	—	—	—	(8,567)	—	—	(8,571)
Net income attributable to preferred stockholders .....	—	—	—	—	—	1,748	—	—	—	—	1,748
Net income attributable to common stockholders .....	—	—	—	—	—	11,099	—	—	—	—	11,099
Preferred stock dividends declared (\$0.5313 per share) .....	—	—	—	—	—	(1,748)	—	—	—	—	(1,748)
Common stock dividends declared (\$1.4198 per share) .....	—	—	—	—	—	(7,614)	—	—	—	—	(7,614)
<b>Balances, December 31, 2020.</b>	1,645,000	\$ 16	\$5,022,578	\$ 50	\$ 138,043	\$ 3,485	\$ (4,784)	\$ (8,567)	\$ —	\$ —	\$128,243
Vesting of stock-based compensation .....	—	—	69,830	1	1,699	—	—	—	—	—	1,700
Cancellation of common stock held in treasury .....	—	—	—	—	(589)	—	589	—	—	—	—
Issuance of common shares through at-the-market offering, net .....	—	—	532,694	5	10,296	—	—	—	—	—	10,301
Issuance of common shares through public offering, net.	—	—	2,059,700	21	40,473	—	—	—	—	—	40,494
Issuance of subsidiary preferred membership units through private offering, net	—	—	—	—	—	—	—	—	—	95	95
Conversion of redeemable noncontrolling interests in the OP .....	—	—	1,479,132	15	32,378	—	—	—	—	—	32,393
Noncontrolling interest in CMBS VIEs.....	—	—	—	—	—	—	—	—	7,175	—	7,175
Net income attributable to preferred stockholders .....	—	—	—	—	—	3,508	—	—	—	—	3,508
Net income attributable to common stockholders .....	—	—	—	—	—	39,577	—	—	—	—	39,577
Preferred stock dividends declared (\$2.1250 per share) .....	—	—	—	—	—	(3,508)	—	—	—	—	(3,508)
Common stock dividends declared (\$1.9000 per share) .....	—	—	—	—	—	(14,695)	—	—	—	—	(14,695)
<b>Balances, December 31, 2021.</b>	1,645,000	\$ 16	9,163,934	\$ 92	\$ 222,300	\$ 28,367	\$ (4,195)	\$ (8,567)	\$ 7,175	\$ 95	\$245,283
Vesting of stock-based compensation .....	—	—	114,678	1	2,789	—	—	—	—	—	2,790
Proceeds from DST syndication fundraising.....	—	—	—	—	—	—	—	—	—	64,434	64,434

Issuance of common stock through at-the-market offering, net.....	—	—	531,728	5	11,494	—	—	—	—	—	11,499
Conversion of redeemable noncontrolling interests in the OP	—	—	7,269,603	73	155,541	—	—	—	—	—	155,614
Noncontrolling interest in CMBS VIEs .....	—	—	—	—	—	—	—	—	(7,175)	—	(7,175)
Adjustment to retained earning on consolidation of real estate .....	—	—	—	—	—	1,174	—	—	—	—	1,174
Net income attributable NCI in subsidiaries .....	—	—	—	—	—	2,499	—	—	—	—	2,499
Net income attributable to preferred stockholders .....	—	—	—	—	—	3,512	—	—	—	—	3,512
Net income attributable to common stockholders .....	—	—	—	—	—	3,234	—	—	—	—	3,234
Preferred stock dividends declared (\$2.1250 per share) .....	—	—	—	—	—	(3,512)	—	—	—	—	(3,512)
Common stock dividends declared (\$2.0000 per share) .....	—	—	—	—	—	(30,839)	—	—	—	—	(30,839)
<b>Balances, December 31, 2022 .....</b>	<b>1,645,000</b>	<b>\$ 16</b>	<b>17,079,943</b>	<b>\$ 171</b>	<b>\$ 392,124</b>	<b>\$ 4,435</b>	<b>\$ (4,195)</b>	<b>\$ (8,567)</b>	<b>\$ —</b>	<b>\$ 64,529</b>	<b>\$448,513</b>

See Notes to Consolidated Financial Statements

**NEXPOINT REAL ESTATE FINANCE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in thousands)

	For the Year Ended December 31,		
	2022	2021	2020
<b>Cash flows from operating activities</b>			
Net income .....	\$ 14,214	\$ 83,472	\$ 34,170
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of premiums.....	20,840	15,769	8,280
Accretion of discounts .....	(13,312)	(9,196)	(3,160)
Depreciation and amortization of real estate investment .....	2,895	—	—
Amortization of deferred financing costs.....	48	—	—
Loan loss provision.....	169	189	320
Net change in unrealized (gain) loss on investments held at fair value.....	44,765	(43,503)	(3,981)
Net realized losses .....	1,084	257	493
Vesting of stock-based compensation.....	3,286	2,023	548
Payment in kind income .....	(715)	(91)	—
Gain on extinguishment of debt.....	(17)	—	—
Changes in operating assets and liabilities:			
Accrued interest.....	(10,247)	(3,241)	(6,001)
Accounts receivable and other assets.....	(433)	352	(745)
Accrued interest payable.....	2,914	1,674	2,311
Accounts payable, accrued expenses and other liabilities.....	310	1,593	667
Net cash provided by operating activities .....	65,801	49,298	32,902
<b>Cash flows from investing activities</b>			
Proceeds from payments received on mortgage loans held in variable interest entities .....	1,223,322	841,953	208,507
Proceeds from payments received on mortgage loans held for investment.....	178,990	62,991	22,449
Proceeds from payments received on bridge loan.....	13,500	32,759	—
Proceeds from payments received on mortgage backed securities.....	518	—	—
Originations of bridge loan.....	(13,434)	(32,595)	—
Originations of loans, held-for-investment, net .....	(110,502)	(117,727)	(108,610)
Purchases of common stock investment .....	—	—	(87)
Purchases of CMBS structured pass-through certificates, at fair value.....	(4,542)	(39,061)	(40,200)
Sales of CMBS structured pass-through certificates, at fair value .....	6,962	3,921	—
Purchases of CMBS securitizations held in variable interest entities, at fair value.....	(115,276)	(204,574)	(150,320)
Purchases of MSCR notes, at fair value.....	(10,365)	—	—
Purchases of mortgage backed securities, at fair value.....	(33,926)	—	—
Proceeds held in escrow for unsettled purchase.....	—	—	—
Acquisitions of real estate investments.....	(184,552)	(29,789)	—
Additions to real estate investments.....	(117)	—	—
Net cash provided by (used in) investing activities.....	950,578	517,878	(68,261)
<b>Cash flows from financing activities</b>			
Principal repayments on borrowings under secured financing agreements.....	(98,341)	(54,227)	(8,225)
Distributions to bondholders of variable interest entities .....	(1,131,916)	(781,210)	(192,908)
Borrowings under master repurchase agreements .....	130,629	153,844	163,473
Principal repayments on borrowings under master repurchase agreements .....	(85,933)	(28,985)	(2,008)
Proceeds received on borrowings under secured financing agreements.....	89,634	—	59,914
Proceeds received from unsecured notes offering, net .....	40,674	132,813	34,904

Deferred financing costs paid.....	—	(304)	—
Borrowings under bridge facility .....	55,000	20,000	86,000
Bridge facility payments .....	(55,000)	(20,000)	(181,000)
Repurchase of unsecured notes .....	(4,829)	—	—
Proceeds from the issuance of common stock through public offering, net of offering costs .....	—	50,795	91,488
Proceeds from the issuance of preferred stock through public offering, net of offering costs .....	—	—	46,081
Proceeds from the issuance of common stock through at-the-market offering, net of offering costs .....	11,499	—	—
Proceeds from the issuance of common stock .....	156,491	32,393	—
Redemption of redeemable noncontrolling interests in the OP .....	(156,491)	(32,393)	—
Proceeds from the issuance of subsidiary preferred membership units through private offering, net of offering costs .....	—	95	—
Repurchase of preferred stock.....	—	—	(8,571)
Repurchase of common stock .....	—	—	(4,788)
Payments for taxes related to net share settlement of stock-based compensation .....	(495)	(323)	—
Dividends paid to common stockholders .....	(29,652)	(14,164)	(7,376)
Dividends paid to preferred stockholders.....	(3,512)	(3,508)	(874)
Distributions to redeemable noncontrolling interests in the OP .....	(14,277)	(22,241)	(19,063)
Contributions from noncontrolling interests .....	67,255	—	11,783
Net cash provided by (used in) financing activities .....	<u>(1,029,264)</u>	<u>(567,415)</u>	<u>68,830</u>
Net increase (decrease) in cash, cash equivalents and restricted cash.....	(12,885)	(239)	33,471
Cash, cash equivalents and restricted cash, beginning of period.....	33,232	33,471	—
Cash, cash equivalents and restricted cash, end of period.....	<u>\$ 20,347</u>	<u>\$ 33,232</u>	<u>\$ 33,471</u>

#### Supplemental Disclosure of Cash Flow Information

Interest paid .....	\$ 35,416	\$ 27,546	\$ 23,221
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#### Supplemental Disclosure of Noncash Investing and Financing Activities

Contributions from noncontrolling interests, including consolidation of the associated mortgage loans held in variable interest entities.....	—	—	279,735
Other assets acquired from contributions from noncontrolling interests.....	—	—	3,616
Assumed debt on contributions from noncontrolling interests, including consolidation of the associated bonds payable held in variable interest entities .....	—	—	(2,539,724)
Consolidation of mortgage loans and bonds payable held in variable interest entities ..	1,244,826	2,946,224	3,179,620
Preferred stock investment conversion to common stock investment.....	—	—	41,881
Stock dividends receivable conversion to common stock investment.....	—	—	2,658
Consolidation of noncontrolling interest in CMBS variable interest entities .....	—	7,175	—
Conversion of convertible notes to common stock .....	25,000	—	—
Increase in dividends payable upon vesting of restricted stock units.....	1,187	531	238
Stock dividends received .....	—	—	1,881
Other assets acquired from acquisitions.....	—	14	—
Liabilities assumed from acquisitions.....	—	47	—
Assumed debt on acquisitions.....	—	32,480	—
Increase in dividends payable to preferred stockholders.....	—	—	874

See Notes to Consolidated Financial Statements



## NEXPOINT REAL ESTATE FINANCE, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Organization and Description of Business

NexPoint Real Estate Finance, Inc. (the “Company”, “we”, “our”) is a commercial mortgage real estate investment trust (a “REIT”) incorporated in Maryland on June 7, 2019. The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with its taxable year ended December 31, 2020. The Company is focused on originating, structuring and investing in first-lien mortgage loans, mezzanine loans, preferred equity, convertible notes, multifamily properties and common stock investments, as well as multifamily commercial mortgage-backed securities securitizations (“CMBS securitizations”), multifamily structured credit risk notes (“MSCR Notes”) and mortgage-backed securities, or our target assets. Substantially all of the Company’s business is conducted through NexPoint Real Estate Finance Operating Partnership, L.P. (the “OP”), the Company’s operating partnership. As of December 31, 2022, the Company holds approximately 83.36% of the common limited partnership units in the OP (“OP Units”) which represents 100% of the Class A OP Units, and the OP owned all of the common limited partnership units (“SubOP Units”) of its subsidiary partnerships (collectively, the “Subsidiary OPs”) (see Note 13).

The OP also directly owns all of the membership interests of a limited liability company (the “Mezz LLC”) through which it owns a portfolio of mezzanine loans, as further discussed below. NexPoint Real Estate Finance OP GP, LLC (the “OP GP”) is the sole general partner of the OP.

The Company commenced operations on February 11, 2020 upon the closing of its initial public offering of shares of its common stock (the “IPO”). Prior to the closing of the IPO, the Company engaged in a series of transactions through which it acquired an initial portfolio consisting of senior pooled mortgage loans backed by single family rental (“SFR”) properties (the “SFR Loans”), the junior most bonds of multifamily CMBS securitizations (the “CMBS B-Pieces”), mezzanine loan and preferred equity investments in real estate companies and properties in other structured real estate investments within the multifamily, SFR and self-storage asset classes (the “Initial Portfolio”). The Initial Portfolio was acquired from affiliates (the “Contribution Group”) of NexPoint Advisors, L.P. (our “Sponsor”), pursuant to a contribution agreement with the Contribution Group through which the Contribution Group contributed their interest in the Initial Portfolio to special purpose entities (“SPEs”) owned by the Subsidiary OPs, in exchange for SubOP Units (the “Formation Transaction”). Subsequent to the Formation Transaction, the Company has continued to invest in asset types and real estate sectors within the Initial Portfolio and expanded to include additional asset types and real estate sectors.

The Company is externally managed by NexPoint Real Estate Advisors VII, L.P. (the “Manager”) through a management agreement dated February 6, 2020 and amended as of July 17, 2020 and November 3, 2021, for an initial three-year term that expired on February 6, 2023 and successive one-year terms thereafter unless earlier terminated (as amended, the “Management Agreement”), by and between the Company and the Manager. The Manager conducts substantially all of the Company’s operations and provides asset management services for its real estate investments. The Company expects it will only have accounting employees while the Management Agreement is in effect. All of the Company’s investment decisions are made by the Manager, subject to general oversight by the Manager’s investment committee and the Company’s board of directors (the “Board”). The Manager is wholly owned by our Sponsor.

The Company’s primary investment objective is to generate attractive, risk-adjusted returns for stockholders over the long term. The Company intends to achieve this objective primarily by originating, structuring and investing in our target assets. The Company concentrates on investments in real estate sectors where our senior management team has operating expertise, including in the multifamily, SFR, self-storage, life science, hospitality and office sectors predominantly in the top 50 MSAs. In addition, the Company targets lending or investing in properties that are stabilized or have a “light transitional” business plan, meaning a property that requires limited deferred funding to support leasing or ramp-up of operations and for which most capital expenditures are for value-add improvements. Through active portfolio management the Company seeks to take advantage of market opportunities to achieve a superior portfolio risk-mix that delivers attractive total returns.

#### 2. Summary of Significant Accounting Policies

##### *Basis of Accounting*

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States (“GAAP”). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the consolidated financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates. All significant intercompany accounts and transactions have been eliminated in consolidation.

There have been no significant changes to the Company's significant accounting policies during the year ended December 31, 2022.

The accompanying consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading.

#### *Use of Estimates and Assumptions*

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. It is at least reasonably possible that these estimates could change in the near term. Estimates are inherently subjective in nature and actual results could differ from our estimates and the differences could be material.

#### *Principles of Consolidation*

The Company accounts for subsidiary partnerships in which it holds an ownership interest in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, Consolidation. The Company first evaluates whether each entity is a variable interest entity ("VIE"). Under the VIE model, the Company consolidates an entity when it has power to direct the activities of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Under the voting model, the Company consolidates an entity when it controls the entity through ownership of a majority voting interest. As of December 31, 2022, the Company has determined it must consolidate the OP and the Subsidiary OPs under the VIE model as it was determined the Company both controls the direct activities of the OP and Subsidiary OPs and possesses the right to receive benefits that could potentially be significant to the OP and Subsidiary OPs. The consolidated financial statements include the accounts of the Company and its subsidiaries, including the OP and its subsidiaries. The Company's sole significant asset is its investment in the OP, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of the OP.

#### *Variable Interest Entities*

The Company evaluates all of its interests in VIEs for consolidation. When the Company's interests are determined to be variable interests, the Company assesses whether it is deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. FASB ASC Topic 810, *Consolidation*, defines the primary beneficiary as the party that has both (i) the power to direct the activities of the VIE that most significantly impact its economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant. The Company considers its variable interests, as well as any variable interests of its related parties in making this determination. Where both of these factors are present, the Company is deemed to be the primary beneficiary, and it consolidates the VIE. Where either one of these factors is not present, the Company is not the primary beneficiary, and it does not consolidate the VIE.

#### *CMBS Trusts*

The Company consolidates the trusts that issue beneficial ownership interests in mortgage loans secured by commercial real estate (commonly known as CMBS) when the Company holds a variable interest in, and management considers the Company to be the primary beneficiary of, those trusts. Management believes the performance of the assets that underlie CMBS issuances most significantly impact the economic performance of the trust, and the primary beneficiary is generally the entity that conducts activities that most significantly impact the performance of the underlying assets. In particular, the most subordinate tranches of CMBS expose the holder to greater variability of economic performance when compared to more senior tranches since the subordinate tranches absorb a disproportionately higher amount of the credit risk related to the underlying assets. Generally, a trust designates the most junior subordinate tranche outstanding as the controlling class, which entitles the holder of the controlling class to unilaterally appoint, remove and replace the special servicer for the trust. For the CMBS that the Company consolidates, the Company owns 100% of the most subordinate tranche of the securities. The subordinate tranche includes the controlling class and has the ability to remove and replace the special servicer.

On the Consolidated Balance Sheets as of December 31, 2022 and December 31, 2021, the Company consolidated each of the Freddie Mac K-Series securitization entities (the “CMBS Entities”) that were determined to be VIEs and for which the Company is the primary beneficiary. The CMBS Entities are independent of the Company, and the assets and liabilities of the CMBS Entities are not owned by and are not legal obligations of ours. Our exposure to the CMBS Entities is through the subordinated tranches. For financial reporting purposes, the underlying mortgage loans held by the trusts are recorded as a separate line item on the balance sheet under “Mortgage loans held in variable interest entities, at fair value.” The liabilities of the trusts consist solely of obligations to the CMBS holders of the consolidated trusts, excluding the CMBS B-Piece investments held by the Company. The liabilities are presented as “Bonds payable held in variable interest entities, at fair value” on the Consolidated Balance Sheets. The CMBS B-Pieces held by the Company, and the interest earned thereon are eliminated in consolidation. Management has elected the measurement alternative in ASC 810 to report the fair value of the assets and liabilities of the consolidated CMBS Entities in order to provide users of the financial statements with better information regarding the effects of credit risk and other market factors on the CMBS B-Pieces owned by the Company. Management has elected to show interest income and interest expense related to the CMBS Entities in aggregate with the change in fair value as “Change in net assets related to consolidated CMBS variable interest entities.” The residual difference between the fair value of the CMBS Entities’ assets and liabilities represents the Company’s investments in the CMBS B-Pieces at fair value.

#### *Investment in subsidiaries*

The Company conducts its operations through the OP, which directly or through a subsidiary, acts as the general partner of the Subsidiary OPs. The Subsidiary OPs own investments through limited liability companies that are SPEs which own investments directly. The OP is the sole member of the Mezz LLC, which owns investments directly. The OP has three classes of OP Units: Class A, Class B and Class C. Class A OP Units and Class B OP Units each have 50.0% of the voting power of the OP Units and Class C OP Units have no voting power. Each Class A OP Unit, Class B OP Unit and Class C OP Unit otherwise represents substantially the same economic interest in the OP. The Company is the majority limited partner of the OP in terms of economic interests, holding approximately 83.36% of the OP Units in the OP as of December 31, 2022 which represent 100% of the Class A OP Units, and the OP GP must generally receive approval of the Board to take any actions. As such, the Company consolidates the OP. The Company consolidates the SPEs in which it has a controlling financial interest, as well as any VIEs where it is the primary beneficiary. All of the investments the SPEs own are consolidated in the consolidated financial statements. Generally, the assets of each entity can only be used to settle obligations of that particular entity, and the creditors of each entity have no recourse to the assets of other entities or the Company notwithstanding equity pledges various lenders may have in certain entities or guarantees provided by certain entities. As of December 31, 2022, there are no outstanding redeemable noncontrolling interests issued by the Subsidiary OPs.

#### *Redeemable Noncontrolling Interests*

Noncontrolling interests represent the ownership interests in consolidated subsidiaries held by entities other than the Company. Those noncontrolling interests that the holder is allowed to redeem before liquidation or termination of the entity that issued those interests are considered redeemable noncontrolling interests.

The OP and the Subsidiary OPs have issued redeemable noncontrolling interests classified on the Consolidated Balance Sheets as temporary equity in accordance with ASC 480. This is presented as “Redeemable noncontrolling interests in the OP” on the Consolidated Balance Sheets and their share of “Net Income (Loss)” as “Net Income (Loss) attributable to redeemable noncontrolling interests” in the accompanying Consolidated Statements of Operations.

The redeemable noncontrolling interests were initially measured at the fair value of the contributed assets in accordance with ASC 805-50. The redeemable noncontrolling interests will be adjusted to their redemption value if such value exceeds the carrying value of the redeemable noncontrolling interests. Capital contributions, distributions and profits and losses are allocated to the redeemable noncontrolling interests in accordance with the terms of the partnership agreements of the Subsidiary OPs and the OP.

#### *Acquisition Accounting*

The Company accounts for the assets acquired in the Formation Transaction as asset acquisitions pursuant to ASC 805-50, rather than as business combinations. Substantially all of the fair value of the assets acquired are concentrated in a group of similar identifiable assets, i.e. the SFR Loans represent one acquisition of similar identifiable assets, and the acquisition of the CMBS B-Pieces represents an additional acquisition of similar identifiable assets. Additionally, there were no corresponding in-place workforce, servicing platforms or any other item that could be considered an input or process associated with these assets. As such, the SFR Loans and the CMBS B-Pieces do not constitute businesses as defined by ASC 805-10-55. As the investments in the Initial Portfolio were contributed to the Subsidiary OPs in a non-cash transaction, cost is based on the fair value of the assets at the time of contribution.

### *Cash, Cash Equivalents and Restricted Cash*

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value. Substantially all amounts on deposit with major financial institutions exceed insured limits.

From time to time, the Company may have to post cash collateral to satisfy margin calls due to changes in fair value of the underlying collateral subject to master repurchase agreements. This cash is listed as restricted cash on the Consolidated Balance Sheets. Restricted cash is also stated at cost, which approximates fair value.

### *Mortgage and Other Loans Held-For-Investment*

Loans that are held-for-investment are carried at their aggregate outstanding face amount, net of applicable (i) unamortized origination or acquisition premium and discounts, (ii) unamortized deferred fees and other direct loan origination costs, (iii) valuation allowance for loan losses and (iv) write-downs of impaired loans. The effective interest method is used to amortize origination or acquisition premiums and discounts and deferred fees or other direct loan origination costs. In general, an increase in prepayment rates accelerates the amortization of purchase premiums, thereby reducing the interest income earned on the assets. Conversely, discounts on such assets are accreted into interest income. In general, an increase in prepayment rates accelerates the accretion of purchase discounts, thereby increasing the interest income earned on the assets.

### *Purchase Price Allocation*

The Company considers the acquisition of real estate investments as asset acquisitions. Upon acquisition of a property, the purchase price and related acquisition costs (“total consideration”) are allocated to land, buildings, improvements, furniture, fixtures, and equipment, and intangible lease assets in accordance with FASB ASC 805, *Business Combinations*. Acquisition costs are capitalized in accordance with FASB ASC 805.

The allocation of total consideration, which is determined using inputs that are classified within Level 3 of the fair value hierarchy established by FASB ASC 820, *Fair Value Measurement and Disclosures* (“ASC 820”) (see Note 10), is based on management’s estimate of the property’s “as-if” vacant fair value and is calculated by using all available information such as the replacement cost of such asset, appraisals, property condition reports, market data and other related information. The allocation of the total consideration to intangible lease assets represents the value associated with the in-place leases, which may include lost rent, leasing commissions, legal and other related costs, which the Company, as buyer of the property, did not have to incur to obtain the residents. If any debt is assumed in an acquisition, the difference between the fair value, which is estimated using inputs that are classified within Level 2 of the fair value hierarchy, and the face value of debt is recorded as a premium or discount and amortized as interest expense over the life of the debt assumed.

Real estate assets, including land, buildings, improvements, furniture, fixtures and equipment, and intangible lease assets are stated at historical cost less accumulated depreciation and amortization. Costs incurred in making repairs and maintaining real estate assets are expensed as incurred. Expenditures for improvements, renovations, and replacements are capitalized at cost. Real estate-related depreciation and amortization are computed on a straight-line basis over the estimated useful lives as described in the following table:

Land	Not depreciated
Buildings (in years).....	30
Improvements (in years) .....	15
Furniture, fixtures, and equipment (in years).....	3
Intangible lease assets (in months).....	6

Post-acquisition, construction in progress includes the cost of renovation projects being performed at the various properties. Once a project is complete, the historical cost of the renovation is placed into service in one of the categories above depending on the type of renovation project and is depreciated over the estimated useful lives as described in the table above.

## *Secured Financing and Master Repurchase Agreements*

The Company's borrowings under secured financing agreements and master repurchase agreements are treated as collateralized financing arrangements carried at their contractual amounts, net of unamortized debt issuance costs, if any.

## *Income Recognition*

*Interest Income* - Loans and mortgage loans held-for-investment, CMBS structured pass-through certificates, mortgage loans held in variable interest entities, bridge loans, MSCR Notes and mortgage backed securities where the Company expects to collect the contractual interest and principal payments are considered to be performing loans. The Company recognizes income on performing loans in accordance with the terms of the loan on an accrual basis. Interest income also includes amortization of loan premiums or discounts and loan origination costs and prepayment penalties.

*Realized Gain (Loss) on Investments* - The Company recognizes the excess, or deficiency, of net proceeds received, less the carrying value of such investments, as realized gains or losses, respectively. The Company reverses cumulative, unrealized gains or losses previously reported in its Consolidated Statements of Operations with respect to the investment sold at the time of the sale.

## *Revenue Recognition*

The Company owns two multifamily properties whereby its primary operations consist of rental income earned from its residents under lease agreements typically with terms of one year or less. See Note 8 for additional information regarding these multifamily properties. Rental income is recognized when earned. This policy effectively results in income recognition on the straight-line method over the related terms of the leases. The Company records an allowance to reflect revenue that may not be collectable. This is recorded through a provision for bad debts, which is included in rental income in the accompanying Consolidated Statements of Operations. Resident reimbursements and other income consist of charges billed to residents for utilities, carport and garage rental, pets and administrative, application and other fees and are recognized when earned. The Company implemented the provisions of Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09") as of December 31, 2021. The adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial statements as a substantial portion of its revenue consists of rental income from leasing arrangements, which is specifically excluded from ASU 2014-09.

In July 2018, the FASB issued ASU 2018-11, *Leases – Targeted Improvements* ("ASU 2018-11"), which provides entities with relief from the costs of implementing certain aspects of ASU 2016-02. ASU 2018-11 provides a practical expedient that allows lessors to not separate lease and non-lease components in a contract and allocate the consideration in the contract to the separate components if both (i) the timing and pattern of revenue recognition for the non-lease component and the related lease component are the same and (ii) the combined single lease component would be classified as an operating lease. The Company elected the practical expedient to account for lease and non-lease components as a single component in lease contracts where the Company is the lessor. The Company implemented the provisions of ASU 2018-11 and 2016-02, collectively Topic 842 Leases ("ASC 842"), effective January 1, 2022. The Company presents the disclosure of leases in the consolidated statements of operations and began presenting all rentals and reimbursements from tenants within revenues and expenses from consolidated real estate owned on the Consolidated Statements of Operations (Note 8).

## *Expense Recognition*

Interest expense, in accordance with the Company's financing agreements, is recorded on the accrual basis. General and administrative expenses are expensed as incurred.

## *Allowance for Loan Losses*

The Company, with the assistance of an independent valuations firm, performs a quarterly evaluation of loans classified as held for investment for impairment on a loan-by-loan basis in accordance with ASC 310-10-35, *Receivables, Subsequent Measurement* ("ASC 310-10-35"). If the Company determines that it is probable that it will be unable to collect all amounts owed according to the contractual terms of a loan, impairment of that loan is indicated. If a loan is considered to be impaired, the Company will establish an allowance for loan losses, through a valuation provision in earnings that reduces carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral. For non-impaired loans with no specific allowance the Company determines an allowance for loan losses in accordance with ASC 450-20, *Loss Contingencies* ("ASC 450-20"), which represents management's best estimate of incurred losses inherent in the portfolio at the balance sheet date, excluding impaired loans and loans carried at fair value. Management considers quantitative factors likely to cause estimated credit losses, including default rate and loss severity rates. The Company also evaluates qualitative factors such as



macroeconomic conditions, evaluations of underlying collateral, trends in delinquencies and non-performing assets. Increases to (or reversals of) the allowance for loan loss are included in “Loan loss (provision)” on the accompanying Consolidated Statements of Operations.

Significant judgment is required in determining impairment and in estimating the resulting loss allowance, and actual losses, if any, could materially differ from those estimates.

The Company performs a quarterly review of the portfolio. In conjunction with this review, the Company assesses the risk factors of each loan, including, without limitation, loan-to-value ratio, debt yield, property type, geographic and local market dynamics, physical condition, collateral, cash-flow volatility, leasing and tenant profile, loan structure, exit plan and project sponsorship. Based on a 5-point scale, our loans are rated “1” through “5,” from least risk to greatest risk, respectively, which ratings are defined as follows:

1 – Outperform – Materially exceeds performance metrics (for example, technical milestones, occupancy, rents, and net operating income) included in original or current credit underwriting and business plan;

2 – Exceeds Expectations – Collateral performance exceeds substantially all performance metrics included in original or current credit underwriting and business plan;

3 – Satisfactory – Collateral performance meets, or is on track to meet, underwriting; business plan is met or can reasonably be achieved;

4 – Underperformance – Collateral performance falls short of underwriting, material differences exist from business plan, or both; technical milestones have been missed; defaults may exist or may soon occur absent material improvement; and

5 – Risk of Impairment/Default – Collateral performance is significantly worse than underwriting; major variance from business plan; loan covenants or technical milestones have been breached; timely exit from loan via sale or refinancing is questionable.

The Company regularly evaluates the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral, as well as the financial and operating capability of the borrower. Specifically, the collateral’s operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan and/or (iii) the collateral’s liquidation value. The Company also evaluates the financial condition of any loan guarantors, as well as any changes in the borrower’s competency in managing and operating the collateral. In addition, the Company considers the overall economic environment, real estate or industry sector and geographic sub-market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including (i) periodic financial data such as property operating statements, occupancy, tenant profile, rental rates, operating expenses, the borrower’s exit plan and capitalization and discount rates, (ii) site inspections and (iii) current credit spreads and discussions with market participants.

The Company considers loans to be past-due when a monthly payment is due and unpaid for 60 days or more. Loans will be placed on nonaccrual status and considered non-performing when full payment of principal and interest is in doubt, which generally occurs when they become 120 days or more past-due unless the loan is both well secured and in the process of collection. Accrual of interest on individual loans is discontinued when management believes that, after considering economic and business conditions and collection efforts, the borrower’s financial condition is such that collection of interest is doubtful. Our policy is to cease accruing interest when a loan’s delinquency exceeds 120 days. All interest accrued but not collected for loans that are placed on nonaccrual status or subsequently charged-off are reversed against interest income. Income is subsequently recognized on the cash basis until, in management’s judgment, the borrower’s ability to make periodic principal and interest payments returns and future payments are reasonably assured, in which case the loan is returned to accrual status.

For individual loans, a troubled debt restructuring is a formal restructuring of a loan where, for economic or legal reasons related to the borrower’s financial difficulties, a concession that would not otherwise be considered is granted to the borrower. The concession may be granted in various forms, including providing a below-market interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a combination of these. An individual loan that has had a troubled debt restructuring is considered to be impaired and is subject to the relevant accounting for impaired loans. As of and for the year ended December 31, 2022, the Company had no loans in forbearance agreements or loan modifications and thus no troubled debt restructurings.



A loan is written off when it is no longer realizable and/or it is legally discharged.

The Company will evaluate acquired loans and debt securities for which it is probable at acquisition that all contractually required payments will not be collected in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. During the year ended December 31, 2022, there were no loans acquired with deteriorated credit quality.

#### *Fair Value*

GAAP requires the categorization of the fair value of financial instruments into three broad levels that form a hierarchy based on the transparency of inputs to the valuation.

Level 1 – Inputs are adjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs are other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar instruments in active markets, and inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, related market activity for the asset or liability.

The Company follows this hierarchy for our financial instruments. Classifications will be based on the lowest level of input that is significant to the fair value measurement. The Company reviews the valuation of Level 3 financial instruments as part of our quarterly process.

#### *Valuation of Consolidated VIEs*

The Company reports the financial assets and liabilities of each consolidated CMBS trust at fair value using the measurement alternative included in ASU No. 2014-13, *Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity* (“ASU 2014-13”). Pursuant to ASU 2014-13, both the financial assets and financial liabilities of the consolidated CMBS trusts are measured using the fair value of the financial liabilities (which are considered more observable than the fair value of the financial assets) and the equity of the CMBS trusts beneficially owned by the Company. As a result, the CMBS issued by the consolidated trusts, but not beneficially owned by us, are presented as financial liabilities in our consolidated financial statements, measured at their estimated fair value; the Company measured the financial assets as the total estimated fair value of the CMBS issued by the consolidated trust, regardless of whether such CMBS represent interests beneficially owned by the Company. Under the measurement alternative prescribed by ASU 2014-13, “Net income (loss)” reflects the economic interests in the consolidated CMBS beneficially owned by the Company, presented as “Change in net assets related to consolidated CMBS variable interest entities” in the Consolidated Statements of Operations, which includes applicable (1) changes in the fair value of CMBS beneficially owned by the Company, (2) interest income, interest expense and servicing fees earned from the CMBS trusts and (3) other residual returns or losses of the CMBS trusts, if any.

#### *Valuation Methodologies*

*CMBS Trusts* - The financial liabilities and equity of the consolidated CMBS trusts were valued using broker quotes. Broker quotes represent the price that an investment could be sold for in a market transaction and represent fair market value. Loans and bonds with quotes that are based on actual trades with a sufficient level of activity on or near the valuation date are classified as Level 2 assets. Loans and bonds that are priced using quotes derived from implied values, bid/ask prices for trades that were never consummated, or a limited amount of actual trades are classified as Level 3 assets because the inputs used by the brokers and pricing services to derive the values are not readily observable.

*CMBS Structured Pass-Through Certificates, MSKR Notes and Mortgage Backed Securities* - CMBS structured pass-through certificates (“CMBS I/O Strips”), MSKR Notes and mortgage backed securities are categorized as Level 2 assets in the fair value hierarchy. CMBS I/O Strips, MSKR notes and mortgage backed securities are valued using broker quotes. Broker quotes represent the price that an investment could be sold for in a market transaction and represent fair market value. Loans and bonds with quotes that are based on actual trades with a sufficient level of activity on or near the valuation date are classified as Level 2 assets.

*SFR Loans, Preferred Equity Investments, Mezzanine Loans and Convertible Notes* - SFR Loans, preferred equity, mezzanine loans and convertible debt investments are categorized as Level 3 assets in the fair value hierarchy. SFR Loans, preferred equity, mezzanine loans, and convertible debt investments are valued using a discounted cash flow model using discount rates derived from observable market data applied to the internal rate of return implied by the expected contractual cash flows. The valuation is done for disclosure purposes only as these investments are not carried at fair value on the consolidated balance sheet.

*Common Stock Investments* - The common stock investment in NexPoint Storage Partners, Inc. ("NSP") is categorized as a Level 3 asset in the fair value hierarchy. Despite our ability to exercise significant influence, the Company chose to value the NSP investment using the fair value option in accordance with ASC 825-10. The common stock investment in a private ground lease REIT (the "Private REIT") is presented at fair value using the fair value option in accordance with ASC 825-10. The investment is categorized as a Level 3 asset in the fair value hierarchy. See Note 5 for additional disclosures regarding the fair value of these investments.

*Repurchase Agreements* - The repurchase agreements are categorized as Level 3 liabilities in the fair value hierarchy as such liabilities represent borrowings on collateral with terms specific to each borrower. Given the short to moderate term of the floating-rate facilities, the Company expects the fair value of repurchase agreements to approximate their outstanding principal balances.

*Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis* - Certain assets not measured at fair value on an ongoing basis but that are subject to fair-value adjustments only in certain circumstances, such as when there is evidence of impairment, will be measured at fair value on a nonrecurring basis. For first mortgage loans, mezzanine loans and preferred equity investments, the Company applies the amortized cost method of accounting.

Overall, our determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are our best estimates after consideration of a variety of internal and external factors. When an independent valuation firm expresses an opinion on the fair value of a financial instrument in the form of a range, the Company selects a value within the range provided by the independent valuation firm, generally the midpoint, to assess the reasonableness of our estimated fair value for that financial instrument.

#### *Income Taxes*

The Company has elected to be taxed as a REIT. As a result of the Company's REIT qualification, the Company does not expect to pay U.S. federal corporate level taxes. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement to distribute annually at least 90% of its "REIT taxable income," as defined by the Code, to its stockholders. If the Company fails to meet these requirements, it could be subject to federal income tax on all of the Company's taxable income at regular corporate rates for that year. The Company would not be able to deduct distributions paid to stockholders in any year in which it fails to qualify as a REIT. Additionally, the Company will also be disqualified from electing to be taxed as a REIT for the four taxable years following the year during which qualification was lost unless the Company is entitled to relief under specific statutory provisions. Taxable income from certain non-REIT activities is managed through a taxable REIT subsidiary ("TRS"), which is subject to U.S. federal and applicable state and local corporate income taxes. As of December 31, 2022, the Company believes it is in compliance with all applicable REIT requirements and had no significant taxes associated with its TRS.

The Company evaluates the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more-likely-than-not" (greater than 50 percent probability) of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Our management is required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which include federal and certain states. There are no examinations in progress and none are expected at this time.

The Company recognizes its tax positions and evaluates them using a two-step process. First, the Company determines whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Second, the Company will determine the amount of benefit to recognize and record the amount that is more likely than not to be realized upon ultimate settlement. The Company had no material unrecognized tax benefit or expense, accrued interest or penalties as of December 31, 2022.

## Recent Accounting Pronouncements

Section 107 of the Jumpstart Our Business Startups Act (“JOBS Act”) provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), for complying with new or revised accounting standards applicable to public companies. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company has elected to take advantage of this extended transition period. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates for such new or revised standards. The Company may elect to comply with public company effective dates at any time, and such election would be irrevocable pursuant to Section 107(b) of the JOBS Act.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses on Financial Instruments* (“ASU 2016-13”), which establishes credit losses on certain types of financial instruments. The new approach changes the impairment model for most financial assets and will require the use of an “expected credit loss” model for financial instruments measured at amortized cost and certain other instruments. This model applies to trade and other receivables, loans, debt securities, net investments in leases and off-balance sheet credit exposures (such as loan commitments, standby letters of credit and financial guarantees not accounted for as insurance) and requires entities to estimate the lifetime expected credit loss on such instruments and record an allowance that represents the portion of the amortized cost basis that the entity does not expect to collect.

We adopted the guidance in the first quarter of 2023. The implementation process included the utilization of loan loss forecasting models, updates to our loan credit loss policy documentation, changes to internal reporting processes and related internal controls, and overall operational readiness for our adoption of the new standard. We have implemented loan loss forecasting models for estimating expected life-time credit losses, at the individual loan level, for our loan portfolio. The Current Expected Credit Loss (“CECL”) forecasting methods used by the Company include (i) a probability of default and loss given default method using underlying third-party CMBS/Commercial Real Estate loan database with historical loan losses from 1998 to 2022, and (ii) probability weighted expected cash flow method, depending on the type of loan and the availability of relevant historical market loan loss data. We might use other acceptable alternative approaches in the future depending on, among other factors, the type of loan, underlying collateral, and availability of relevant historical market loan loss data. Significant inputs to our forecasting methods include (i) key loan-specific inputs such as loan-to-value, vintage year, loan-term, underlying property type, occupancy, geographic location, performance against the underwritten business plan, and our internal loan risk rating, and (ii) a macro-economic environment forecast.

Based on our loan portfolio at December 31, 2022, the current economic environment and the Company’s expectations for future economic conditions, upon the adoption of CECL forecasting methods we expect to record a cumulative-effect adjustment to our retained earnings as of January 1, 2023 within a range of approximately \$2 million to \$4 million, or \$0.12 to \$0.23 per common share, respectively.

In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, which updated the effective dates of implementation to align the implementation date for annual and interim financial statements as well as clarify the scope of the guidance in ASU 2016-13. This standard’s effective date is the same as ASU 2016-13.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326. Financial Instruments – Credit Losses*, which is intended to clarify the guidance introduced by ASU 2016-13. This standard’s effective date is the same as ASU 2016-13.

In May 2019, the FASB issued ASU 2019-05, *Targeted Transition Relief for Topic 326. Financial Instruments – Credit Losses*, which provides for an option to irrevocably elect the fair-value option for certain financial assets previously measured at amortized cost basis. Other than the Company’s investment in CMBS, the Company does not currently expect to elect the fair-value option for assets expected to be held at amortized cost. This standard’s effective date is the same as ASU 2016-13.

In March 2020, the FASB issued AU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions to the US GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the U.S. Dollar London Interbank Offered Rate (“LIBOR”) and other interbank offered rates to alternative reference rates. The guidance is effective upon issuance and generally may be elected over time through December 31, 2024. The Company has not adopted any of the optional expedients or exceptions through December 31, 2022 but will continue to evaluate the possible adoption of any such expedients or exceptions during the effective period as circumstances evolve.

In December 2022, the FASB issued ASU 2022-06, *Deferral of the Sunset Date of Topic 848* ("ASU 2022-06") which was issued to defer the sunset date of *Reference Rate Reform (Topic 848)*: Facilitation of the Effects of Reference Rate Reform to December 31, 2024. ASU 2022-06 is effective immediately for all companies. ASU 2022-06 will have no impact on the Company's consolidated financial statements for the year ended December 31, 2022.

### 3. Loans Held for Investment, Net

The Company's investments in mortgage loans, mezzanine loans, preferred equity and convertible notes are accounted for as loans held for investment. The mortgage loans are presented as "Mortgage loans, held-for-investment, net" and the mezzanine loans, preferred equity and convertible notes are presented as "Loans, held-for-investment, net" on the Consolidated Balance Sheets. The following tables summarize our loans held-for-investment as of December 31, 2022 and December 31, 2021, respectively (dollars in thousands):

Loan Type	Outstanding Face Amount	Carrying Value (1)	Loan Count	Weighted Average		
				Fixed Rate (2)	Coupon (3)	Life (years) (4)
December 31, 2022						
Mortgage loans, held-for-investment .....	\$ 688,046	\$ 726,531	15	100.00 %	4.81 %	5.36
Mezzanine loans, held-for-investment .....	163,021	165,182	23	63.99 %	10.42 %	5.39
Preferred equity, held-for-investment .....	91,382	90,965	10	67.69 %	11.51 %	2.76
	\$ 942,449	\$ 982,678	48	90.64 %	6.43 %	5.11

- (1) Carrying value includes the outstanding face amount plus unamortized purchase premiums/discounts and any allowance for loan losses.
- (2) The weighted-average of loans paying a fixed rate is weighted on current principal balance.
- (3) The weighted-average coupon is weighted on outstanding face amount.
- (4) The weighted-average life is weighted on outstanding face amount and assumes no prepayments. The maturity date for preferred equity investments represents the maturity date of the senior mortgage, as the preferred equity investments require repayment upon the sale or refinancing of the asset.

Loan Type	Outstanding Face Amount	Carrying Value (1)	Loan Count	Weighted Average		
				Fixed Rate (2)	Coupon (3)	Life (years) (4)
December 31, 2021						
Mortgage loans, held-for-investment .....	\$ 795,223	\$ 847,364	21	100.00 %	4.85 %	6.45
Mezzanine loans, held-for-investment .....	152,144	154,516	23	69.28 %	8.03 %	6.50
Preferred equity, held-for-investment .....	66,697	66,624	6	100.00 %	10.52 %	3.84
Convertible note, held-for-investment .....	20,478	20,377	1	100.00 %	9.00 %	1.99
	\$ 1,034,542	\$ 1,088,881	51	95.48 %	5.77 %	6.20

(1) Carrying value includes the outstanding face amount plus unamortized purchase premiums/discounts and any allowance for loan losses.

(2) The weighted-average of loans paying a fixed rate is weighted on current principal balance.

(3) The weighted-average coupon is weighted on outstanding face amount.

(4) The weighted-average life is weighted on outstanding face amount and assumes no prepayments. The maturity date for preferred equity investments represents the maturity date of the senior mortgage, as the preferred equity investments require repayment upon the sale or refinancing of the asset.

For the years ended December 31, 2022 and 2021, the loan and preferred equity portfolio activity was as follows (in thousands):

	For the Year Ended December 31,	
	2022	2021
<b>Balance at December 31,</b> .....	\$ 1,088,881	\$ 1,045,891
Originations.....	110,502	117,727
Proceeds from principal repayments .....	(178,990)	(62,991)
Conversion of convertible bonds to common stock .....	(25,000)	—
PIK distribution reinvested in Preferred Units .....	715	91
Amortization of loan premium, net (1).....	(13,261)	(10,907)
Loan loss provision .....	(169)	(189)
Realized losses .....	—	(741)
<b>Balance at December 31,</b> .....	<u>\$ 982,678</u>	<u>\$ 1,088,881</u>

(1) Includes net amortization of loan purchase premiums.

As of December 31, 2022 and December 31, 2021, there were \$40.9 million and \$55.0 million of unamortized premiums on loans, held-for-investment, net, respectively, on the Consolidated Balance Sheets.

As discussed in Note 2, the Company evaluates loans classified as held-for-investment on a loan-by-loan basis every quarter. In conjunction with the review of the portfolio, the Company assesses the risk factors of each loan and assign a risk rating based on a variety of factors. Loans are rated “1” through “5,” from least risk to greatest risk, respectively. See Note 2 for a more detailed discussion of the risk factors and ratings. The following tables allocate the principal balance and net book value of the loan portfolio based on our internal risk ratings (dollars in thousands):

		December 31, 2022		
	Risk Rating	Number of Loans	Carrying Value	% of Loan Portfolio
	1 .....	—	\$ —	—
	2 .....	—	—	—
	3 .....	48	982,678	100.00 %
	4 .....	—	—	—
	5 .....	—	—	—
		48	\$ 982,678	100.00 %
		December 31, 2021		
	Risk Rating	Number of Loans	Carrying Value	% of Loan Portfolio
	1 .....	—	\$ —	—
	2 .....	—	—	—
	3 .....	51	1,088,881	100.00 %
	4 .....	—	—	—
	5 .....	—	—	—
		51	\$ 1,088,881	100.00 %

As of December 31, 2022, all 48 loans held-for-investment in our portfolio were rated “3,” or “Satisfactory” based on the factors assessed by the Company and discussed in Note 2.

The following tables present the geographies and property types of collateral underlying the Company’s loans held-for-investment as a percentage of the loans’ face amounts.

Geography	December 31, 2022	December 31, 2021
Georgia .....	34.04 %	38.93 %
Florida.....	19.34 %	16.90 %
Texas.....	11.21 %	7.74 %
Nevada .....	0.30 %	*
Maryland.....	5.59 %	5.66 %
Minnesota .....	6.97 %	4.86 %
California .....	4.66 %	2.53 %
Alabama.....	3.81 %	3.35 %
North Carolina .....	2.65 %	2.23 %
Arkansas .....	1.42 %	*
Missouri .....	0.95 %	1.19 %
New Jersey.....	*	2.83 %
Connecticut.....	*	2.87 %
Other (17 and 19 states each at <1%) .....	9.06 %	10.91 %
	100.00 %	100.00 %

\* Included in "Other."



<b>Collateral Property Type</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Single Family Rental.....	72.26 %	76.15 %
Multifamily .....	23.11 %	20.32 %
Life Science .....	2.85 %	3.53 %
Self-Storage .....	1.79 %	— %
	<u>100.00 %</u>	<u>100.00 %</u>

#### 4. CMBS Trusts

As of December 31, 2022, the Company consolidated all of the CMBS Entities that it determined are VIEs and for which the Company is the primary beneficiary. The Company elected the fair-value measurement alternative in accordance with ASU 2014-13 for each of the trusts and carries the fair values of the trust's assets and liabilities at fair value in its Consolidated Balance Sheets; recognizes changes in the trust's net assets, including changes in fair-value adjustments and net interest earned, in its Consolidated Statements of Operations; and records cash interest received from the trusts and cash interest paid to bondholders of the CMBS not beneficially owned by the Company, as financing cash-flows.

The following table presents the Company's recognized Trust's Assets and Liabilities (in thousands):

<b>Trust's Assets</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Mortgage loans held in variable interest entities, at fair value.....	\$ 6,720,246	\$ 7,192,547
Accrued interest receivable.....	4,029	2,212
<b>Trust's Liabilities</b>		
Bonds payable held in variable interest entities, at fair value .....	(6,249,804)	(6,726,272)
Accrued interest payable.....	(3,207)	(1,500)

The following table presents "Change in net assets related to consolidated CMBS variable interest entities" (in thousands):

	<b>For the Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Net interest earned .....	\$ 35,866	\$ 27,780
Unrealized gain (loss) .....	(25,627)	29,838
Change in net assets related to consolidated CMBS variable interest entities.....	<u>\$ 10,239</u>	<u>\$ 57,618</u>

The following tables present the geographies and property types of collateral underlying the CMBS trusts consolidated by the Company as a percentage of the collateral unpaid principal balance:

<b>Geography</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Texas.....	17.95 %	16.88 %
Florida.....	13.82 %	14.77 %
Arizona .....	6.98 %	10.37 %
California .....	9.28 %	8.50 %
Georgia .....	4.68 %	4.97 %
Washington .....	6.88 %	6.19 %
New Jersey.....	3.97 %	4.65 %
Nevada .....	1.99 %	3.51 %
Pennsylvania .....	1.01 %	*
Colorado .....	6.21 %	4.08 %
Connecticut .....	3.64 %	3.02 %
North Carolina .....	3.53 %	3.12 %
New York.....	2.76 %	2.45 %
Ohio .....	2.00 %	1.72 %
Virginia .....	1.62 %	1.70 %
Indiana .....	1.69 %	1.68 %
Illinois.....	1.37 %	*
Michigan .....	1.11 %	*
South Carolina .....	*	1.56 %
Maryland.....	*	1.55 %
Missouri .....	1.25 %	1.26 %
Other (22 and 22 states each at <1%) .....	8.26 %	8.02 %
	<u>100.00 %</u>	<u>100.00 %</u>

\* Included in "Other."

<b>Collateral Property Type</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Multifamily .....	98.45 %	98.42 %
Manufactured Housing.....	1.55 %	1.58 %
	<u>100.00 %</u>	<u>100.00 %</u>

## 5. Common Stock Investments

The Company owns approximately 25.8% of the total outstanding shares of common stock of NSP and thus can exercise significant influence over NSP. NSP is a VIE and the Company has determined that it is not the primary beneficiary of NSP. The investment qualifies to be accounted for using the equity method. However, the Company elected the fair-value option in accordance with ASC 825-10-10 for NSP.

The investment in NSP is a Level 3 asset in the fair value hierarchy and was initially measured using the entry price of the asset. The Company's valuation policy for common stock is to use readily available market prices on the relevant valuation date to the extent they are available. On a quarterly basis, the Company determines the value using widely accepted valuation techniques. A bottoms up approach was used by valuing the wholly-owned self-storage assets in aggregate and development loans individually. In this bottoms-up approach, the discounted cash flow methodology is applied to the self-storage assets owned by NSP. Additionally, the income approach is used to determine the fair value of the development loans owned by NSP whereby contractual cash flows are discounted at observable market discount rates. In addition, as a secondary check for reasonableness, a top down approach was applied whereby observable market terminal capitalization rates and

discount rates are applied to the consolidated NSP cash flows. The valuation relies primarily on the bottoms-up approach, but uses the top down approach to corroborate the bottoms-up conclusion with a reasonable precision.

The Company owned approximately 6.36% of the total outstanding shares of common stock of the Private REIT as of December 31, 2022. The Company elected the fair-value option in accordance with ASC 825-10-10 for the Private REIT.

The investment in the Private REIT is a Level 3 asset in the fair value hierarchy and was initially measured using the convertible notes conversion share price of \$17.50. On April 14, 2022, the two convertible notes converted into 1,394,213 shares or \$25.0 million of common stock in the Private REIT, the parent company of the borrower under the convertible notes. As of December 31, 2022, the Company valued this investment based on the Private REIT's recent transaction price of \$20.00 per share.

The following table presents the common stock investments as of December 31, 2022 and December 31, 2021, respectively (in thousands, except share amounts):

Investment	Investment Date	Property Type	Shares		Fair Value	
			December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Common Stock						
NexPoint Storage Partners.....	11/6/2020	Self-storage	41,963	41,963	\$ 50,380	\$ 58,460
Private REIT.....	4/14/2022	Ground lease	1,394,213	—	27,884	—

#### 6. CMBS Structured Pass-Through Certificates, MSCR Notes and Mortgage Backed Securities

As of December 31, 2022, the Company held twelve CMBS I/O Strips, three MSCR Notes and six mortgage backed securities at fair value. The CMBS I/O Strips consist of interest only tranches of Freddie Mac structured pass-through certificates with underlying portfolios of fixed-rate mortgage loans secured primarily by stabilized multifamily properties. The MSCR Notes are unguaranteed securities designed to transfer to investors a portion of the credit risk associated with eligible multifamily mortgages linked to a reference pool. Mortgage backed securities receive principal and interest on floating-rate loans secured by SFR, multifamily and self-storage properties. See Note 2 and Note 10 for additional disclosures regarding valuation methodologies for the CMBS I/O Strips, MSCR Notes and mortgage backed securities.

The following tables present the CMBS I/O Strips, MSCR Notes and mortgage backed securities as of December 31, 2022 and December 31, 2021, respectively (in thousands):

Investment	Investment Date	Carrying Value	Property Type	Interest Rate	Current Yield (1)	Maturity Date
<b>CMBS I/O Strips</b>						
CMBS I/O Strip.....	5/18/2020	\$ 1,807	Multifamily	2.02 %	14.56 %	9/25/2046
CMBS I/O Strip.....	8/6/2020	18,364	Multifamily	2.98 %	15.98 %	6/25/2030
CMBS I/O Strip.....	4/28/2021 (2)	5,676	Multifamily	1.59 %	15.52 %	1/25/2030
CMBS I/O Strip.....	5/27/2021	3,693	Multifamily	3.39 %	15.73 %	5/25/2030
CMBS I/O Strip.....	6/7/2021	455	Multifamily	2.31 %	18.91 %	11/25/2028
CMBS I/O Strip.....	6/11/2021 (3)	4,188	Multifamily	1.19 %	13.34 %	5/25/2029
CMBS I/O Strip.....	6/21/2021	1,117	Multifamily	1.18 %	16.77 %	5/25/2030
CMBS I/O Strip.....	8/10/2021	2,445	Multifamily	1.89 %	15.87 %	4/25/2030
CMBS I/O Strip.....	8/11/2021	1,333	Multifamily	3.10 %	13.74 %	7/25/2031
CMBS I/O Strip.....	8/24/2021	250	Multifamily	2.61 %	14.44 %	1/25/2031
CMBS I/O Strip.....	9/1/2021	3,726	Multifamily	1.92 %	15.03 %	6/25/2030
CMBS I/O Strip.....	9/11/2021	3,822	Multifamily	2.95 %	13.70 %	9/25/2031
<b>Total .....</b>		<u>\$ 46,876</u>		<u>2.46 %</u>	<u>15.32 %</u>	
<b>MSCR Notes</b>						
MSCR Notes .....	5/25/2022	4,019	Multifamily	13.02 %	13.02 %	5/25/2052
MSCR Notes .....	5/25/2022	4,988	Multifamily	10.02 %	10.02 %	5/25/2052
MSCR Notes .....	9/23/2022	1,306	Multifamily	10.37 %	11.40 %	11/25/2051
<b>Total .....</b>		<u>\$ 10,313</u>		<u>11.23 %</u>	<u>11.36 %</u>	
<b>Mortgage Backed Securities</b>						
Mortgage Backed Securities.....	6/1/2022	9,638	Single-Family	7.08 %	7.39 %	4/17/2026
Mortgage Backed Securities.....	6/1/2022	8,966	Single-Family	4.87 %	5.08 %	11/19/2025
Mortgage Backed Securities.....	7/28/2022	526	Single-Family	6.23 %	6.33 %	10/17/2027
Mortgage Backed Securities.....	7/28/2022	819	Single-Family	3.60 %	4.23 %	6/20/2028
Mortgage Backed Securities.....	9/12/2022	4,473	Multifamily	9.29 %	9.27 %	1/25/2031
Mortgage Backed Securities.....	9/29/2022	7,906	Self Storage	9.57 %	9.59 %	9/15/2027
<b>Total .....</b>		<u>\$ 32,328</u>		<u>7.28 %</u>	<u>7.45 %</u>	

(1) Current yield is the annualized income earned divided by the cost basis of the investment.

(2) The Company, through the Subsidiary OPs, purchased approximately \$50.0 million and \$15.0 million aggregate notional amount of the X1 interest-only tranche of the FHMS K-107 CMBS I/O Strip on April 28, 2021 and May 4, 2021, respectively.

(3) The Company, through the Subsidiary OPs, purchased approximately \$80.0 million, \$35.0 million, \$40.0 million and \$50.0 million aggregate notional amount of the X1 interest-only tranche of the FRESB 2019-SB64 CMBS I/O Strip on June 11, 2021, September 29, 2021, February 3, 2022 and March 18, 2022, respectively.

Investment	Investment Date	Carrying Value	Property Type	Interest Rate	Current Yield (1)	Maturity Date
<b>CMBS I/O Strips</b>						
CMBS I/O Strip....	5/18/2020	\$ 2,356	Multifamily	2.02 %	14.47 %	9/25/2046
CMBS I/O Strip....	8/6/2020	8,383	Multifamily	0.10 %	14.67 %	6/25/2030
CMBS I/O Strip....	8/6/2020	23,188	Multifamily	2.98 %	14.48 %	6/25/2030
CMBS I/O Strip....	4/28/2021 (2)	7,274	Multifamily	1.59 %	13.88 %	1/25/2030
CMBS I/O Strip....	5/27/2021	4,781	Multifamily	3.38 %	14.16 %	5/25/2030
CMBS I/O Strip....	6/7/2021	589	Multifamily	2.31 %	16.56 %	11/25/2028
CMBS I/O Strip....	6/11/2021 (3)	6,424	Multifamily	1.26 %	13.57 %	5/25/2029
CMBS I/O Strip....	6/21/2021	1,850	Multifamily	1.20 %	17.02 %	5/25/2030
CMBS I/O Strip....	8/10/2021	3,246	Multifamily	1.89 %	14.30 %	4/25/2030
CMBS I/O Strip....	8/11/2021	1,697	Multifamily	3.10 %	12.55 %	7/25/2031
CMBS I/O Strip....	8/24/2021	317	Multifamily	2.61 %	13.14 %	1/25/2031
CMBS I/O Strip....	9/1/2021	4,827	Multifamily	1.92 %	13.53 %	6/25/2030
CMBS I/O Strip....	9/11/2021	4,884	Multifamily	2.95 %	12.55 %	9/25/2031
<b>Total .....</b>		<u>\$ 69,816</u>				

- (1) Current yield is the annualized income earned divided by the cost basis of the investment
- (2) The Company, through the Subsidiary OPs, purchased approximately \$50.0 million and \$15.0 million aggregate notional amount of the X1 interest-only tranche of the FHMS K-107 CMBS I/O Strip on April 28, 2021 and May 4, 2021, respectively.
- (3) The Company, through the Subsidiary OPs, purchased approximately \$80.0 million, \$35.0 million, \$40.0 million and \$50.0 million aggregate notional amount of the X1 interest-only tranche of the FRESB 2019-SB64 CMBS I/O Strip on June 11, 2021 and September 29, 2021, respectively.

The following table presents activity related to the Company's CMBS I/O Strips, MSCR notes and mortgage-backed securities (in thousands):

	For the Year Ended December 31,	
	2022	2021
Net interest earned .....	\$ 5,668	\$ 3,052
Change in unrealized gain (loss) on CMBS structured pass-through certificates .....	(12,664)	(483)
Realized gain on CMBS structured pass-through certificates .....	—	484
Change in unrealized gain (loss) on MSCR notes .....	(53)	—
Change in unrealized (loss) on mortgage backed securities .....	(1,230)	—
<b>Total .....</b>	<u>\$ (8,279)</u>	<u>\$ 3,053</u>

## 7. Bridge Loan

On March 31, 2022, the Company, through one of the Subsidiary OPs, originated a bridge loan for \$13.5 million. The bridge loan was secured by a development property in Las Vegas, Nevada, and was used by the borrower to finance the acquisition of the property prior to obtaining construction financing. The loan bore interest at a rate of 1.50% plus the Wall Street Journal Prime Rate ("WSJ Prime") and was set to mature on October 1, 2022. On August 9, 2022, the bridge loan was paid off.

## 8. Real Estate Investments, net

On December 31, 2021, the Company acquired a 204-unit multifamily property in Charlotte, North Carolina (Hudson Montford). As of December 31, 2022, the property was 96.1% occupied compared to 95.6% as of December 31, 2021 with effective rent per occupied unit of \$1,663 per month as of December 31, 2022 compared to \$1,526 per month as of December 31, 2021. On February 1, 2022, the Company acquired a 368-unit multifamily property in Las Vegas, Nevada

(Elysian at Hughes Center). As of December 31, 2022, the property was 94.0% occupied with effective rent per occupied unit of \$1,927 per month as of December 31, 2022. The Company does not expect to maintain a common equity interest in this property and through an expected restructuring subsequent to December 31, 2022, the investment is expected to be deconsolidated and presented solely as a preferred equity investment in 2023.

As of December 31, 2022, the major components of the Company's investments in multifamily properties were as follows (in thousands):

<b>Real Estate Investments, Net</b>	<b>Land</b>	<b>Buildings and Improvements</b>	<b>Intangible Lease Assets</b>	<b>Construction in Progress</b>	<b>Furniture, Fixtures and Equipment</b>	<b>Totals</b>
Hudson Montford .....	\$ 10,996	\$ 49,831	\$ —	\$ 2	\$ 602	\$ 61,431
Elysian at Hughes (1).....	25,590	160,141	—	—	—	185,731
Accumulated depreciation and amortization .....	—	(1,752)	—	—	(188)	(1,940)
<b>Total Real Estate Investments, Net ....</b>	<b>\$ 36,586</b>	<b>\$ 208,220</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ 414</b>	<b>\$ 245,222</b>

- (1) Elysian at Hughes is classified as held for sale and is not depreciated. The Company sold common interests in the entity that owns the property to third-party investors throughout 2022. Elysian at Hughes is subject to mortgage debt with an outstanding principal balance of approximately \$89.6 million

As of December 31, 2021, the major components of the Company's investments in multifamily properties were as follows (in thousands):

<b>Real Estate Investment, Net</b>	<b>Land</b>	<b>Buildings and Improvements</b>	<b>Intangible Lease Assets</b>	<b>Construction in Progress</b>	<b>Furniture, Fixtures and Equipment</b>	<b>Totals</b>
Hudson Montford .....	\$ 10,996	\$ 49,807	\$ 954	\$ —	\$ 512	\$62,269
Accumulated depreciation and amortization .....	—	—	—	—	—	—
<b>Total Real Estate Investment, Net....</b>	<b>\$ 10,996</b>	<b>\$ 49,807</b>	<b>\$ 954</b>	<b>\$ —</b>	<b>\$ 512</b>	<b>\$62,269</b>



The following table reflects the revenue and expenses for the years ended December 31, 2022 and December 31, 2021 for our multifamily properties (in thousands):

	For the Year Ended December 31,	
	2022	2021
<b>Revenues</b>		
Rental income.....	\$ 11,116	\$ 10
Other income.....	1,286	—
Total revenues.....	12,402	10
<b>Expenses</b>		
Interest expense.....	4,183	2
Real estate taxes and insurance.....	1,493	1
Property operating expenses.....	2,548	6
Property general and administrative expenses.....	366	12
Property management fees.....	301	—
Depreciation and amortization.....	2,895	—
Rate cap (income) expense.....	(1,014)	29
Debt service bridge.....	626	—
Total expenses.....	11,398	50
<b>Net income (loss) from consolidated real estate owned.....</b>	<b>\$ 1,004</b>	<b>\$ (40)</b>

## 9. Debt

The following table summarizes the Company's financing arrangements in place as of December 31, 2022 (dollars in thousands):

	December 31, 2022									
	Facility					Collateral				
	Date issued	Outstanding face amount	Carrying value	Final stated maturity	Weighted average interest rate (1)	Weighted average life (years) (2)	Outstanding face amount	Amortized cost basis	Carrying value (3)	Weighted average life (years) (2)
<b>Master Repurchase Agreements</b>										
CMBS										
Mizuho(4).....	4/15/2020	\$ 331,020	\$ 331,020	N/A (5)	5.83 %	0.2	\$ 974,440	\$ 543,919	\$ 539,736	7.0
<b>Asset Specific Financing</b>										
Single Family Rental loans.....										
Freddie Mac...	7/12/2019	628,633	628,633	7/12/2029	2.35 %	5.4	688,046	726,531	726,531	5.4
Mezzanine loans										
Freddie Mac...	10/20/2020	59,252	59,252	8/1/2031	0.30 %	7.3	105,817	108,390	108,390	7.3
Multifamily property										
CBRE.....	12/31/2021	32,480	32,176	6/1/2028 (6)	5.80 %	5.4	N/A	59,491	59,491	5.4
CBRE.....	2/1/2022	89,634	89,060	2/1/2032	3.52 %	9.1	N/A	185,731	185,731	9.1
<b>Unsecured Financing</b>										
Various.....	10/15/2020	36,500	35,530	10/25/2025	7.50 %	2.8	N/A	N/A	N/A	2.8
Various.....	4/20/2021	165,000	162,930	4/15/2026	5.75 %	3.3	N/A	N/A	N/A	N/A
Various.....	10/18/2022	6,500	6,500	10/18/2027	7.50 %	4.8	N/A	N/A	N/A	N/A
Total/weighted average.....		\$ 1,349,019	\$ 1,345,101		3.85 %	4.1	\$ 1,768,303	\$ 1,624,062	\$ 1,619,879	6.4

(1) Weighted-average interest rate using unpaid principal balances.

(2) Weighted-average life is determined using the maximum maturity date of the corresponding loans, assuming all extension options are exercised by the borrower.

- (3) CMBS are shown at fair value on an unconsolidated basis. SFR Loans and mezzanine loans are shown at amortized cost.
- (4) On April 15, 2020, three of our subsidiaries entered into a master repurchase agreement with Mizuho Securities ("Mizuho"). Borrowings under these repurchase agreements are collateralized by portions of the CMBS B-Pieces, CMBS I/O Strips, MSCR Notes and mortgage backed securities.
- (5) The master repurchase agreement with Mizuho does not have a stated maturity date. The transactions in place have a one-month to two-month tenor and are expected to roll accordingly.
- (6) Debt was assumed upon acquisition of this property and recorded at the outstanding principal amount, net of debt issuance costs. The loan can be prepaid at a 1.0% prepayment premium on any unpaid principal. The loan is open to pre-payment in the last three months of the term.

The following table summarizes the Company's financing arrangements in place as of December 31, 2021 (dollars in thousands):

		December 31, 2021									
		Facility						Collateral			
		Date issued	Outstanding face amount	Carrying value	Final stated maturity	Weighted average interest rate (1)	Weighted average life (years) (2)	Outstanding face amount	Amortized cost basis	Carrying value (3)	Weighted average life (years) (2)
Master Repurchase Agreements											
CMBS											
Mizuho(4).....	4/15/2020	\$ 286,324	\$ 286,324	N/A (5)	1.97 %	0.03	\$ 2,101,790	\$ 499,975	\$ 531,367		8.0
Asset Specific Financing											
Single Family Rental											
Freddie Mac..	7/12/2019	726,312	726,312	7/12/2029	2.41 %	6.5	795,223	847,364	847,364		6.5
Mezzanine											
Freddie Mac..	10/20/2020	59,914	59,914	8/1/2031	0.30 %	8.3	97,899	100,857	100,857		8.3
Multifamily											
CBRE.....	12/31/2021	32,480	32,176	6/1/2028 (6)	2.76 %	6.4	N/A	62,269	62,269		6.4
Unsecured Financing											
Various.....	10/15/2020	36,500	35,233	10/25/2025	7.50 %	3.8	N/A	N/A	N/A		N/A
Various.....	4/20/2021	135,000	133,092	4/15/2026	5.75 %	4.3	N/A	N/A	N/A		N/A
Total/weighted average.....		\$ 1,276,530	\$1,273,051		2.72 %	4.8	\$ 2,994,912	\$ 1,510,465	\$1,541,857		7.6

- (1) Weighted-average interest rate using unpaid principal balances.
- (2) Weighted-average life is determined using the maximum maturity date of the corresponding loans, assuming all extension options are exercised by the borrower.
- (3) CMBS are shown at fair value on an unconsolidated basis. SFR Loans and mezzanine loans are shown at amortized cost.
- (4) On April 15, 2020, three of our subsidiaries entered into a master repurchase agreement with Mizuho Securities ("Mizuho"). Borrowings under these repurchase agreements are collateralized by portions of the CMBS B-Pieces and CMBS I/O Strips.
- (5) The master repurchase agreement with Mizuho does not have a stated maturity date. The transactions in place have a one-month to two-month tenor and are expected to roll accordingly.
- (6) Debt was assumed upon acquisition of this property and recorded at the outstanding principal amount, net of debt issuance costs. The loan can be prepaid at a 1.0% prepayment premium on any unpaid principal. The loan is open to pre-payment in the last three months of the term.

Prior to the Formation Transaction, two of our subsidiaries entered into a loan and security agreement dated, July 12, 2019, with Freddie Mac (the "Credit Facility"). Under the Credit Facility, these entities borrowed approximately \$788.8 million in connection with their acquisition of senior pooled mortgage loans backed by SFR properties (the "Underlying Loans"). No additional borrowings can be made under the Credit Facility, and our obligations will be secured by the Underlying Loans. The Credit Facility is guaranteed by certain members of the Contribution Group and the OP. The guarantors are subject to minimum net worth and liquidity covenants. The Credit Facility continues to be guaranteed by members of the Contribution Group and the OP as of December 31, 2022. The Credit Facility was assumed by the Company as part of the Formation Transaction at carrying value which approximated fair value. As such, the remaining outstanding balance of \$788.8 million was contributed to the Company on February 11, 2020. Our borrowings under the Credit Facility will mature on July 12, 2029. However, if an Underlying Loan matures or is paid off prior to July 12, 2029, the Company

will be required to repay the portion of the Credit Facility that is allocated to that loan. As of December 31, 2022, the outstanding balance on the Credit Facility was \$628.6 million.

We, through the Subsidiary OPs, have borrowed approximately \$331.0 million under our repurchase agreements and posted \$974.4 million par value of our CMBS B-Piece, CMBS I/O Strip, MSCR Notes and mortgage backed security investments as collateral as of December 31, 2022. The CMBS B-Pieces, CMBS I/O Strips, MSCR Notes and mortgage backed securities held as collateral are illiquid and irreplaceable in nature. These assets are restricted solely to satisfy the interest and principal balances owed to the lender.

On October 15, 2020, the OP issued 7.50% Senior Unsecured Notes (the “OP Notes”) for an aggregate principal amount of \$36.5 million and a coupon rate of 7.50%. The OP Notes are due October 15, 2025 and were sold at approximately 99% of par value for proceeds of approximately \$36.1 million before offering costs. Additionally, the OP Notes are fully guaranteed by the Company in the event that the OP cannot satisfy the obligations of the OP Notes. As of December 31, 2022, any action required under the guaranty is considered remote.

On October 20, 2020, the Company acquired a portfolio of 18 mezzanine loans with an aggregate principal amount outstanding of approximately \$97.9 million and a weighted average fixed interest rate of 7.54% for a price of 102% of the outstanding principal amount plus accrued interest of \$0.3 million. Freddie Mac provided seller financing of approximately \$59.9 million with a weighted average fixed interest rate of 0.30%. Proceeds from the OP Notes offering and cash on hand were used to fund the remainder of the purchase price.

On April 20, 2021, the Company issued \$75.0 million in aggregate principal amount of its 5.75% Senior Unsecured Notes due 2026 (the “5.75% Notes”) at a price equal to 99.5% of par value for proceeds of approximately \$73.1 million after original issue discount and underwriting fees.

On December 20, 2021, the Company issued an additional \$60.0 million aggregate principal amount of its 5.75% Notes at a price equal to 102.8% par value, including accrued interest, for proceeds of approximately \$60.9 million after original issue discount and underwriting fees.

On January 25, 2022, the Company issued an additional \$35.0 million aggregate principal amount of its 5.75% Notes at a price equal to 100.9% par value, including accrued interest, for proceeds of approximately \$35.1 million after original issue discount and underwriting fees.

On May 20, 2022, the Company purchased \$3.0 million aggregate principal amount of its 5.75% Notes at a price equal to 96.3% par value, including accrued interest, for approximately \$2.9 million. The purchased 5.75% Notes were cancelled upon settlement.

On June 30, 2022, the Company purchased \$2.0 million aggregate principal amount of its 5.75% Notes at a price equal to 96.5% par value, including accrued interest, for approximately \$2.0 million. The purchased 5.75% Notes were cancelled upon settlement.

As of December 31, 2022, the outstanding principal balances related to the SFR Loans and levered mezzanine loans consisted of the following (dollars in thousands):

<b>Investment</b>	<b>Investment Date</b>	<b>Outstanding Principal Balance (1)</b>	<b>Location</b>	<b>Property Type</b>	<b>Interest Type</b>	<b>Interest Rate</b>	<b>Maturity Date</b>
<b>SFR Loans</b>							
Senior loan ....	2/11/2020	\$ 465,690	Various	Single-family	Fixed	2.24 %	9/1/2028
Senior loan ....	2/11/2020	46,094	Various	Single-family	Fixed	2.14 %	10/1/2025
Senior loan ....	2/11/2020	34,528	Various	Single-family	Fixed	2.70 %	11/1/2028
Senior loan ....	2/11/2020	9,293	Various	Single-family	Fixed	2.79 %	9/1/2028
Senior loan ....	2/11/2020	9,284	Various	Single-family	Fixed	2.45 %	3/1/2026
Senior loan ....	2/11/2020	8,828	Various	Single-family	Fixed	3.51 %	2/1/2028
Senior loan ....	2/11/2020	8,805	Various	Single-family	Fixed	3.30 %	10/1/2028
Senior loan ....	2/11/2020	8,007	Various	Single-family	Fixed	3.14 %	1/1/2029
Senior loan ....	2/11/2020	6,778	Various	Single-family	Fixed	2.98 %	2/1/2029
Senior loan ....	2/11/2020	5,947	Various	Single-family	Fixed	2.99 %	3/1/2029
Senior loan ....	2/11/2020	5,513	Various	Single-family	Fixed	2.40 %	2/1/2024
Senior loan ....	2/11/2020	5,346	Various	Single-family	Fixed	3.14 %	12/1/2028
Senior loan ....	2/11/2020	5,015	Various	Single-family	Fixed	2.64 %	10/1/2028
Senior loan ....	2/11/2020	4,770	Various	Single-family	Fixed	2.48 %	8/1/2023
Senior loan ....	2/11/2020	4,735	Various	Single-family	Fixed	2.97 %	1/1/2029
<b>Total .....</b>		<u><u>\$ 628,633</u></u>				<u><u>2.35 %</u></u>	
<b>Mezzanine Loans</b>							
Senior loan ....	10/20/2020	\$ 8,723	Wilmington, DE	Multifamily	Fixed	0.30 %	6/1/2029
Senior loan ....	10/20/2020	7,344	White Marsh, MD	Multifamily	Fixed	0.30 %	4/1/2031
Senior loan ....	10/20/2020	6,353	Philadelphia, PA	Multifamily	Fixed	0.30 %	7/1/2031
Senior loan ....	10/20/2020	5,881	Daytona Beach, FL	Multifamily	Fixed	0.30 %	7/1/2031
Senior loan ....	10/20/2020	4,523	Laurel, MD	Multifamily	Fixed	0.30 %	7/1/2031
Senior loan ....	10/20/2020	4,179	Temple Hills, MD	Multifamily	Fixed	0.30 %	1/1/2029
Senior loan ....	10/20/2020	3,390	Temple Hills, MD	Multifamily	Fixed	0.30 %	5/1/2029
Senior loan ....	10/20/2020	3,348	Lakewood, NJ	Multifamily	Fixed	0.30 %	5/1/2029
Senior loan ....	10/20/2020	2,454	North Aurora, IL	Multifamily	Fixed	0.30 %	11/1/2028
Senior loan ....	10/20/2020	2,264	Rosedale, MD	Multifamily	Fixed	0.30 %	10/1/2028
Senior loan ....	10/20/2020	2,215	Cockeysville, MD	Multifamily	Fixed	0.30 %	7/1/2031
Senior loan ....	10/20/2020	2,026	Laurel, MD	Multifamily	Fixed	0.30 %	7/1/2029
Senior loan ....	10/20/2020	1,836	Vancouver, WA	Multifamily	Fixed	0.30 %	8/1/2031
Senior loan ....	10/20/2020	1,763	Tyler, TX	Multifamily	Fixed	0.30 %	11/1/2028
Senior loan ....	10/20/2020	1,307	Las Vegas, NV	Multifamily	Fixed	0.30 %	10/1/2028
Senior loan ....	10/20/2020	918	Atlanta, GA	Multifamily	Fixed	0.30 %	8/1/2031
Senior loan ....	10/20/2020	728	Des Moines, IA	Multifamily	Fixed	0.30 %	3/1/2029
<b>Total .....</b>		<u><u>\$ 59,252</u></u>				<u><u>0.30 %</u></u>	

(1) Outstanding principal balance represents the total repurchase agreement balance outstanding as of December 31, 2022.

For the years ended December 31, 2022 and 2021, the activity related to the carrying value of the master repurchase agreements, secured financing agreements and unsecured financing were as follows (in thousands):

	For the Year Ended December 31,	
	2022	2021
<b>Balances as of December 31,</b> .....	\$ 1,273,355	\$ 1,036,878
Principal borrowings .....	260,937	339,137
Principal repayments .....	(184,848)	(103,212)
Repurchase of unsecured notes .....	(4,829)	—
Accretion of discounts .....	790	552
Amortization of deferred financing costs .....	48	—
<b>Balances as of December 31,</b> .....	<u>\$ 1,345,453</u>	<u>\$ 1,273,355</u>

#### *Schedule of Debt Maturities*

The aggregate scheduled maturities, including amortizing principal payments, of total debt for the next five calendar years subsequent to December 31, 2022 are as follows (in thousands):

Year	Recourse	Non-recourse	Total
2023(1).....	\$ —	\$ (335,790)	\$ (335,790)
2024 .....	—	(5,513)	(5,513)
2025 .....	(36,500)	(46,094)	(82,594)
2026 .....	(197,480)	(9,284)	(206,764)
2027 .....	(6,500)	—	(6,500)
Thereafter.....	—	(711,858)	(711,858)
	<u>\$ (240,480)</u>	<u>\$ (1,108,539)</u>	<u>\$ (1,349,019)</u>

- (1) The transactions in place in the master repurchase agreement with Mizuho have a one-month to two-month tenor and are expected to roll accordingly.

## **10. Fair Value of Financial Instruments**

Fair-value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market-participant assumptions in fair-value measurements, ASC 820 establishes a fair-value hierarchy that distinguishes between market-participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market-participant assumptions (unobservable inputs classified within Level 3 of the hierarchy):

- Level 1 inputs are adjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar instruments in active markets and inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves, that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, related market activity for the asset or liability.

The Company's assessment of the significance of a particular input to the fair-value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

### *Derivative Financial Instruments and Hedging activities*

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company may enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash payments principally related to the Company's borrowings. In order to minimize counterparty credit risk, the Company enters into and expects to enter into hedging arrangements only with major financial institutions that have high credit ratings.

The Company utilizes an independent third party to perform the market valuations on its derivative financial instruments. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The fair values of interest rate caps are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of ASC 820, the Company incorporates credit valuation adjustments to appropriately reflect both the Company's own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of the Company's derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the Company's derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparties. The Company has determined that the significance of the impact of the credit valuation adjustments made to its derivative contracts, which determination was based on the fair value of each individual contract, was not significant to the overall valuation. As a result, all of the Company's derivatives held as of December 31, 2022 and 2021 were classified as Level 2 of the fair value hierarchy.

The Company's main objective in using interest rate derivatives is to add stability to interest expense related to floating rate debt. To accomplish this objective, the Company primarily uses interest rate caps as part of its interest rate risk management strategy. Interest rate caps involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. On December 30, 2021, the Company, through a subsidiary, entered into a \$32.5 million interest rate cap agreement at a strike rate of 2.29% to hedge the variable cash flows associated with the Company's floating rate debt. The interest rate cap terminates on June 1, 2024. As of December 31, 2022, this interest rate cap had a fair value of approximately \$1.1 million.

### *Financial Instruments Carried at Fair Value*

See Note 2 and Notes 4 through 6 for additional information.

### *Financial Instruments Not Carried at Fair Value*

The fair values of cash and cash equivalents, accrued interest and dividends, accounts payable and other accrued liabilities and accrued interest payable approximated their carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments were determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company would realize on the disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

In calculating the fair value of its long-term indebtedness, the Company used interest rate and spread assumptions that reflect current creditworthiness and market conditions available for the issuance of long-term debt with similar terms and remaining maturities. These financial instruments utilize Level 2 inputs.



Amounts borrowed under master repurchase agreements are based on their contractual amounts that reasonably approximate their fair value given the short to moderate term and floating rate nature.

The following tables present carrying values and fair values of the Company's financial assets and liabilities recorded at fair value on a recurring basis, as well as other financial instruments not carried at fair value as of December 31, 2021 and December 31, 2022, respectively (in thousands):

The carrying values and fair values of the Company's financial assets and liabilities recorded at fair value on a recurring basis, as well as other financial instruments not carried at fair value as of December 31, 2021 (in thousands):

		Fair Value			
	Carrying Value	Level 1	Level 2	Level 3	Total
<b>Assets</b>					
Cash and cash equivalents .....	\$ 26,459	\$ 26,459	\$ —	\$ —	\$ 26,459
Restricted cash .....	6,773	6,773	—	—	6,773
Real estate investments, net .....	62,269	62,269	—	—	62,269
Loans, held-for-investment, net .....	241,517	—	—	242,396	242,396
Common stock investment, at fair value .....	58,460	—	—	58,460	58,460
Mortgage loans, held-for-investment, net .....	847,364	—	—	849,455	849,455
Accrued interest and dividends .....	8,319	8,319	—	—	8,319
Mortgage loans held in variable interest entities, at fair value .....	7,192,547	—	7,192,547	—	7,192,547
CMBS structured pass through certificates, at fair value .....	69,816	—	69,816	—	69,816
Accounts receivable and other assets .....	393	393	—	—	393
	<u>\$ 8,513,917</u>	<u>\$ 104,213</u>	<u>\$ 7,262,363</u>	<u>\$ 1,150,311</u>	<u>\$ 8,516,887</u>
<b>Liabilities</b>					
Secured financing agreements, net .	\$ 786,226	\$ —	\$ —	\$ 809,586	\$ 809,586
Master repurchase agreements .....	286,324	—	—	286,324	286,324
Unsecured notes, net .....	168,325	—	—	168,325	168,325
Mortgages payable, net .....	32,176	—	—	32,176	32,176
Accounts payable and other accrued liabilities .....	3,903	3,903	—	—	3,903
Accrued interest payable .....	3,985	3,985	—	—	3,985
Bonds payable held in variable interest entities, at fair value .....	6,726,272	—	6,726,272	—	6,726,272
	<u>\$ 8,007,211</u>	<u>\$ 7,888</u>	<u>\$ 6,726,272</u>	<u>\$ 1,296,411</u>	<u>\$ 8,030,571</u>

The carrying values and fair values of the Company's financial assets and liabilities recorded at fair value on a recurring basis, as well as other financial instruments not carried at fair value as of December 31, 2022 (in thousands):

		Fair Value			
	Carrying Value	Level 1	Level 2	Level 3	Total
Assets					
Cash and cash equivalents.....	\$ 20,048	\$ 20,048	\$ —	\$ —	\$ 20,048
Restricted cash.....	299	299	—	—	299
Real estate investments, net.....	245,222	—	—	245,222	245,222
Loans, held-for-investment, net....	256,147	—	—	255,254	255,254
Common stock investments, at fair value.....	78,264	—	—	78,264	78,264
Mortgage loans, held-for investment, net .....	726,531	—	—	727,533	727,533
Accrued interest.....	15,665	15,665	—	—	15,665
Mortgage loans held in variable interest entities, at fair value .....	6,720,246	—	6,720,246	—	6,720,246
CMBS structured pass-through certificates, at fair value .....	46,876	—	46,876	—	46,876
MSCR notes, at fair value .....	10,313	—	10,313	—	10,313
Mortgage backed securities, at fair value.....	32,328	—	32,328	—	32,328
Accounts receivable and other assets .....	2,197	2,197	—	—	2,197
	<u>\$ 8,154,136</u>	<u>\$ 38,209</u>	<u>\$ 6,809,763</u>	<u>\$ 1,306,273</u>	<u>\$ 8,154,245</u>
Liabilities					
Secured financing agreements, net.....	\$ 687,885	\$ —	\$ —	\$ 713,253	\$ 713,253
Master repurchase agreements .....	331,020	—	—	331,020	331,020
Unsecured notes, net.....	204,960	—	175,560	—	175,560
Mortgages payable, net.....	121,236	—	—	121,236	121,236
Accounts payable and other accrued liabilities .....	6,231	6,236	—	—	6,236
Accrued interest payable .....	7,986	7,986	—	—	7,986
Bonds payable held in variable interest entities, at fair value .....	6,249,804	—	6,249,804	—	6,249,804
	<u>\$ 7,609,122</u>	<u>\$ 14,222</u>	<u>\$ 6,425,364</u>	<u>\$ 1,165,509</u>	<u>\$ 7,605,095</u>

The significant unobservable inputs used in the fair value measurement of the Company's investment in NSP are the discount rate and terminal capitalization rate. Significant increases (decreases) in any of those inputs in isolation could result in a significantly lower (higher) fair value measurement. The Company's investment in the Private REIT was transferred out of level 2 to level 3 due to a lack of observable market data for the three months ended December 31, 2022.

The following is a summary of significant unobservable inputs used in the fair valuation of the Company's Level 3 assets carried at fair value on the Consolidated Balance Sheets (dollars in thousands):

	Carrying Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Common stock investment, at fair value. \$	50	Discounted cash flow	Terminal cap rate	5.13% - 5.63%	5.38 %
			Discount rate	7.75% - 9.75%	8.75 %
Common stock investment, at fair value.	28	Recent transaction	Yield	3.35% - 5.00%	3.81 %

The table below reflects a summary of changes for the Company's Level 3 common stock assets carried at fair value on the Consolidated Balance Sheets for the year ended December 31, 2022.

	Balance as of 12/31/21	Change in Unrealized Gains /(Losses)	Balance as of 12/31/22
Common stock investment, at fair value.....	\$ 58,460	\$ (8,080)	\$ 50,380
Common stock investment, at fair value.....	—	—	27,884

#### *Other Financial Instruments Carried at Fair Value*

Redeemable noncontrolling interests in the OP have a redemption feature and are marked to their redemption value if such value exceeds the carrying value of the redeemable noncontrolling interests in the OP (see Note 13). The redemption value is based on the fair value of the Company's common stock at the redemption date, and therefore, is calculated based on the fair value of the Company's common stock at the balance sheet date. Since the valuation is based on observable inputs such as quoted prices for similar instruments in active markets, redeemable noncontrolling interests in the OP are classified as Level 2 if they are adjusted to their redemption value. At December 31, 2022, the redeemable noncontrolling interests in the OP are valued at their carrying value on the Consolidated Balance Sheets (see Note 13).

## **11. Stockholders' Equity**

### *Common Stock*

For the year ended December 31, 2022, the Company issued 114,678 shares of common stock pursuant to its long-term incentive plan (see "Long Term Incentive Plan" below) and 531,728 shares of common stock pursuant to its at-the-market offering (see "At-the-Market Offering" below).

As of December 31, 2022, the Company had 17,366,930 shares of common stock, par value \$0.01 per share, issued and 17,079,943 shares of common stock, par value \$0.01 per share, outstanding.

### *Preferred Stock*

On July 24, 2020, the Company issued 2,000,000 shares of its 8.50% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock") at a price to the public of \$24.00 per share, for gross proceeds of \$48.0 million before deducting underwriting discounts and commissions of approximately \$1.2 million and other offering expenses of approximately \$0.8 million. The Series A Preferred Stock has a \$25.00 per share liquidation preference.

### *Share Repurchase Program*

On March 9, 2020, the Board authorized the Share Repurchase Program through which the Company could repurchase an indeterminate number of shares of our common stock at an aggregate market value of up to \$10.0 million in shares of its common stock, par value \$0.01 per share, during a two-year period that expired on March 9, 2022. On September 28, 2020, the Board authorized the expansion of the Share Repurchase Program to include the Company's Series A Preferred Stock with the same period and repurchase limit. The Company was able to utilize various methods to affect the repurchases, and the timing and extent of the repurchases will depend upon several factors, including market and business conditions, regulatory requirements and other corporate considerations, including whether the Company's common stock is trading at a significant discount to NAV per share. From inception through expiration, the Company repurchased 327,422 shares of its common stock, par value \$0.01 per share, at a total cost of approximately \$4.8 million, or \$14.61 per share. These repurchased shares of common stock are classified as treasury stock and reduce the number of shares of the Company's common stock outstanding and, accordingly, are considered in the weighted-average number of shares outstanding during the period. On

March 3, 2021, the Company cancelled 40,435 shares of common stock, reducing the total classified as treasury stock to 286,987.

### *Long Term Incentive Plan*

On January 31, 2020, the NexPoint Real Estate Finance, Inc. 2020 Long Term Incentive Plan (the “2020 LTIP”) was approved, and on May 7, 2020, the Company filed a registration statement on Form S-8 registering 1,319,734 shares of common stock, par value \$0.01 per share, which the Company may issue pursuant to the 2020 LTIP. The 2020 LTIP authorizes the compensation committee of the Board to provide equity-based compensation in the form of stock options, appreciation rights, restricted shares, restricted stock units, performance shares, performance units and certain other awards denominated or payable in, or otherwise based on, the Company’s common stock or factors that may influence the value of the Company’s common stock, plus cash incentive awards, for the purpose of providing the Company’s directors, officers and other key employees (and those of the Manager and the Company’s subsidiaries), the Company’s non-employee directors, and potentially certain non-employees who perform employee-type functions, incentives and rewards for performance.

*Restricted Stock Units.* Under the 2020 LTIP, restricted stock units may be granted to the Company’s directors, officers and other key employees (and those of the Manager and the Company’s subsidiaries) and typically vest over a three to five-year period for officers, employees and certain key employees of the Manager and annually for directors. The most recent grant of restricted stock units to officers, employees and certain key employees of the Manager will vest over a four-year period. Beginning on the date of grant, restricted stock units earn dividends that are payable in cash on the vesting date. On May 8, 2020, pursuant to the 2020 LTIP, the Company granted 14,739 restricted stock units to its directors, on June 24, 2020, the Company granted 274,274 restricted stock units to its officers and other employees of the Manager, on November 2, 2020, the Company granted 1,838 restricted stock units to the sole member of the general partner of one of the Company’s subsidiaries, on February 22, 2021, the Company granted 220,352 restricted stock units to its officers and other employees of the Manager and 11,832 restricted stock units to its directors, on November 8, 2021, the Company granted 1,201 restricted stock units to the sole member of the general partner of one of the Company’s subsidiaries, and on February 21, 2022, the Company granted 264,476 restricted stock units to its officers and other employees of the Manager and 12,464 restricted stock units to its directors. The following table includes the number of restricted stock units granted, vested, forfeited and outstanding as of December 31, 2022:

	2022	
	Number of Units	Weighted Average Grant Date Fair Value
Outstanding January 1, 2022.....	439,087	\$ 15.97
Granted .....	276,940	19.85
Vested .....	(135,778) (1)	19.39
Forfeited.....	(2,889)	20.81
Outstanding December 31, 2022.....	577,360	\$ 17.88

(1) Certain key employees of the Manager elected to net the taxes owed upon vesting against the shares issued resulting in 114,678 shares being issued as shown on the consolidated statements of stockholders' equity.

The vesting schedule for the restricted stock units as of December 31, 2022 is as follows:

	Shares Vesting		
	February	May	Total
2023 .....	133,103	68,569	201,672
2024 .....	120,638	68,564	189,202
2025 .....	120,644	—	120,644
2026 .....	65,842	—	65,842
Total.....	440,227	137,133	577,360

### *At-The-Market-Offering*

On March 31, 2021, the Company, the OP and the Manager entered into separate equity distribution agreements (the “2021 Equity Distribution Agreements”) with each of Raymond James & Associates, Inc. (“Raymond James”), Keefe, Bruyette & Woods, Inc., Robert W. Baird & Co. Incorporated and Virtu Americas LLC, pursuant to which the Company could issue and sell from time to time shares of the Company's common stock and Series A Preferred Stock having an aggregate sales price of up to \$100.0 million (the “2021 ATM Program”). The 2021 Equity Distribution Agreements provided for the issuance and sale of common stock or Series A Preferred Stock by the Company through a sales agent acting as a sales agent or directly to the sales agent acting as principal for its own account at a price agreed upon at the time of sale. On December 16, 2021, the Company terminated each 2021 Equity Distribution Agreements.

Sales of shares of common stock or Series A Preferred Stock under the 2021 ATM Program, if any, may have been made in transactions that are deemed to be “at the market” offerings, as defined in Rule 415 under the Securities Act of 1933, as amended (the “Securities Act”), including, without limitation, sales made by means of ordinary brokers' transactions on the New York Stock Exchange (“NYSE”), to or through a market maker at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices based on prevailing market prices. The Company did not incur any termination penalties as a result of the 2021 Equity Distribution Agreements. As of the termination date, no Series A Preferred Stock had been sold through the 2021 ATM Program. The following table contains summary information of the 2021 ATM Program for sales from inception through the termination date:

Gross Proceeds.....	\$ 11,264,237
Shares of Common Stock Issued .....	532,694
Gross Average Sale Price per Share of Common Stock .....	<u>\$ 21.15</u>
Sales Commissions .....	\$ 168,963
Offering Costs.....	<u>793,779</u>
Net Proceeds .....	<u>10,301,495</u>
Average Price Per Share, net.....	<u>\$ 19.34</u>

On March 15, 2022, the Company, the OP and the Manager entered into separate equity distribution agreements (the “2022 Equity Distribution Agreements”) with each of Raymond James, Keefe, Bruyette & Woods, Inc., Robert W. Baird & Co. Incorporated and Virtu Americas LLC, pursuant to which the Company could issue and sell from time to time shares of the Company's common stock and Series A Preferred Stock having an aggregate sales price of up to \$100.0 million (the “2022 ATM Program”). The 2022 Equity Distribution Agreements provided for the issuance and sale of common stock or Series A Preferred Stock by the Company through a sales agent acting as a sales agent or directly to the sales agent acting as principal for its own account at a price agreed upon at the time of sale. As of December 31, 2022, pursuant to the 2022 Equity Distribution Agreements, the Company had sold 531,728 shares of its common stock and zero shares of Series A Preferred Stock for total gross sales of \$12.6 million.

Sales of shares of common stock or Series A Preferred Stock under the 2022 ATM Program, if any, may be made in transactions that are deemed to be “at the market” offerings, as defined in Rule 415 under the Securities Act including, without limitation, sales made by means of ordinary brokers' transactions on the NYSE, to or through a market maker at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices based on prevailing market prices.

The following table contains summary information of the 2022 ATM Program since its inception through December 31, 2022:

Gross Proceeds.....	\$ 12,575,493
Shares of Common Stock Issued .....	531,728
Gross Average Sale Price per Share of Common Stock .....	<u>\$ 23.65</u>
Sales Commissions .....	\$ 188,655
Offering Costs.....	888,249
Net Proceeds .....	<u>11,498,589</u>
Average Price Per Share, net.....	<u>\$ 21.62</u>

#### *Noncontrolling Interest in Subsidiary*

On April 1, 2021, a subsidiary of one of the Subsidiary OPs (such subsidiary, the “REIT Sub”) closed its issuance of 125 preferred membership units of the REIT Sub (the “Preferred Membership Units”) at a price of \$1,000 per unit, for gross proceeds of approximately \$0.1 million, net of offering costs and initial administrative expenses. Holders of Preferred Membership Units are entitled to receive distributions semiannually from the REIT Sub at a per annum rate equal to 12.0% of the total of the purchase price of \$1,000 per unit plus accumulated and unpaid distributions. The Preferred Membership Units are generally redeemable by the REIT Sub at any time for \$1,000 per unit plus accumulated and unpaid distributions and an additional redemption premium if the Preferred Membership Units are redeemed on or before December 31, 2023. The issuance of the 125 Preferred Membership Units is presented as “Noncontrolling interest in subsidiary” on the Consolidated Balance Sheets and Consolidated Statements of Stockholders’ Equity.

#### *Secondary Public Offering*

On August 18, 2021, the Company, the OP and the Manager entered into an underwriting agreement (the “Underwriting Agreement”) with Raymond James as representative of the several underwriters named therein (collectively, the “Underwriters”), pursuant to which the Company agreed to sell 2,000,000 shares of its common stock (the “Firm Shares”) at a public offering price of \$21.00 per share. The Company also granted the Underwriters a 30-day option to purchase up to an additional 300,000 shares of its common stock (the “Option Shares”). The Firm Shares were issued on August 20, 2021. On September 8, 2021, the Underwriters partially exercised the option to purchase 59,700 Option Shares. The 59,700 Option Shares were issued on September 10, 2021.

The following table contains summary information of the secondary public offering.

Gross Proceeds.....	\$ 43,253,700
Shares of Common Stock Issued .....	2,059,700
Gross Average Sale Price per Share of Common Stock .....	<u>\$ 21.00</u>
Underwriting Discounts .....	\$ 1,946,417
Offering Costs.....	813,748
Net Proceeds .....	<u>40,493,535</u>
Average Price Per Share, net.....	<u>\$ 19.66</u>

#### *OP Unit Redemption*

At the 2021 annual meeting of the Company, the Company's stockholders approved the potential issuance of 13,758,905.9 shares of the Company's common stock to related parties in connection with the redemption of their OP Units or SubOP Units that may be redeemed for OP Units. On September 8, 2021, the Company redeemed approximately 1,479,132 OP Units and issued 1,479,132 shares of common stock to the redeeming unitholders. On January 7, 2022, the Company redeemed approximately 4,774,570 OP Units and issued 4,774,570 shares of common stock to the redeeming unitholders. On February 14, 2022, the Company redeemed approximately 395,033 OP Units and issued 395,033 shares of common stock to the redeeming unitholders. On December 23, 2022, the Company redeemed 2,100,000 OP Units and issued 2,100,000 shares



of common stock to the redeeming unitholders. As of December 31, 2022, the Company had issued 8,748,735 shares of the Company's common stock to redeeming unitholders.

#### *Dividends*

The Board declared a dividend to preferred stockholders of \$0.53125 per share on December 15, 2022, which was paid on January 25, 2023, to preferred stockholders of record as of January 13, 2023.

The Board declared the fourth quarterly dividend of 2022 to common stockholders of \$0.50 per share on October 24, 2022, which was paid on December 30, 2022, to common stockholders of record on December 15, 2022.

## **12. Earnings Per Share**

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of the Company's common stock outstanding and excludes any unvested restricted stock units issued pursuant to the 2020 LTIP.

Diluted earnings per share is computed by adjusting basic earnings per share for the dilutive effect of the assumed vesting of restricted stock units. Additionally, the Company includes the dilutive effect of the potential redemption of OP Units for common shares in accordance with the amended partnership agreement of the OP. During periods of net loss, the assumed vesting of restricted stock units is anti-dilutive and is not included in the calculation of earnings (loss) per share.

The following table sets forth the computation of basic and diluted earnings per share for the periods presented (in thousands, except per share amounts):

	<b>For the Year Ended December 31,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Net income attributable to common stockholders.....	\$ 3,234	\$ 39,577	\$ 11,099
<b>Earnings for basic computations</b>			
Net income (loss) attributable to redeemable noncontrolling interests .....	4,969	40,387	21,323
Net income for diluted computations.....	\$ 8,203	\$ 79,964	\$ 32,422
<b>Weighted-average common shares outstanding</b>			
Average number of common shares outstanding - basic .....	14,686	6,601	5,206
Average number of unvested restricted stock units .....	571	444	172
Average number of OP Units and SubOP Units.....	7,218	13,321	13,270
Average number of common shares outstanding - diluted.....	22,475	20,366	18,648
<b>Earnings per weighted average common share:</b>			
Basic .....	\$ 0.22	\$ 6.00	\$ 2.13
Diluted (1) .....	\$ 0.22	\$ 3.93	\$ 1.74

(1) Diluted EPS calculations were higher than basic EPS and thus anti-dilutive for the year ended December 31, 2022. As such, the Company is presenting diluted EPS as equal to basic EPS.

## **13. Noncontrolling Interests**

#### *Redeemable Noncontrolling Interests in the OP*

Interests in the OP held by limited partners are represented by OP Units. As of December 31, 2022, the Company holds the majority economic interests in the OP. Net income is allocated to holders of OP Units based upon net income attributable to common stockholders and the weighted-average number of OP Units outstanding to total common shares plus OP Units outstanding during the period. Capital contributions, distributions, and profits and losses are allocated to OP Units in accordance with the terms of the partnership agreement of the OP. Each time the OP distributes cash to the Company, limited partners of the OP receive their pro-rata share of the distribution. Redeemable noncontrolling interests in the OP have a

redemption feature and are marked to their redemption value if such value exceeds the carrying value of the redeemable noncontrolling interests in the OP.

Pursuant to the second amended and restated partnership agreement of the OP (the “OP LPA”), limited partners holding OP Units have the right to cause the OP to redeem their units at a redemption price equal to and in the form of the Cash Amount (as defined in the OP LPA), provided that such OP Units have been outstanding for at least one year. The Company may, in its sole discretion, purchase the OP Units by paying to the limited partner either the Cash Amount or the REIT Shares Amount (generally one share of common stock of the Company for each OP Unit, subject to adjustment) as defined in the OP LPA. Notwithstanding the foregoing, a limited partner will not be entitled to exercise its redemption right to the extent the issuance of the Company’s common stock to the redeeming limited partner would (1) be prohibited, as determined in the Company’s sole discretion, under the Company’s charter or (2) cause the acquisition of common stock by such redeeming limited partner to be “integrated” with any other distribution of the Company’s common stock for purposes of complying with the Securities Act. Accordingly, the Company records the OP Units held by noncontrolling limited partners outside of permanent equity and reports the OP Units at the greater of their carrying value or their redemption value using the Company’s stock price at each balance sheet date.

The Cash Amount is defined in the OP LPA as the greater of the most recent NAV of the Company as determined by our Board and the volume-weighted average price of the Company’s common stock, which because the Company’s common stock is listed on the NYSE will be calculated for the ten consecutive trading days (the “Ten Day VWAP”) immediately preceding the date on which the general partner of the OP receives a notice of redemption from the limited partner, or the first business day thereafter (the “Valuation Date”). The Ten Day VWAP calculated based on a Valuation Date of December 31, 2022 was \$16.85, and there were 5,038,382 OP Units outstanding other than those held by the Company. Assuming that (1) the Ten Day VWAP exceeded the NAV, (2) all OP unitholders exercised their right to cause the OP to redeem all of their OP Units with a Valuation Date of December 31, 2022, and (3) the Company then elected to purchase all of the OP Units by paying the Cash Amount, the Company would have paid \$84.9 million in cash consideration to redeem the OP Units.

On September 8, 2021, the general partner of the OP executed the OP LPA for the purposes of creating a board of directors of the OP (the “Partnership Board”) and subdividing and reclassifying the outstanding OP Units into Class A, Class B and Class C OP Units. The OP LPA generally provides that the newly created Class A OP Units and Class B OP Units each have 50.0% of the voting power of the OP Units, including with respect to the election of directors to and removal of directors from the Partnership Board, and that the Class C OP Units have no voting power. The reclassification of the OP Units did not have a material effect on the economic interests of the holders of OP Units. In connection with the adoption of the OP LPA, the OP Units held by the Company were reclassified into Class A OP Units, the OP Units held by a subsidiary of NexPoint Diversified Real Estate Trust were reclassified into Class B OP Units and the remaining OP Units were reclassified into Class C OP Units.

The Partnership Board of the OP has exclusive authority to select, remove and replace the general partner of the OP and no other authority. The Partnership Board may replace the general partner of the OP at any time. Pursuant to the terms of the OP LPA, the Company appointed Brian Mitts as the sole initial director of the Partnership Board. The number of directors on the Partnership Board is initially one but may be increased by following the affirmative vote or consent of the majority of the voting power of the OP Units (the “Requisite Approval”). The election of directors to and removal of directors from the Partnership Board also requires the Requisite Approval.

As of December 31, 2022, the Company owns 83.36% of the OP Units representing 100% of the Class A OP Units. See Note 13 for additional disclosures regarding redemption of OP Units.

The following table sets forth the redeemable noncontrolling interests in the OP (reflecting the OP's consolidation of the Subsidiary OPs) for the years ended December 31, 2022, 2021, and 2020 (in thousands):

	For the Year Ended December 31,		
	2022	2021	2020
<b>Redeemable noncontrolling interests in the OP, December 31, .....</b>	<b>\$ 261,423</b>	<b>\$ 275,670</b>	<b>\$ —</b>
Contributions from redeemable noncontrolling interests in the OP .....	—	—	273,410
Net income attributable to redeemable noncontrolling interests in the OP .....	4,969	40,387	21,323
Redemption of redeemable noncontrolling interests in the OP .....	(155,614)	(32,393)	—
Distributions to redeemable noncontrolling interests in the OP .....	(14,277)	(22,241)	(19,063)
<b>Redeemable noncontrolling interests in the OP, December 31, .....</b>	<b>\$ 96,501</b>	<b>\$ 261,423</b>	<b>\$ 275,670</b>

The table below presents the common shares and OP Units outstanding held by the noncontrolling interests ("NCI"), as the OP Units and SubOP Units held by the Company are eliminated in consolidation:

Period End	Common Shares Outstanding	OP Units Held by NCI	SubOP Units Held by NCI	Combined Outstanding
December 31, 2022 .....	17,079,943	5,038,382	—	22,118,325

#### 14. Related Party Transactions

##### *Management Fee*

In accordance with the Management Agreement, the Company pays the Manager an annual management fee equal to 1.5% of Equity (as defined below), paid monthly, in cash or shares of Company common stock at the election of our Manager (the "Annual Fee"). The duties performed by the Company's Manager under the terms of the Management Agreement include, but are not limited to: providing daily management for the Company, selecting and working with third-party service providers, formulating an investment strategy for the Company and selecting suitable investments, managing the Company's outstanding debt and its interest rate exposure and determining when to sell assets.

"Equity" means (a) the sum of (1) total stockholders' equity immediately prior to the closing of the IPO, plus (2) the net proceeds received by the Company from all issuances of the Company's equity securities in and after the IPO, plus (3) the Company's cumulative Earnings Available for Distribution ("EAD") (as defined below) from and after the IPO to the end of the most recently completed calendar quarter, (b) less (1) any distributions to the holders of the Company's common stock from and after the IPO to the end of the most recently completed calendar quarter and (2) all amounts that the Company or any of its subsidiaries has paid to repurchase for cash the shares of the Company's equity securities from and after the IPO to the end of the most recently completed calendar quarter. In the Company's calculation of Equity, the Company will adjust its calculation of EAD to remove the compensation expense relating to awards granted under one or more of its long-term incentive plans that is added back in the calculation of EAD. Additionally, for the avoidance of doubt, Equity does not include the assets contributed to the Company in the Formation Transaction.

"EAD" means the net income (loss) attributable to the common stockholders of the Company, computed in accordance with GAAP, including realized gains and losses not otherwise included in net income (loss), excluding any unrealized gains or losses or other similar non-cash items that are included in net income (loss) for the applicable reporting period, regardless of whether such items are included in other comprehensive income (loss), or in net income (loss) and adding back amortization of stock-based compensation. Net income (loss) attributable to common stockholders may also be adjusted for the effects of certain GAAP adjustments and transactions that may not be indicative of the Company's current operations, in each case after discussions between the Manager and the independent directors of the Board and approved by a majority of the independent directors of the Board. EAD has replaced our prior presentation of Core Earnings.

Pursuant to the terms of the Management Agreement, the Company is required to pay directly or reimburse the Manager for all documented Operating Expenses and Offering Expenses it incurs on behalf of the Company. "Operating Expenses" include legal, accounting, financial and due diligence services performed by the Manager that outside professionals or outside consultants would otherwise perform, the Company's pro rata share of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Manager required for the Company's

operations and compensation expenses under the 2020 LTIP. “Offering Expenses” include all expenses (other than underwriters’ discounts) in connection with an offering of securities, including, without limitation, legal, accounting, printing, mailing and filing fees and other documented offering expenses. For the year ended December 31, 2022, there were no Offering Expenses that were paid on the Company's behalf for which the Company reimbursed the Manager.

#### *Connections at Buffalo Pointe Contribution*

On May 29, 2020, the OP entered into a contribution agreement (the “Buffalo Pointe Contribution Agreement”) with entities affiliated with executive officers of the Company and the Manager (the “BP Contributors”) whereby the BP Contributors contributed their respective preferred membership interests in NexPoint Buffalo Pointe Holdings, LLC (“Buffalo Pointe”), to the OP for total consideration of \$10.0 million paid in OP Units. A total of 564,334 OP Units were issued to the BP Contributors, which was calculated by dividing the total consideration of \$10.0 million by the combined book value of the Company’s common stock and the SubOP Units, on a per share or unit basis, as of the end of the first quarter, or \$17.72 per OP Unit. Buffalo Pointe owns a stabilized multifamily property located in Houston, Texas with 92.0% occupancy as of December 31, 2022. The preferred equity investment pays current interest at a rate of 6.5%, deferred interest at a rate of 4.5%, has a loan-to-value ratio of 82.9% and a maturity date of May 1, 2030.

Pursuant to the OP LPA and the Buffalo Pointe Contribution Agreement, the BP Contributors have the right to cause our OP to redeem their OP Units for cash or, at our election, shares of our common stock on a one-for-one basis, subject to adjustment, as provided and subject to the limitations in our OP LPA, provided the OP Units have been outstanding for at least one year and our stockholders have approved the issuance of shares of common stock to the BP Contributors. On May 11, 2021, our stockholders approved the issuance of such shares upon the exercise of the BP Contributors' redemption rights.

#### *RSU Issuance*

On May 8, 2020, in accordance with the 2020 LTIP, the Company granted 14,739 restricted stock units to its directors, on June 24, 2020, the Company granted 274,274 restricted stock units to its officers and other employees of the Manager, on November 2, 2020, the Company granted 1,838 restricted stock units to the sole member of the general partner of one of the Company’s subsidiaries, on February 22, 2021, the Company granted 233,385 restricted stock units to its directors, officers employees and certain key employees of the Manager and its affiliates, the Company granted 1,201 restricted stock units to the sole member of the general partner of one of the Company's subsidiaries, and on February 21, 2022, the Company granted 264,476 restricted stock units to its officers and other employees of the Manager and 12,464 restricted stock units to its directors. See Note 11 for additional disclosures.

#### *OP Unit Redemptions*

At the 2021 annual meeting of the Company, the Company's stockholders approved the potential issuance of 13,758,905.9 shares of the Company's common stock to related parties in connection with the redemption of their OP Units or SubOP Units that may be redeemed for OP Units. On September 8, 2021, the Company redeemed approximately 1,479,132 OP Units and issued 1,479,132 shares of common stock to the redeeming unitholders. On January 7, 2022, the Company redeemed approximately 4,774,570 OP Units and issued 4,774,570 shares of common stock to the redeeming unitholders. On February 14, 2022, the Company redeemed approximately 395,033 OP Units and issued 395,033 shares of common stock to the redeeming unitholders. On December 23, 2022, the Company redeemed 2,100,000 OP Units and issued 2,100,000 shares of common stock to the redeeming unitholders.

#### *Expense Cap*

Pursuant to the terms of the Management Agreement, direct payment of operating expenses by the Company, which includes compensation expense relating to equity awards granted under the 2020 LTIP, together with reimbursement of operating expenses to the Manager, plus the Annual Fee, may not exceed 2.5% of equity book value (the “Expense Cap”) for any calendar year or portion thereof, provided, however, that this limitation will not apply to Offering Expenses, legal, accounting, financial, due diligence and other service fees incurred in connection with extraordinary litigation and mergers and acquisitions and other events outside the ordinary course of business or any out-of-pocket acquisition or due diligence expenses incurred in connection with the acquisition or disposition of certain real estate-related investments. For the year ended December 31, 2022, operating expenses did not exceed the Expense Cap.

For the years ended December 31, 2022 and 2021, the Company incurred management fees of \$3.2 million and \$2.3 million, respectively.

## *Notes Offering*

On April 20, 2021, the Company issued \$75.0 million aggregate amount of its 5.75% Notes at a price equal to 99.5% par value for proceeds of approximately \$73.1 million after original issue discount and underwriting fees. An account advised by NexAnnuity Asset Management, L.P., an affiliate of the Manager, purchased \$2.5 million par value of the 5.75% Notes.

## *Jernigan Capital Acquisition*

On November 6, 2020, a subsidiary of the Company and affiliates of our Manager completed a merger with Jernigan Capital, Inc., taking that entity private, and converting the Company's preferred stock investment into common shares of NSP, the surviving entity. See Note 5 for additional disclosure regarding this investment.

## *Elysian at Hughes Center Real Estate Investment*

On February 1, 2022, the Company, through a subsidiary (the "Trust"), purchased the Elysian at Hughes Center, a 368-unit multifamily property in Las Vegas, Nevada, for a total of \$184.1 million. The Trust is managed by an affiliate of the Manager. Because the Company's subsidiary is considered to be the primary beneficiary of this investment, the investment is consolidated in our financial statements and shown as Real Estate Investment, net on the balance sheet. Pursuant to an expected restructuring of the transaction subsequent to December 31, 2022, this investment is expected to be deconsolidated in 2023 and presented solely as a preferred equity investment.

## *Bridge Loan*

On March 31, 2022, the Company, through one of the Subsidiary OPs, originated a bridge loan for \$13.5 million. The bridge loan was secured by a development property in Las Vegas, Nevada, and was used by the borrower to finance the acquisition of the property prior to obtaining construction financing. The loan bore interest at a rate of 1.50% plus the WSJ Prime Rate and was set to mature on October 1, 2022. On August 9, 2022, the bridge loan was paid off. The borrower under the bridge loan was a subsidiary of an entity advised by an affiliate of the Manager.

## *NSP Guaranty*

On December 8, 2022 and in connection with a restructuring of NSP, the Company, through REIT Sub, together with the Co-Guarantors, as guarantors, entered into a Sponsor Guaranty Agreement in favor of Extra Space pursuant to which REIT Sub and the Co-Guarantors guaranteed obligations of NSP with respect to NSP's newly created Series D Preferred Stock and two promissory notes in an aggregate principal amount of approximately \$64.2 million issued to Extra Space. The guaranties by REIT Sub and the Co-Guarantors are capped at \$97.6 million, which cap amount will be reduced as the guaranteed obligations of NSP are paid. Each of REIT Sub and the Co-Guarantors generally guaranteed the foregoing obligations of NSP up to the cap amount on a pro rata basis with respect to its percentage ownership of NSP's common stock. The maximum liability of REIT Sub under the guaranties is approximately \$83.8 million. As of December 31, 2022, the Company owns approximately 25.8% of the total outstanding shares of common stock of NSP.

## *Convertible Promissory Note*

On October 18, 2022, the Company, through a subsidiary, borrowed \$6.5 million from NFRO REIT Sub, LLC (the "Holder") and issued \$6.5 million aggregate amount of a 7.50% note to the Holder maturing on October 18, 2027. Beginning on January 1, 2023 through June 30, 2027, the Holder may elect to convert all or any part of the outstanding principal and accrued but unpaid interest due, and all other amounts due and payable to the Holder thereunder or in connection therewith, into equity interests of an affiliate of the borrower.

## **15. Commitments and Contingencies**

Except as otherwise disclosed below, the Company is not aware of any contractual obligations, legal proceedings, or any other contingent obligations incurred in the normal course of business that would have a material adverse effect on our consolidated financial statements.

On September 29, 2021, the Company, through one of the Subsidiary OPs, entered into an agreement to purchase up to \$50.0 million in a new preferred equity investment (the "Preferred Units") upon notice from the issuer. Subject to certain conditions, the Company may be required to purchase an additional \$25.0 million of Preferred Units at the option of the issuer. The funds are expected to be used to capitalize special purpose limited liability companies ("PropCos") to engage in sale-and-leaseback transactions and development transactions on life science real property. The Company funded \$3.0 million on September 29, 2021, on November 8, 2021, the Company funded \$30.0 million, on December 20, 2021 the Company



funded \$3.8 million, on January 14, 2022 the Company funded \$0.9 million, on January 19, 2022, the Company funded \$0.2 million, on January 27, 2022, the Company funded \$18.5 million and on October 19, 2022, the Company funded \$15.0 million. The Company may have the obligation to fund an additional \$3.7 million by September 29, 2023 which the issuer may extend for up to two years at its option for an extension fee. The Preferred Units accrue distributions at a rate of 10.0% annually, compounded monthly. Distributions on the Preferred Units will be paid in cash with respect to stabilized PropCos and paid in kind with respect to unstabilized PropCos. The obligations of the issuer will be supported by a pledge of all equity units of the PropCos. All or a portion of the Preferred Units may be redeemed at any time for a redemption price equal to the purchase price of the Preferred Units to be redeemed plus any accrued and unpaid distributions thereon and a cash redemption fee. In addition, if the issuer experiences a change of control, the redemption price will also include a payment equal to the amount needed to achieve a multiple on invested capital equal to 1.25x for unstabilized PropCos and 1.10x for stabilized PropCos. As of December 31, 2022, the Company has not recorded any contingencies on its Consolidated Balance Sheets as the obligation to fund additional Preferred Units is considered remote for the period ended December 31, 2022.

On December 8, 2022 and in connection with a restructuring of NSP, the Company, through REIT Sub, together with the Co-Guarantors, as guarantors, entered into a Sponsor Guaranty Agreement in favor of Extra Space pursuant to which REIT Sub and the Co-Guarantors guaranteed obligations of NSP with respect to NSP's newly created Series D Preferred Stock and two promissory notes in an aggregate principal amount of approximately \$64.2 million issued to Extra Space. The guaranties by REIT Sub and the Co-Guarantors are capped at \$97.6 million, which cap amount will be reduced as the guaranteed obligations of NSP are paid. Each of REIT Sub and the Co-Guarantors generally guaranteed the foregoing obligations of NSP up to the cap amount on a pro rata basis with respect to its percentage ownership of NSP's common stock. The maximum liability of REIT Sub under the guaranties is approximately \$83.8 million. As of December 31, 2022, the Company owns approximately 25.8% of the total outstanding shares of common stock of NSP. As of December 31, 2022, the Company has not recorded any contingencies on its Consolidated Balance Sheets as the obligation under the guaranty is considered remote for the period ended December 31, 2022.

The OP Notes previously described in Note 9 are fully guaranteed by the Company. As of December 31, 2022, there has been no indication that the OP will not be able to satisfy the terms of the OP Notes. The Company considers any action required under the guaranty to be remote.

#### **16. Elysian at Hughes Center Immaterial Error Correction (Unaudited)**

We previously accounted for our investment in Elysian at Hughes Center as an unconsolidated preferred equity investment. However, subsequent to our last report, we determined that our accounting treatment was incorrect and that the investment should have been accounted for as a real estate investment owned by the Company beginning in the first quarter of 2022 and consolidated within the financial statements. Pursuant to the guidance of Staff Accounting Bulletin No. 99, Materiality, we concluded that the error was not material to any of our previously reported interim financial statements. However, we have revised our consolidated financial statements for the three months ended March 31, 2022, June 30, 2022 and September 30, 2022 to correct this error.



The following tables set forth the as revised amounts for the key financial statement captions in the balance sheet and statement of operations as of and for the three months ended March 31, 2022, June 30, 2022 and September 30, 2022 (in thousands):

*Consolidated Balance Sheet*

ASSETS	First Quarter	Second Quarter	Third Quarter
Cash and cash equivalents.....	\$ 41,712	\$ 59,449	\$ 26,458
Restricted cash .....	499	1,602	4,723
Real estate investments, net .....	243,656	242,738	242,250
Loans, held-for-investment, net .....	264,783	211,730	237,038
Accrued interest and dividends .....	9,908	10,000	12,301
Accounts receivable and other assets .....	2,259	2,003	1,714
<b>TOTAL ASSETS</b> .....	<b>\$ 8,163,933</b>	<b>\$ 8,003,627</b>	<b>\$ 8,414,853</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Liabilities:			
Bridge Loan .....	55,000	20,457	—
Mortgages payable, net .....	121,080	121,092	121,104
Accounts payable and other accrued liabilities .....	6,945	8,800	6,899
Accrued interest payable .....	—	4,756	9,336
<b>Total Liabilities</b> .....	<b>\$ 7,657,150</b>	<b>\$ 7,456,805</b>	<b>\$ 7,871,597</b>
<b>Total Redeemable NCI</b> .....	<b>148,674</b>	<b>147,871</b>	<b>142,276</b>
<b>NCI in subsidiary</b> .....	<b>701</b>	<b>33,942</b>	<b>52,038</b>
<b>Total Stockholders' Equity less NCI in subsidiary</b> .....	<b>357,408</b>	<b>365,009</b>	<b>348,942</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> .....	<b>\$ 8,163,933</b>	<b>\$ 8,003,627</b>	<b>\$ 8,414,853</b>

*Consolidated Statement of Operations*

	First Quarter	Second Quarter	Third Quarter
<b>Net interest income</b>			
Interest income .....	\$ 31,133	\$ 16,394	\$ 14,893
Total net interest income .....	<u>\$ 22,315</u>	<u>\$ 7,287</u>	<u>\$ 4,211</u>
<b>Other income (loss)</b>			
Revenues from consolidated real estate owned .....	2,387	3,266	3,455
Total other income (loss) .....	<u>\$ 1,814</u>	<u>\$ 7,464</u>	<u>\$ (7,521)</u>
<b>Operating expenses</b>			
Expenses from consolidated real estate owned .....	2,428	3,549	2,442
<b>Total operating expenses</b> .....	<u>\$ 6,060</u>	<u>\$ 7,277</u>	<u>\$ 6,053</u>
<b>Net income (loss)</b> .....	18,069	7,474	(9,363)
<b>Net (income) attributable to preferred shareholders</b> .....	(874)	(882)	(874)
<b>Net (income) loss attributable to redeemable noncontrolling interests</b> .....	(4,783)	(2,186)	1,889
<b>Net (income) loss attributable to noncontrolling interests in subsidiaries</b> .....	(6)	(556)	(941)
<b>Net income (loss) attributable to common stockholders</b> .....	<u>\$ 12,406</u>	<u>\$ 3,850</u>	<u>\$ (9,289)</u>

## 17. Subsequent Events

### *Preferred and Common Equity Investments*

On February 10, 2023, the Company, through one of the Subsidiary OPs, purchased \$14.0 million of the preferred equity with respect to a multifamily property development located in Forney, Texas. The preferred equity investment provides a fixed 11% annual return, compounded monthly. Further, the Company purchased \$0.5 million of common equity with respect to the same property.

On February 24, 2023, the Company, through one of the Subsidiary OPs, purchased \$11.2 million of preferred equity with respect to a multifamily property development located in Mechanicsville, Virginia. The preferred equity investment provides a fixed 11% annual return, compounded monthly. Further, the Company purchased \$0.5 million of common equity with respect to the same property.

On March 14, 2023, the Company, through one of the Subsidiary OPs, committed to fund \$24.0 million of preferred equity with respect to a ground up construction horizontal multifamily property located in Surprise, Arizona. The preferred equity investment provides a floating annual return that is the greater of prime rate plus 5.0% or 11.25%, compounded monthly with a MOIC of 1.30x and 1.0% placement fee. Further, participation rights following the distribution of the Company's preferred return and return of capital, additional cash flow and net sale proceeds shall be distributed as follows:

- 0% to the Company/100% to Issuer up to a 20.0% IRR
- 10% to the Company/90% to Issuer thereafter

### *Share Repurchase Program*

On February 22, 2023, the Board authorized a share repurchase program (the “2022 Share Repurchase Program”) through which the Company may repurchase an indeterminate number of shares of our common stock and Series A Preferred Stock at an aggregate market value of up to \$20.0 million in shares of its common stock during a two-year period set to expire on February 22, 2025. The Company may utilize various methods to affect the repurchases, and the timing and extent of the repurchases will depend upon several factors, including market and business conditions, regulatory requirements and other corporate considerations, including whether the Company's common stock is trading at a significant discount to NAV per share. Repurchases under this program may be discontinued at any time. The Company has not made any purchases under the 2022 Share Repurchase Program as of the date of this report.

### *Dividends Declared*

The Board declared the first quarterly dividend of 2023 to common stockholders of \$0.50 per share on February 22, 2023, which will be paid on March 31, 2023, to common stockholders of record on March 15, 2023. The Board also declared a special dividend to common stockholders of \$0.185 per share on February 22, 2023, which will be paid on March 31, 2023, to common stockholders of record on March 15, 2023. The Board declared a dividend to preferred stockholders of \$0.53125 per share on February 22, 2023, which will be paid on April 25, 2023, to preferred stockholders of record as of April 13, 2023.

### *Mezzanine Loan*

On March 24, 2023, one of the Company's mezzanine loans was paid off for a total of \$28.1 million, of which, \$24.8 million was principal and \$3.3 million was accrued interest.

### *CMBS Acquisition*

On March 10, 2023, the Company, through one of the Subsidiary OPs, purchased approximately \$40.4 million aggregate principal amount of the Class C tranche of the FREMF 2018 - KF44 CMBS at a price equal to 99.5% of par value, representing approximately 41.0% of the Class C tranche. Approximately \$5.7 million of the purchase price was financed through a repurchase agreement bearing interest an interest rate of 1.6% over one-month SOFR.



