

NEXPOINT

REAL ESTATE FINANCE

April 11, 2024

Dear NREF Stockholder:

You are cordially invited to attend the annual meeting of stockholders of NexPoint Real Estate Finance, Inc. The meeting will be held on Tuesday, May 7, 2024, beginning at 10:30 a.m. Central Time. The annual meeting will be held exclusively through a virtual format. **You will not be able to attend the annual meeting in person.**

If your shares are held by a financial intermediary (such as a broker-dealer), and you want to participate in, but not vote at the annual meeting, please email Equiniti Fund Solutions, LLC ("EQ") at attendameeting@equiniti.com, with "NREF Meeting" in the subject line and provide your full name, address and proof of ownership as of April 1, 2024 from your financial intermediary. EQ will then email you the annual meeting registration link. Please be aware if your shares are held through a financial intermediary, and you wish to vote at the annual meeting, you must first obtain a legal proxy from your financial intermediary. You may forward an email from your financial intermediary containing the legal proxy or attach an image of the legal proxy via email to EQ at attendameeting@equiniti.com and put "NREF Legal Proxy" in the subject line. EQ will then email you the registration link along with a proxy voting control number.

If you are a stockholder of record and wish to attend and vote at the annual meeting, please send an email to EQ at attendameeting@equiniti.com with "NREF Meeting" in the subject line and provide your name and address in the body of the email. EQ will then email you the registration link for the annual meeting. If you would like to vote during the annual meeting, you may do so by entering the control number found on your proxy card.

Requests to attend the annual meeting must be received by EQ no later than 2:00 p.m. Central Time on May 6, 2024. On the date of the annual meeting, stockholders are encouraged to log on 15 minutes before the meeting start time. Please contact EQ at (877)-283-0325 with any questions regarding accessing the annual meeting.

Information about the meeting, nominees for the election of directors and the other matters to be voted on at the meeting is presented in the following notice of annual meeting and proxy statement. We hope that you will plan to virtually attend the annual meeting.

It is important that your shares be represented. Whether or not you plan to virtually attend the meeting, please vote using the internet or telephone procedures described on the proxy card or sign, date and promptly mail a proxy card in the provided pre-addressed, postage-paid envelope. If you would like to vote during the annual meeting, you may do so by entering the control number found on your proxy card.

Sincerely,



James Dondero
President and Chairman

NEXPOINT REAL ESTATE FINANCE, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held on May 7, 2024

The 2024 annual meeting of stockholders of NexPoint Real Estate Finance, Inc., a Maryland corporation (the “Company”), will be held on May 7, 2024, beginning at 10:30 a.m. Central Time. The annual meeting will be held exclusively through a virtual format. **You will not be able to attend the annual meeting in person.** The meeting will be held for the following purposes:

1. to elect seven directors to serve until the 2025 annual meeting of stockholders;
2. to ratify the appointment of KPMG LLP as the Company’s independent registered public accounting firm for 2024; and
3. to transact such other business as may properly come before the meeting or any postponement or adjournment thereof.

Information concerning the matters to be voted upon at the meeting is set forth in the accompanying proxy statement. We have also provided you or made available to you the Company’s 2023 annual report. Holders of record of the Company’s common stock as of the close of business on April 1, 2024 are entitled to notice of, and to vote at, the meeting.

While you will not be able to attend the annual meeting in person, we have structured our virtual annual meeting to provide stockholders the same rights as if the meeting were held in person, including the ability to vote shares electronically during the meeting and ask questions in accordance with the rules of conduct for the meeting. To promote fairness and efficient conduct of the meeting, we will respond to no more than two questions from any single stockholder.

If your shares of the Company are held by a financial intermediary (such as a broker-dealer), and you want to participate in, but not vote at the annual meeting, please email Equiniti Fund Solutions, LLC (“EQ”) at attendameeting@equiniti.com, with “NREF Meeting” in the subject line and provide your full name, address and proof of ownership as of April 1, 2024 from your financial intermediary. EQ will then email you the annual meeting registration link. Please be aware if your shares are held through a financial intermediary, and you wish to vote at the annual meeting, you must first obtain a legal proxy from your financial intermediary. You may forward an email from your financial intermediary containing the legal proxy or attach an image of the legal proxy via email to EQ at attendameeting@equiniti.com and put “NREF Legal Proxy” in the subject line. EQ will then email you the registration link along with a proxy voting control number.

If you are a stockholder of record of the Company and wish to attend and vote at the annual meeting, please send an email to EQ at attendameeting@equiniti.com with “NREF Meeting” in the subject line and provide your name and address in the body of the email. EQ will then email you the registration link for the annual meeting. If you would like to vote during the annual meeting, you may do so by entering the control number found on your proxy card.

Requests to attend the annual meeting must be received by EQ no later than 2:00 p.m. Central Time on May 6, 2024. On the date of the annual meeting, stockholders are encouraged to log on 15 minutes before the meeting start time. Please contact EQ at (877) 283-0325 with any questions regarding accessing the annual meeting.

Your vote is very important. Whether or not you plan to virtually attend the meeting, please vote using the internet or telephone procedures described on the proxy card or sign, date and promptly mail a proxy card in the provided pre-addressed, postage-paid envelope. If you would like to vote during the annual meeting, you may do so by entering the control number found on your proxy card.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "Brian Mitts".

Brian Mitts
*Chief Financial Officer, Executive VP-Finance,
Secretary and Treasurer*

Dallas, Texas
April 11, 2024

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 7, 2024.

The Company's Notice of Annual Meeting, Proxy Statement and 2023 Annual Report to Stockholders are available on the internet at www.proxyonline.com.

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NexPoint Real Estate Finance, Inc.

300 Crescent Court, Suite 700

Dallas, Texas 75201

PROXY STATEMENT

This proxy statement provides information in connection with the solicitation of proxies by the board of directors (the “Board”) of NexPoint Real Estate Finance, Inc., a Maryland corporation (the “Company”), for use at the Company’s 2024 annual meeting of stockholders or any postponement or adjournment thereof (the “Annual Meeting”). This proxy statement also provides information you will need in order to consider and act upon the matters specified in the accompanying notice of annual meeting. This proxy statement and proxy card are being mailed to stockholders on or about April 18, 2024.

Record holders of the Company’s common stock as of the close of business on April 1, 2024 are entitled to vote at the Annual Meeting. Each record holder of common stock on that date is entitled to one vote at the Annual Meeting for each share of common stock held. As of April 1, 2024, there were 17,593,244 shares of common stock outstanding.

You cannot vote your shares unless you virtually attend the Annual Meeting or you have previously given your proxy. You can vote by proxy in one of three convenient ways:

- by internet: visit the website shown on your proxy card and follow the instructions;
- by telephone: dial the toll-free number shown on your proxy card and follow the instructions; or
- in writing: sign, date, and return a proxy card in the provided pre-addressed, postage paid envelope.

You may revoke your proxy at any time prior to the vote at the Annual Meeting by:

- delivering a written notice revoking your proxy to the Company’s Secretary at the address above;
- delivering a new proxy bearing a date after the date of the proxy being revoked; or
- virtually attending the Annual Meeting and entering the control number found on your proxy card.

Unless revoked as described above, all properly executed proxies will be voted at the Annual Meeting in accordance with your directions on the proxy. If you hold your shares through a broker, bank, trust or other nominee, please refer to the information forwarded by your broker, bank, trust or other nominee for procedures on revoking your proxy. If a properly executed proxy gives no specific instructions, the shares of common stock represented by your proxy will be voted:

- FOR the election of the seven nominees to serve as directors until the 2025 annual meeting of stockholders;
- FOR the ratification of the appointment of KPMG LLP (“KPMG”) as the Company’s independent registered public accounting firm for 2024; and
- at the discretion of the proxy holders with regard to any other matter that is properly presented at the Annual Meeting.

If you own shares of common stock held in “street name” and you do not instruct your broker how to vote your shares using the instructions your broker provides you, your shares will be voted in the ratification of the appointment of KPMG as the Company’s independent registered public accounting firm for 2024, but not for any other proposal. To be sure your shares are voted in the manner you desire, you should instruct your broker on how to vote your shares.

Holders of a majority of the outstanding shares of the Company’s common stock must be present, either in person (virtually) or by proxy, to constitute a quorum necessary to conduct the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining the presence of a quorum.

The following table sets forth the voting requirements, whether broker discretionary voting is allowed and the treatment of abstentions and broker non-votes for each of the matters to be voted on at the Annual Meeting.

Proposal	Vote Necessary to Approve Proposal	Broker Discretionary Voting Allowed?	Treatment of Abstentions and Broker Non-Votes
No. 1 - Election of directors	Plurality (that is, the largest number) of all the votes cast (1)	No	Abstentions and broker non-votes are not considered votes cast and will have no effect
No. 2 - Ratification of the appointment of KPMG	Affirmative vote of a majority of the votes cast	Yes	Abstentions are not considered votes cast and will have no effect

(1) Shareholders may vote “FOR” or “WITHHOLD” in the election of directors. Because directors need only be elected by a plurality of the vote, in an uncontested election withhold votes will not affect whether any particular nominee has received sufficient votes to be elected.

Attendance at the Annual Meeting will be limited to stockholders of record and beneficial owners who provide proof of beneficial ownership as of the record date in the manner described in the accompanying notice of annual meeting.

While you will not be able to attend the Annual Meeting in person, we have structured our virtual Annual Meeting to provide stockholders the same rights as if the Annual Meeting were held in person, including the ability to vote shares electronically during the Annual Meeting and ask questions in accordance with the rules of conduct for the meeting. To promote fairness and efficient conduct of the Annual Meeting, we will respond to no more than two questions from any single stockholder.

The Company pays the costs of soliciting proxies. We have engaged Equiniti Trust Company, LLC (our “Proxy Solicitor”) to serve as our proxy solicitor for the Annual Meeting at a base fee of \$3,500 plus reimbursement of reasonable expenses. Our Proxy Solicitor will provide advice relating to the content of solicitation materials, solicit banks, brokers, institutional investors, and hedge funds to determine voting instructions, monitor voting, and deliver executed proxies to our voting tabulator. The Company may request banks, brokers, and other custodians, nominees, and fiduciaries to forward copies of these proxy materials to the beneficial holders and to request instructions for the execution of proxies. The Company may reimburse these persons for their related expenses. Proxies are solicited to provide all record holders of the Company’s common stock an opportunity to vote on the matters to be presented at the Annual Meeting, even if they cannot attend the meeting in person.

The Annual Meeting will be held exclusively through a virtual format. Please see the other information herein, including the accompanying notice of annual meeting, about how to access the Annual Meeting. As always, we encourage you to vote your shares prior to the Annual Meeting.

PROPOSAL 1 -

ELECTION OF DIRECTORS

At the Annual Meeting, seven directors will be elected to serve one-year terms expiring at our annual stockholders meeting in 2025 and until their respective successors are duly elected and qualified. This section contains information relating to the seven director nominees. The director nominees were selected by our nominating and corporate governance committee and approved by the Board for submission to the stockholders. The nominees for election are Messrs. Dondero, Mitts, Constantino, and Kavanaugh, Dr. Laffer, Dr. Swain and Ms. Wood. All currently serve as directors.

The Board unanimously recommends a vote FOR the election of each of the nominees.

Nominees to be elected for terms expiring at the Annual Meeting in 2025

James Dondero, age 61, has served as our President and as chairman of our Board since February 2020. Mr. Dondero has also served as the President and chairman of the board of directors of NexPoint Residential Trust, Inc. (“NXRT”), a publicly traded multifamily real estate investment trust (a “REIT”), since May 2015, as President of NexPoint Diversified Real Estate Trust (“NXDT”), a publicly traded diversified REIT, since May 2015 and additionally as chairman of the board of trustees of NXDT since July 2022, and as chairman of the board of directors of VineBrook Homes Trust, Inc. (“VineBrook”), a single-family rental (“SFR”) REIT, since August 2022. Additionally, Mr. Dondero previously served as President and a member of the board of directors of VineBrook from February 2019 to August 2021. Mr. Dondero is also: founder and president of NexPoint Advisors, L.P. (our “Sponsor” or “NexPoint”), an investment advisor registered with the Securities and Exchange Commission (the “SEC”); and chairman of NexBank (“NexBank”). Mr. Dondero co-founded Highland Capital Management, L.P. (“Highland”) in 1993 with Mark Okada and served as President from 2004 to 2020. Mr. Dondero has over 30 years of experience investing in credit and equity markets and has helped pioneer credit asset classes. Mr. Dondero has also served as the Chief Executive Officer of NexPoint Hospitality Trust, Inc. (“NHT”), a publicly traded hospitality REIT listed on the TSX Venture Exchange, since December 2019. Mr. Dondero also served as a director of Jernigan Capital, Inc., a self-storage lending REIT, from August 2016 to November 2020. He also serves as President of NexPoint Capital, Inc. (“NexPoint Capital”) and NexPoint Real Estate Strategies Fund (“NRESF”), which are affiliates of NexPoint Real Estate Advisors VII, L.P. (our “Manager”). NXRT, VineBrook, NXDT, NXHT, our Sponsor, NexBank, NHT, NexPoint Capital and NRESF are all affiliates of the Company. In addition, he has served as a member of the board of directors of NexPoint Homes Trust, Inc. (“NXHT”), an SFR REIT, since June 2022. On October 16, 2019, Highland filed for Chapter 11 bankruptcy protection with the United States Bankruptcy Court for the District of Delaware. On April 13, 2018, the Bankruptcy Court for the Northern District of Texas entered orders for relief placing Acis Capital Management, L.P. and Acis Capital Management GP, LLC, in involuntary bankruptcy. Mr. Dondero served as President of Acis Capital Management GP, LLC, which was the general partner of Acis Capital Management, L.P. On January 31, 2019, the court confirmed Acis’s plan of reorganization. Mr. Dondero was selected to serve on our Board because of his prior service as a director and his experience as an executive officer.

Brian Mitts, age 53, has served as a member of our Board since June 2019 and as our Chief Financial Officer, Executive VP-Finance, Secretary and Treasurer since February 2020. Mr. Mitts also served as our President and Treasurer from June 2019 until February 2020. Mr. Mitts is also a member of the investment committee of our Manager. Mr. Mitts co-founded NexPoint Real Estate Advisors, L.P. (“NREA”), which is the parent of our Manager, as well as NXRT, NREF and other real estate businesses with Mr. McGraner and Mr. Dondero. Currently, Mr. Mitts leads our financial reporting and accounting teams and is integral in financing and capital allocation decisions. Prior to co-founding NREA, NXRT and NREF, Mr. Mitts was Chief Operations Officer of Highland Funds Asset Manager, L.P., the external advisor of open-end and closed-end funds where he managed the operations of these funds and helped develop new products. Mr. Mitts was also a co-founder of our Sponsor. He has worked for NREA or its affiliates since 2007. Mr. Mitts has also served as a director of NXRT since September 2014 and as the Chief Financial Officer, Executive Vice President-Finance and Treasurer of NXRT since March 2015. In February 2019, Mr. Mitts was also appointed Secretary of NXRT. From September 2014 to March 2015, Mr. Mitts served as President and Treasurer of NXRT. Mr. Mitts has also served as the Chief Financial Officer, Executive VP-Finance, Treasurer and Corporate Secretary of NHT since December 2018. In addition, he has served as a director of VineBrook since July 2018, as Chief Financial Officer, Treasurer and Assistant Secretary of VineBrook since November 2018, as President since February 2023 and assumed the title of Chief Executive Officer in addition to President in February 2024, and from September 2021 to February 2023 Mr. Mitts served as Interim President of VineBrook. From July 2018 to October 2018, Mr. Mitts served as President and Treasurer of VineBrook. Since November 2020, Mr. Mitts has also served as Chief Financial Officer, Secretary and Treasurer of NexPoint Storage Partners, Inc. (“NSP”), a self-storage REIT, and as a member of the board of directors of NSP since March 2023. In addition, Mr. Mitts has served as Chief Financial Officer, Executive VP-Finance, Treasurer and Assistant Secretary and as a member of the board of trustees of NXDT since July 2022. Mr. Mitts has also served as President and Treasurer of NXHT since February 2022 and additionally as Chief Executive Officer, Chief

Financial Officer, and Assistant Secretary and as a member of the board of directors of NXHT since June 2022. NXRT, VineBrook, NXDT, NXHT, NSP and NHT are all affiliates of the Company. Mr. Mitts was selected to serve on our Board because of his prior service as a director and his experience as an executive officer.

Edward Constantino, age 77, has served as a member of our Board since February 2020. Mr. Constantino has also served as a member of the board of directors of NXRT since March 2015, as a member of the board of directors of VineBrook since February 2019 and as a member of the board of trustees of NXDT since March 2020. He has also served as a member of the board of directors of NXHT since June 2022. Mr. Constantino has over 40 years of audit, advisory and tax experience working for two major accounting firms, Arthur Andersen LLP and KPMG. Mr. Constantino retired from KPMG in late 2009, where he was an audit partner in charge of the firm's real estate and asset management businesses. Mr. Constantino is, and since 2010 has been, a member of the board of directors of Patriot National Bancorp, Inc. Mr. Constantino has also served as a consultant for the law firm Skadden, Arps, Slate, Meagher & Flom LLP. He is a licensed CPA, a member of the American Institute of Certified Public Accountants and a member of the New York State Society of Public Accountants. He is currently a member of the board of trustees and part of the Finance and Investment Committee of St. Francis College in Brooklyn Heights, New York. He is also a board member and audit committee chair of ARC Trust, Inc. and ARC Trust III, Inc. Mr. Constantino was selected to serve on our Board because of his extensive accounting experience, particularly in the real estate field.

Scott Kavanaugh, age 63, has served as a member of the Board since February 2020. Mr. Kavanaugh has also served as a member of the board of directors of NXRT since March 2015, as a member of the board of directors of VineBrook since December 2018 and as a member of the board of trustees of NXDT since July 2022. He has also served as a member of the board of directors of NXHT since June 2022. Mr. Kavanaugh is, and since December 2009 has been the CEO of First Foundation Inc. ("FFI"), a financial services company. From June 2007 until December 2009, he served as President and Chief Operating Officer of FFI. Mr. Kavanaugh has been the Vice-Chairman of FFI since June 2007. He also is, and since September 2007 has been, the Chairman and CEO of FFI's wholly owned banking subsidiary, First Foundation Bank. Mr. Kavanaugh was a founding stockholder and served as an Executive Vice President and Chief Administrative Officer and a member of the board of directors of Commercial Capital Bancorp, Inc., the parent holding company of Commercial Capital Bank, from 1999 until 2003. From 1998 until 2003, Mr. Kavanaugh served as the Executive Vice President and Chief Operating Officer and a director of Commercial Capital Mortgage. From 1993 to 1998, Mr. Kavanaugh was a partner and head of trading for fixed income and equity securities at Great Pacific Securities, Inc., a west coast-based regional securities firm. Mr. Kavanaugh is, and since 2009 has been, a member of the board of directors of Colorado Federal Savings Bank and its parent holding company, Silver Queen Financial Services, Inc. Mr. Kavanaugh was selected to serve on the Board because of his expertise in investment management and his experience as both an executive officer and a director of multiple companies.

Dr. Arthur Laffer, age 83, has served as a member of the Board since February 2020. Dr. Laffer has also served as a member of the board of directors of NXRT since May 2015, as a member of the board of directors of VineBrook since December 2018 and as a member of the board of trustees of NXDT since July 2022. He has also served as a member of the board of directors of NXHT since June 2022. Dr. Laffer is the founder and chairman of Laffer Associates, an economic research and consulting firm and served as the chairman and director of Laffer Investments, a registered investment advisor, from 1999 to 2019. Dr. Laffer served as a director of GEE Group, Inc., a provider of specialized staffing solutions, from 2014 to 2020. Dr. Laffer also served as a director of EVO Transportation and Energy Services, Inc. from 2018 to 2019. A former member of President Reagan's Economic Policy Advisory Board during the 1980s, Dr. Laffer's economic acumen and influence have earned him the distinction in many publications as the Father of Supply-Side Economics. He has served on several boards of directors of public and private companies, including staffing company MPS Group, Inc., which was sold to Adecco Group for \$1.3 billion in 2009. Dr. Laffer has served as a director of VerifyMe, Inc. since 2019. Dr. Laffer was previously a consultant to Secretary of the Treasury William Simon, Secretary of Defense Donald Rumsfeld, and Secretary of the Treasury George Shultz. In the early 1970s, Dr. Laffer was the first to hold the title of Chief Economist at the Office of Management and Budget under Dr. Shultz. Additionally, Dr. Laffer was formerly the Distinguished University Professor at Pepperdine University and a member of the Pepperdine University board of directors. He also served as Charles B. Thornton Professor of Business Economics at the University of Southern California and as Associate Professor of Business Economics at the University of Chicago. Dr. Laffer was selected to serve on the Board because of his expertise in economics and his experience as a director of multiple companies.

Carol Swain, age 70, has served as a member of the Board since August 2022. In addition, she has served as a member of the board of directors of NXRT, as a member of the board of directors of VineBrook and as a member of the board of trustees of NXDT since August 2022. She has also served as a member of the board of directors of NXHT since August 2022. Dr. Swain is an author, speaker, political commentator and entrepreneur. She founded Unity Training Solutions LLC in November 2020 and founded Carol Swain Enterprises, LLC in October 2014. Dr. Swain previously was a professor at Vanderbilt University from August 1999 to 2017. Dr. Swain has also served on the Tennessee Advisory Committee to the U.S. Civil Rights Commission, the National Endowment for the Humanities, and the 1776 Commission. Dr. Swain received her Bachelor of Arts from Roanoke College, a master's degree in political science from Virginia Tech, a Ph.D. in political science from the University of North Carolina at Chapel Hill and a Master of Legal Studies from Yale Law School. Dr. Swain was selected to serve on our Board because of her experience in the fields of political science, law and government.

Catherine Wood, age 68, has served as a member of the Board since July 2020. In addition, she has served as a member of the board of directors of NXRT and as a member of the board of directors of VineBrook since July 2020 and as a member of the board of trustees of NXDT since August 2022. She has also served as a member of the board of directors of NXHT since June 2022. Ms. Wood is currently Chief Executive Officer, Chief Investment Officer, and a board member of ARK Investment Management LLC ("ARK"), an SEC-registered investment advisor, which she founded in January 2014. Ms. Wood is also currently Chief Executive Officer, Chief Investment Officer, and a board member of ARK ETF Trust. Prior to ARK, Ms. Wood spent 12 years at AllianceBernstein as Chief Investment Officer of Global Thematic Strategies. Ms. Wood joined AllianceBernstein from Tupelo Capital Management, a hedge fund she co-founded. Prior to her tenure at Tupelo Capital Management, Ms. Wood worked for 18 years at Jennison Associates LLC as Chief Economic Officer and several other positions. Ms. Wood started her career in Los Angeles at The Capital Group as an Assistant Economist. Ms. Wood received her Bachelor of Science, summa cum laude, in Finance and Economics from the University of Southern California. Ms. Wood was selected to serve on the Board because of her experience as it relates to disruptive technologies, business models and processes, which provides an important perspective to the Board.

PROPOSAL 2 -

RATIFICATION OF APPOINTMENT OF

KPMG LLP AS THE COMPANY'S INDEPENDENT

REGISTERED PUBLIC ACCOUNTING FIRM FOR 2024

The audit committee has appointed KPMG as the Company's independent registered public accounting firm for 2024. The Board is asking stockholders to ratify this appointment. SEC regulations and New York Stock Exchange ("NYSE") listing requirements require the Company's independent registered public accounting firm to be engaged, retained and supervised by the audit committee. However, the Board considers the selection of an independent registered public accounting firm to be an important matter to stockholders. Accordingly, the Board considers a proposal for stockholders to ratify this appointment to be an opportunity for stockholders to provide input to the audit committee and the Board on a key corporate governance issue.

Representatives of KPMG are expected to virtually attend the Annual Meeting and will have the opportunity to make a statement. They will also be available to respond to appropriate questions.

Selection. KPMG served as the Company's independent registered public accounting firm for 2023 and has been selected by the audit committee to serve as the Company's independent registered public accounting firm for 2024.

Audit and Non-Audit Fees. The following table presents fees for audit services rendered by KPMG for the audit of the Company's annual financial statements for 2023 and 2022, and fees billed for other services rendered by KPMG.

	DECEMBER 31, 2023	DECEMBER 31, 2022
Audit Fees (1).....	\$ 857,500	\$ 927,750
Audit-Related Fees.....	-	-
Tax Fees (2).....	197,000	130,390
All Other Fees.....	-	-
Total.....	\$ 1,054,500	\$ 1,058,140

- (1) Includes fees for audits of our annual financial statements, reviews of the related quarterly financial statements, and services that are normally provided by the independent accountants in connection with statutory and regulatory filings or engagements, including comfort letters and consents issued in connection with SEC filings and reviews of documents filed with the SEC.
- (2) Includes fees billed for professional services rendered for tax compliance, tax advice, and tax planning.

Pursuant to the charter of the audit committee, the audit committee is responsible for the oversight of our accounting, reporting and financial practices. The audit committee has the responsibility to select, appoint, engage, oversee, retain, evaluate and terminate our external auditors; pre-approve all audit and non-audit services to be provided, consistent with all applicable laws, to us by our external auditors; and establish the fees and other compensation to be paid to our external auditors.

The audit committee has adopted a policy to pre-approve all audit and permitted non-audit services provided by our principal independent accountants. All audit and non-audit services for 2023 were pre-approved by the audit committee.

The Board unanimously recommends a vote FOR the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for 2024.

THE BOARD, ITS COMMITTEES AND ITS COMPENSATION

Board of Directors

The Board presently consists of seven members, five of whom are non-management directors. Each director serves a one-year term expiring at each annual meeting of stockholders and lasting until his or her respective successor is duly elected and qualified.

Director Compensation

Directors who are officers of the Company do not receive compensation for their service as directors.

We provide the following compensation for non-management directors:

- each non-management director receives an annual director's fee payable in cash equal to \$20,000 and an annual grant of restricted stock units;
- the chair of our audit committee receives an additional annual fee payable in cash equal to \$15,000;
- the chair of our compensation committee receives an additional annual fee payable in cash equal to \$7,500;
- the chair of our nominating and corporate governance committee receives an additional annual fee payable in cash equal to \$7,500; and
- the lead independent director receives an additional annual fee payable in cash equal to \$10,000.

We also reimburse directors for all expenses incurred in attending Board and committee meetings.

Director Compensation Table

The following table provides information regarding the compensation of our non-management directors for the year ended December 31, 2023.

NAME	FEES EARNED		STOCK		TOTAL
	OR PAID IN CASH		AWARDS (1)		
Edward Constantino	\$	35,000	\$	64,708	\$ 99,708
Scott Kavanaugh	\$	37,500	\$	64,708	\$ 102,208
Dr. Arthur Laffer	\$	27,500	\$	64,708	\$ 92,208
Dr. Carol Swain.....	\$	20,000	\$	64,708	\$ 84,708
Catherine Wood.....	\$	20,000	\$	64,708	\$ 84,708

- (1) These restricted stock units were granted on April 4, 2023 and vested on April 4, 2024, the first anniversary of the grant date. The grant date fair value of the award was equal to the closing price of the Company's stock on the date of grant as calculated in accordance with the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") Topic 718. Pursuant to the rules of the SEC, the amounts shown in this column exclude the impact of estimated forfeitures related to service-based vesting conditions. See Note 11 to our consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 for information regarding the assumptions made in determining these values. As of December 31, 2023, our non-management directors each held 4,274 restricted stock units.

Director Independence

The Board will review at least annually the independence of each director. During these reviews, the Board will consider transactions and relationships between each director (and his or her immediate family and affiliates) and the Company and its management to determine whether any such transactions or relationships are inconsistent with a determination that the director is independent. This review will be based primarily on responses of the directors to questions in a directors' and officers' questionnaire regarding employment, business, familial, compensation and other relationships with the Company and our management. Our Board has determined that each of Edward Constantino, Scott Kavanaugh, Dr. Arthur Laffer, Dr. Carol Swain and Catherine Wood is independent in accordance with NYSE rules. As required by NYSE, our independent directors will meet in regularly scheduled executive sessions at which only independent directors are present.

Corporate Governance

We believe that good corporate governance is important to ensure that, as a public company, we will be managed for the long-term benefit of our stockholders. We and our Board have reviewed the corporate governance policies and practices of other public companies, as well as those suggested by various authorities in corporate governance. We have also considered the provisions of the Sarbanes-Oxley Act and SEC and NYSE rules.

Based on this review, we have established and adopted charters for the audit committee, compensation committee and nominating and corporate governance committee, as well as corporate governance guidelines and a code of business conduct and ethics applicable to all of our directors, officers and employees.

Our committee charters, code of business conduct and ethics and corporate governance guidelines are available on our website nref.nexpoint.com in the Governance section. Copies of these documents are also available upon written request to our Corporate Secretary at c/o NexPoint Real Estate Finance, Inc., 300 Crescent Court, Suite 700, Dallas, Texas 75201, Attn: Corporate Secretary. We will post information regarding any amendment to, or waiver from, our code of business conduct and ethics on our website in the Governance section.

Furthermore, our insider trading policy, which is reasonably designed to promote compliance with insider trading laws, rules and regulations (i) governs the purchase, sale and/or other disposition of the Company's securities by directors, officers and employees of the Company and (ii) prohibits our directors and certain employees, including all of our executive officers, from engaging in hedging transactions with respect to our securities, including entering into options, warrants, puts, calls or similar instruments or selling our securities short.

The Board periodically reviews its corporate governance policies and practices. Based on these reviews, the Board may adopt changes to policies and practices that are in the best interest of our stockholders and as appropriate to comply with any new SEC or NYSE rules.

Board Leadership Structure and Board's Role in Risk Oversight

James Dondero, our President, serves as Chairman of the Board. The Board believes that combining these positions is the most effective leadership structure for the Company at this time. As President, Mr. Dondero is involved in day-to-day operations and is familiar with the opportunities and challenges that the Company faces at any given time. With this insight, he is able to assist the Board in setting strategic priorities, lead the discussion of business and strategic issues and translate Board recommendations into Company operations and policies.

The Board has appointed Scott Kavanaugh as its lead independent director. His key responsibilities in this role include:

- developing agendas for, and presiding over, the executive sessions of the non-management or independent directors;
- reporting the results of the executive sessions to the Chairman;
- providing feedback from executive sessions to the Chairman;
- serving as a liaison between the independent directors and the Chairman (provided that each director will also be afforded direct and complete access to the Chairman at any such time such director deems necessary or appropriate);

- presiding at all meetings of the Board at which the Chairman is not present;
- approving information sent to the Board;
- approving agendas for Board meetings;
- approving Board meeting schedules to ensure that there is sufficient time for discussion of all agenda items;
- calling meetings of the independent directors; and
- if requested by major stockholders, ensuring that he is available for consultation and direct communication.

Risk is inherent with every business and we face a number of risks. Management is responsible for the day-to-day management of risks, while the Board, as a whole and through our audit committee, is responsible for overseeing our business and affairs, including overseeing its risk assessment and risk management functions. The Board has delegated responsibility for reviewing our policies with respect to risk assessment and risk management to our audit committee through its charter. The Board has determined that this oversight responsibility can be most efficiently performed by our audit committee as part of its overall responsibility for providing independent, objective oversight with respect to our accounting and financial reporting functions, internal and external audit functions, systems of internal controls over financial reporting and legal, ethical and regulatory compliance. Our Board has also delegated the oversight of risks related to cybersecurity to our audit committee and risks related to environmental, social and governance matters to our nominating and corporate governance committee. Our audit and nominating and corporate governance committees regularly report to the Board with respect to its oversight of these areas.

Board Meetings

The Board held six meetings during the fiscal year ended December 31, 2023. All directors serving on the Board in 2023 attended at least 75% of the total number of meetings of the Board and the total number of meetings of the committees on which he or she served during the time they served on the Board. Under our corporate governance guidelines, each director is expected to devote the time necessary to appropriately discharge his or her responsibilities and to prepare for and, to the extent possible, attend and participate in all meetings of the Board and Board committees on which he or she serves.

Director Attendance at Annual Meetings of Stockholders

Under our corporate governance guidelines, each director is expected to attend the annual meeting of stockholders. All but one of the Company's directors at the time of the 2023 annual meeting of stockholders attended the 2023 annual meeting.

Board Committees

Our Board has an audit committee, a compensation committee and a nominating and corporate governance committee. The composition and responsibilities of each committee are described below. Members will serve on these committees until their resignation or until otherwise determined by the Board.

Audit Committee

Our audit committee consists of Mr. Constantino, Mr. Kavanaugh, Dr. Laffer, Dr. Swain and Ms. Wood, with Mr. Constantino serving as chair of the committee. The Board has determined that each of Mr. Constantino, Mr. Kavanaugh, Dr. Laffer and Dr. Swain qualify as an "audit committee financial expert" as that term is defined by the applicable SEC regulations. The Board has also determined that each of Mr. Constantino, Mr. Kavanaugh, Dr. Laffer, Dr. Swain and Ms. Wood is "financially literate" as required by NYSE rules and is independent as defined by NYSE rules and SEC requirements relating to the independence of audit committee members. Our Board has determined that Mr. Constantino's, Mr. Kavanaugh's, Dr. Laffer's, Dr. Swain's and Ms. Wood's simultaneous service on the audit committees of more than three public companies would not impair his or her ability to effectively serve on our audit committee. The audit committee met five times during the fiscal year ended December 31, 2023. Our audit committee charter details the principal functions of the audit committee, including oversight related to:

- our accounting and financial reporting processes;

- the integrity of our consolidated financial statements;
- our systems of disclosure controls and procedures and internal control over financial reporting;
- our compliance with financial, legal and regulatory requirements;
- the performance of our internal audit function;
- our overall risk assessment and management; and
- our processes for assessing, identifying and managing risks from cybersecurity threats as well as any material effects, or reasonably likely material effects, of risks from cybersecurity threats and previous cybersecurity incidents.

The audit committee is also responsible for engaging an independent registered public accounting firm, reviewing with the independent registered public accounting firm the plans and results of the audit engagement, approving professional services provided by the independent registered public accounting firm, including all audit and non-audit services, reviewing the independence of the independent registered public accounting firm, considering the range of audit and non-audit fees and reviewing the adequacy of our internal accounting controls. The audit committee also prepares the audit committee report required by SEC regulations to be included in our annual proxy statement. A copy of the audit committee charter is available under the Governance section of the Company's website at nref.nexpoint.com.

Compensation Committee

Our compensation committee consists of Dr. Laffer, Mr. Kavanaugh, Mr. Constantino, Dr. Swain and Ms. Wood, with Dr. Laffer serving as chair of the committee. The Board has determined that each of Dr. Laffer, Mr. Kavanaugh, Mr. Constantino, Dr. Swain and Ms. Wood is independent as defined by NYSE rules and SEC requirements relating to the independence of compensation committee members. The compensation committee met five times during the fiscal year ended December 31, 2023. Our compensation committee charter details the principal functions of the compensation committee, including:

- reviewing our compensation policies and plans;
- implementing and administering a long-term incentive plan;
- evaluating the terms of the management agreement, dated February 6, 2020 and amended as of July 17, 2020 and November 3, 2021 (the "Management Agreement"), by and between the Company and the Manager, and the performance of the Manager thereunder;
- assisting management in complying with our proxy statement and annual report disclosure requirements;
- producing a report on compensation to be included in our annual proxy statement, as required; and
- reviewing, evaluating and recommending changes, if appropriate, to the remuneration for directors.

The compensation committee has the sole authority to retain and terminate compensation consultants to assist in the evaluation of our compensation and the sole authority to approve the fees and other retention terms of such compensation consultants. The committee may, in its discretion, delegate specific duties and responsibilities to a subcommittee or an individual committee member, to the extent permitted by applicable law. The committee is also able to retain independent counsel and other independent advisors to assist it in carrying out its responsibilities. A copy of the compensation committee charter is available under the Governance section of the Company's website at nref.nexpoint.com.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Mr. Kavanaugh, Mr. Constantino, Dr. Laffer, Dr. Swain and Ms. Wood, with Mr. Kavanaugh serving as chair of the committee. The Board has determined that each of Mr. Kavanaugh, Mr. Constantino, Dr. Laffer, Dr. Swain and Ms. Wood is independent as defined by NYSE rules. The nominating and corporate governance committee met five times during the fiscal year ended December 31, 2023. Our nominating and corporate governance committee charter details the principal functions of the nominating and corporate governance committee, including:

- reviewing the characteristics of current Board members, including diversity characteristics and determining if any characteristics are lacking and using these measures in identifying and recommending to the full Board qualified candidates for election as directors;
- developing and recommending to the Board corporate governance guidelines and implementing and monitoring such guidelines;
- reviewing and making recommendations on matters involving the general operation of the Board, including board size and composition, and committee composition and structure;
- recommending to the Board nominees for each committee of the Board;
- annually facilitating the assessment of the Board's performance, as required by applicable law, regulations and NYSE corporate governance listing standards;
- annually reviewing and making recommendations to the Board regarding revisions to the corporate governance guidelines and the code of business conduct and ethics;
- overseeing succession planning; and
- overseeing the Company's strategy, initiatives, risks, opportunities and reporting on material environmental, social and governance matters.

The nominating and corporate governance committee has the sole authority to retain and terminate any search firm to assist in the identification of director candidates and the sole authority to set the fees and other retention terms of such search firms. The committee is also able to retain independent counsel and other independent advisors to assist it in carrying out its responsibilities. A copy of the nominating and corporate governance committee charter is available under the Governance section of the Company's website at nref.nexpoint.com.

Code of Business Conduct and Ethics

We have adopted a written code of business conduct and ethics that applies to our directors and executive officers, who are employees of our Manager. Among other matters, our code of business conduct and ethics is designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;
- compliance with laws, rules and regulations;
- prompt internal reporting of violations of the code to appropriate persons identified in the code; and

- accountability for adherence to the code of business conduct and ethics.

A copy of our code of business conduct and ethics is available under the Governance section of the Company's website at nref.nexpoint.com. We will post information regarding any amendment to, or waiver from, our code of business conduct and ethics on our website under the Governance section.

Qualifications for Director Nominees

The nominating and corporate governance committee is responsible for reviewing with the Board, at least annually, the appropriate skills and experience required for members of the Board. This assessment includes factors such as judgment, skill, diversity, integrity, experience with businesses and other organizations of comparable size, the interplay of the candidate's experience with the experience of other Board members, and the extent to which the candidate would be a desirable addition to the Board and any committees of the Board.

In connection with this assessment, the nominating and corporate governance committee will identify individuals believed to be qualified to become Board members and recommend candidates to the Board to fill new or vacant positions. The nominating and corporate governance committee will also review the qualifications of, and make recommendations to the Board regarding, director nominations submitted to the Company by stockholders in accordance with the Company's bylaws or otherwise using the same assessment process described above. In addition, the nominating and corporate governance committee will evaluate whether an incumbent director should be nominated for re-election to the Board as part of its annual review and selection process. The nominating and corporate governance committee will use the same factors established for new director candidates to make its evaluation and will also take into account the incumbent director's performance as a Board member.

Board Diversity

The nominating and corporate governance committee does not have a formal policy regarding the consideration of diversity for director candidates. The nominating and corporate governance committee does, however, consider diversity as part of its overall selection strategy. The nominating and corporate governance committee considers diversity in its broadest sense, including diversity in professional and life experiences, education, skills, perspectives and leadership, as well as other individual qualities and attributes that contribute to Board heterogeneity, such as race, ethnicity, sexual orientation, gender and national origin. Importantly, the nominating and corporate governance committee focuses on how the experiences and skill sets of each director nominee complements those of fellow directors and director nominees to create a balanced Board with diverse viewpoints and deep expertise. The Company believes that the inclusion of diversity as one of many factors considered in selecting director nominees is consistent with the Company's goal of creating a board of directors that best serves our needs and those of our stockholders.

The Company added diversity-related questions to its director and officer questionnaires in 2022 to help the nominating and corporate governance committee identify whether there are areas, including with respect to diversity of thought, background, experience, gender, race and age, the nominating and corporate governance committee should consider in connection with its review of board composition and board refreshment.

Below is a summary of the experience and skills, gender, age and tenure of our directors, and whether the directors are racially or ethnically diverse.

	Mr. Dondero	Mr. Mitts	Mr. Constantino	Mr. Kavanaugh	Dr. Laffer	Dr. Swain	Ms. Wood
Executive Leadership	X	X		X	X	X	X
Real Estate/REIT Experience	X	X	X	X	X	X	X
Business Operations	X	X		X	X	X	X
Strategic Development/Planning	X	X		X	X	X	X
Corporate Governance	X	X	X	X	X	X	X
Financial and Accounting	X	X	X	X	X		X
Risk Management	X	X	X	X	X		X
Capital Markets/Financial Services	X	X		X	X		X
Technology, Information Security and Innovation	X			X	X		X
Cybersecurity	X			X	X		X
Environmental Issues, including Climate Change	X			X	X	X	X
Social Issues, including Diversity and Inclusion	X			X	X	X	X
Human Capital	X			X	X	X	X

	Mr. Dondero	Mr. Mitts	Mr. Constantino	Mr. Kavanaugh	Dr. Laffer	Dr. Swain	Ms. Wood
Independent							
Independent			X	X	X	X	X
Diversity							
Gender	M	M	M	M	M	F	F
Racially or Ethnically Diverse†	W	W	W	W	W	B	W
Age Range							
59 and under		X					
60-64	X			X			
65-69							X
70 and older			X		X	X	
Tenure on Board							
0-5 years	X	X	X	X	X	X	X
6-10 years							

†

B = Black/African American
W=White

The composition of our Board also reflects our belief that multiple and varied points of view facilitate more balanced, wide-ranging discussion in the boardroom, and contribute to a more effective decision-making process.

Director Candidate Recommendations by Stockholders

The nominating and corporate governance committee will review and evaluate any director nominations submitted by stockholders, including reviewing the qualifications of, and making recommendations to the Board regarding, director nominations submitted by stockholders in the same manner as described under “Qualifications for Director Nominees.” See “Communications with the Board of Directors” below for additional information on how to submit a director nomination to the Board.

Communications with the Board of Directors

Any stockholder or other interested party who wishes to communicate directly with the Board or any of its members may do so by writing to: Board of Directors, c/o NexPoint Real Estate Finance, Inc., 300 Crescent Court, Suite 700, Dallas, Texas 75201, Attn: Corporate Secretary. The mailing envelope should clearly indicate whether the communication is intended for the Board as a group, the non-management directors or a specific director.

Stockholder Nominations

The Company's bylaws provide that, with respect to an annual meeting of our stockholders, nominations of individuals for election to the Board may be made only (a) pursuant to our notice of the meeting, (b) by or at the direction of the Board or (c) by any stockholder who was a stockholder of record both at the time of giving the notice required by our bylaws and at the time of the meeting, who is entitled to vote at the meeting in the election of such nominee and has provided notice to us within the time period, and containing the information, certifications and other materials, specified in the advance notice provisions of our bylaws and who has complied with the other procedural requirements set forth in our bylaws.

With respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before the meeting. Nominations of individuals for election to the Board may be made only (a) by or at the direction of the Board or (b) if the meeting has been called for the purpose of electing directors, by any stockholder who was a stockholder of record both at the time of giving the notice required by our bylaws and at the time of the meeting, who is entitled to vote at the meeting in the election of such nominee and who has provided notice to us within the time period, and containing the information, certifications and other materials, specified in the advance notice provisions of our bylaws and who has complied with the other procedural requirements set forth in our bylaws. See "Stockholder Proposals for the 2025 Annual Meeting of Stockholders" below for how to submit a timely notice.

EXECUTIVE OFFICERS & SIGNIFICANT EMPLOYEES

The following sets forth information regarding the executive officers of the Company as of April 11, 2024:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
<i>Executive Officers</i>		
James Dondero	61	President and Director
Brian Mitts	53	Chief Financial Officer, Executive VP-Finance, Secretary and Treasurer and Director
Matt McGraner.....	40	Executive VP and Chief Investment Officer
Dennis Charles Sauter, Jr.	49	General Counsel
<i>Significant Employees</i>		
Paul Richards.....	35	VP of Originations and Investments
David Willmore.....	39	VP of Finance

Information regarding Mr. Dondero and Mr. Mitts is included above under “Proposal 1-Election of Directors.”

Matt McGraner has served as our Executive VP and Chief Investment Officer since January 2020. Mr. McGraner served as our Secretary from June 2019 to February 2020. Mr. McGraner co-founded NREA as well as NXRT, NREF and other real estate businesses with Mr. Mitts and Mr. Dondero. Mr. McGraner has also served as the Executive VP and Chief Investment Officer of NXRT since March 2015, as Executive VP, Chief Investment Officer and Secretary of VineBrook since February 2019 and as a member of the board of directors and President of NSP since November 2020. From September 2014 to March 2015, Mr. McGraner served as NXRT’s Secretary and from October 2018 to February 2019, Mr. McGraner served as Chief Executive Officer, President and Secretary of VineBrook. Mr. McGraner has also served as Chief Investment Officer of NHT since December 2019 and as a Managing Director at our Sponsor since 2016. In addition, Mr. McGraner has served as Executive VP, Chief Investment Officer and Secretary of NXDT since July 2022 and as Chief Investment Officer and Secretary of NXHT since June 2022. NXRT, VineBrook, NXDT, NSP, NHT and our Sponsor are all affiliates of the Company. With over ten years of real estate, private equity and legal experience, his primary responsibilities are to lead the operations of the real estate platform at our Sponsor, as well as source and execute investments, manage risk and develop potential business opportunities, including fundraising, private investments and joint ventures. Mr. McGraner is also a licensed attorney and was formerly an associate at Jones Day from 2011 to 2013, with a practice primarily focused on private equity, real estate and mergers and acquisitions. While at Jones Day, Mr. McGraner led the acquisition and financing of over \$200 million of real estate investments and advised on \$16.3 billion of M&A and private equity transactions. Since 2013 through April 11, 2024, Mr. McGraner has led the acquisition and financing of over \$19.9 billion of real estate investments.

Dennis Charles “D.C.” Sauter, Jr. has served as our General Counsel since February 2020. Mr. Sauter has also served as General Counsel of NXRT since February 2020, as General Counsel of our Sponsor since April 2021 and as General Counsel of NXDT since July 2022. Previously, Mr. Sauter was a partner in the real estate section of Wick Phillips Gould & Martin, LLP in Dallas, Texas from January 2014 until joining our Sponsor in February 2020, where he specialized in acquisitions, construction, financing, joint ventures and complex leasing for REITs, private developers, and institutional investors. NXRT, NXDT and the Sponsor are all affiliates of the Company. Mr. Sauter’s primary responsibility is to manage our legal matters, including corporate governance, real estate transactions and capital markets transactions. He received his Bachelor of Arts degree from the University of Texas at Austin and his Juris Doctor from Southern Methodist University Dedman School of Law. He has been a licensed attorney and member of the State Bar of Texas since 2001.

Paul Richards has served as our VP of Originations and Investments since February 2020. Mr. Richards has also served as Vice President of Asset Management of NHT since March 2019 and as Vice President of Asset Management and Financing of VineBrook since 2018. Mr. Richards is also a director at our Sponsor. His primary responsibilities are to research and conduct due diligence on new investment ideas, perform valuation and benchmark analysis, monitor and manage investments in the existing real estate portfolio, and provide industry support for our Sponsor’s real estate team. Mr. Richards has served as a director for NREA since 2019 and joined in 2017. From 2016 to 2017, Mr. Richards served as a Product Strategy Associate at NexPoint Asset Management, L.P. (“NexPoint Asset Management”), formerly known as Highland Capital Management Fund Advisors, L.P., where he was responsible for evaluating and optimizing the registered product lineup. NHT, VineBrook, our Sponsor, NREA, and NexPoint Asset Management are all affiliates of the Company. Previously, Mr. Richards was also employed with Deloitte & Touche LLP’s state and local tax practice where he served as a tax consultant specializing in state strategic tax reviews, voluntary disclosure agreements, state tax exposure research, and overall state tax compliance.

David Willmore has served as our VP of Finance since February 2020. Mr. Willmore has served as the Chief Accounting Officer for our Sponsor since 2021 and as VP of Finance at NXRT since February 2020. He has also served as Senior Vice President of Accounting and Finance of NXHT since June 2022. He was previously Senior Manager at NXRT from April 2019 to February 2020 and a Senior Manager at a former NexPoint affiliate from February 2017 to March 2019. NXRT and NXHT are also affiliates of the Company. With over ten years of accounting, auditing, and financial reporting experience, his primary responsibilities are to implement the financial and operational strategies of our Sponsor's public and private REITs and registered investment funds as well as ensure timely and accurate accounting and reporting. Before joining in October 2011, Mr. Willmore began his career at Deloitte & Touche LLP as an auditor in the Audit and Enterprise Risk Services Group.

EXECUTIVE COMPENSATION

Overview of Executive Compensation Program

We are externally managed by our Manager through the Management Agreement. Our Manager conducts substantially all of our operations and provides asset management services for our real estate investments. Because our Management Agreement provides that our Manager is responsible for managing our affairs, our named executive officers, who are employees of our Manager or were employees of our Manager during fiscal year 2023, have not received, nor do we expect they will in the future receive, any cash compensation from us for their services as our named executive officers. Similarly, we do not provide our named executive officers with pension benefits, perquisites or other personal benefits. Instead, we pay our Manager the fees described below under “Certain Relationships and Related Party Transactions-Our Management Agreement.” For the year ended December 31, 2023, we paid approximately \$3.3 million in fees to our Manager. Our compensation committee does not make determinations with respect to compensation paid by our Manager or its affiliates.

Executive Compensation in 2023

As described above, our named executive officers are employed by our Manager or were employed by our Manager when they served as officers of the Company. We do not have agreements with any of our executive officers regarding their cash compensation, nor do we or our compensation committee make any decisions regarding their cash compensation, employee benefits, or other types of compensation paid to our executive officers by our Manager or its affiliates. Our compensation committee only reviews and approves the equity-based awards to be paid or made by us to our named executive officers based on recommendations from our President. During 2023, we did not provide any of our named executive officers with any cash compensation, pension benefits or nonqualified deferred compensation plans. We have reported the management fee that we pay to our Manager under “-Overview of Executive Compensation Program” above.

Summary Compensation Table

The following table sets forth the compensation paid to or accrued by those named executive officers during the fiscal year presented.

NAME AND PRINCIPAL POSITION	YEAR	STOCK AWARDS	
		(1)	TOTAL
James Dondero <i>President</i>	2023	\$ 2,015,664	\$ 2,015,664
	2022	\$ 1,405,471	\$ 1,405,471
Matt McGraner <i>Chief Investment Officer and Executive VP</i>	2023	\$ 1,938,541	\$ 1,938,541
	2022	\$ 1,405,471	\$ 1,405,471
Brian Mitts <i>Chief Financial Officer, Executive VP- Finance, Secretary and Treasurer</i>	2023	\$ 414,064	\$ 414,064
	2022	\$ 335,427	\$ 335,427
Matthew Goetz (2) <i>Former Senior VP—Investments and Asset Management</i>	2023	\$ 1,460,988	\$ 1,460,988
	2022	\$ 888,247	\$ 888,247

(1) The amounts reported in the “Stock Awards” column represent the aggregate grant date fair value of restricted stock units, calculated in accordance with ASC Topic 718. Pursuant to SEC rules, the amounts shown in this column exclude the impact of estimated forfeitures related to service-based vesting conditions. See Note 11 to our consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023 for information regarding the assumptions made in determining these values. The amount shown in this column for Mr. Goetz also includes the incremental fair value, calculated in accordance with paragraph 55-116 of FASB ACS Topic 718, for 72,674 restricted stock units, the vesting of which accelerated on November 9, 2023 pursuant to the Separation Agreement.

(2) Mr. Goetz resigned from the Company on November 9, 2023.

Outstanding Equity Awards at Fiscal Year-End

The following table contains information regarding outstanding equity awards held by our named executive officers as of December 31, 2023.

	STOCK AWARDS	
	NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED (#)	MARKET VALUE OF SHARES OR UNITS THAT HAVE NOT VESTED \$(1)
James Dondero	234,297 (2)	\$ 3,690,178
Matt McGraner	235,489 (3)	\$ 3,708,952
Brian Mitts	60,071 (4)	\$ 946,119
Matthew Goetz	0 (5)	\$ 0

- (1) Market value is based on the closing price of our common stock as of December 29, 2023 (\$15.75), the last trading day of the year.
- (2) Consists of restricted stock units granted on June 24, 2020, February 22, 2021, February 21, 2022 and April 4, 2023. With respect to the restricted stock units granted on June 24, 2020, as of December 31, 2023, there were 17,557 restricted stock units not vested, which will vest on May 8, 2024. With respect to the restricted stock units granted on February 22, 2021, as of December 31, 2023, there were 31,679 restricted stock units not vested, which vested one-half on February 22, 2024 and will vest one-half on February 22, 2025. With respect to the restricted stock units granted on February 21, 2022, as of December 31, 2023, there were 51,926 restricted stock units not vested, which vested one-third on February 21, 2024 and will vest one-third on February 21, 2025 and one-third on February 21, 2026. With respect to the restricted stock units granted on April 4, 2023, as of December 31, 2023, there were 133,135 restricted stock units not vested, which vested one-fourth on April 4, 2024 and will vest one-fourth on April 4, 2025, one-fourth on April 4, 2026, and one-fourth on April 4, 2027.
- (3) Consists of restricted stock units granted on June 24, 2020, February 22, 2021, February 21, 2022 and April 4, 2023. With respect to the restricted stock units granted on June 24, 2020, as of December 31, 2023, there were 23,843 restricted stock units not vested, which will vest on May 8, 2024. With respect to the restricted stock units granted on February 22, 2021, as of December 31, 2023, there were 31,679 restricted stock units not vested, which vested one-half on February 22, 2024 and will vest one-half on February 22, 2025. With respect to the restricted stock units granted on February 21, 2022, as of December 31, 2023, there were 51,926 restricted stock units not vested, which vested one-third on February 21, 2024 and will vest one-third on February 21, 2025 and one-third on February 21, 2026. With respect to the restricted stock units granted on April 4, 2023, as of December 31, 2023, there were 128,041 restricted stock units not vested, which vested one-fourth on April 4, 2024 and will vest one-fourth on April 4, 2025, one-fourth on April 4, 2026, and one-fourth on April 4, 2027.
- (4) Consists of restricted stock units granted on June 24, 2020, February 22, 2021, February 21, 2022 and April 4, 2023. With respect to the restricted stock units granted on June 24, 2020, as of December 31, 2023, there were 5,780 restricted stock units not vested, which will vest on May 8, 2024. With respect to the restricted stock units granted on February 22, 2021, as of December 31, 2023, there were 10,326 restricted stock units not vested, which vested one-half on February 22, 2024 and will vest one-half on February 22, 2025. With respect to the restricted stock units granted on February 21, 2022, as of December 31, 2023, there were 16,616 restricted stock units not vested, which vested one-third on February 21, 2024 and will vest one-third on February 21, 2025 and one-third on February 21, 2026. With respect to the restricted stock units granted on April 4, 2023, as of December 31, 2023, there were 27,349 restricted stock units not vested, which vested one-fourth on April 4, 2024 and will vest one-fourth on April 4, 2025, one-fourth on April 4, 2026, and one-fourth on April 4, 2027.
- (5) Mr. Goetz resigned from the Company on November 9, 2023, at which time 72,675 restricted stock units immediately vested and 44,066 restricted stock units were forfeited pursuant to the Separation Agreement.

Pension Benefits

We do not provide any of our officers with pension benefits.

Nonqualified Deferred Compensation

We do not provide any of our officers with any nonqualified deferred compensation plans.

Potential Payments Upon Termination of Employment or Change in Control

In the event any officer's employment with our Manager is terminated involuntarily by the Manager for reasons other than for cause, by the officer for good reason, or otherwise due to such officer's death, disability or retirement, all outstanding restricted stock units granted that have not previously vested or been forfeited, will vest. If a change in control occurs and the award is not assumed or converted into a replacement award in a manner described in the award agreement, all outstanding awards held by our officers that have not previously vested or been forfeited, will vest. See "-Outstanding Equity Awards at Fiscal Year-End" above for the market value of outstanding equity awards as of December 31, 2023 that would have vested if any of the events described above occurred on December 31, 2023.

In general, except as may be otherwise prescribed by the compensation committee in any award agreement, the NexPoint Real Estate Finance, Inc. 2020 Long Term Incentive Plan (as amended and restated from time to time, the "2020 LTIP") provides that a change of control will be deemed to have occurred if: (a) individuals who constitute the Board on the effective date of the 2020 LTIP cease for any reason to constitute at least a majority of the Board, unless their replacements are approved as described in the 2020 LTIP (subject to certain exceptions described in the 2020 LTIP); (b) a person or group becomes the beneficial owner of 35% or more of the then-outstanding shares of our common stock or the combined voting power of our then-outstanding securities entitled to vote generally in the election of directors, subject to certain exceptions; (c) the Company closes a reorganization, merger, consolidation, significant sale or purchase of assets or other similar transaction resulting in a substantial change in its ownership or leadership, in each case which causes the persons or groups who are the beneficial owners of 35% or more of the then-outstanding shares of our common stock or the combined voting power of our then-outstanding securities entitled to vote generally in the election of directors to cease to be such beneficial owners of the entity resulting from such transaction, in substantially the same proportions of ownership as immediately prior to such transaction, as further described in the 2020 LTIP; (d) the Company's stockholders approve its complete liquidation or dissolution; or (e) the Manager is terminated.

Separation Agreement

Mr. Goetz resigned from his position as Senior VP-Investments and Asset Management of the Company on November 9, 2023 (the "Separation Date"). In connection with his resignation, Mr. Goetz and the Company, the Manager, the Sponsor, NXRT, NexPoint Real Estate Advisors VII, L.P., NXDT, NexPoint Real Estate Advisors X, L.P., VineBrook and NexPoint Real Estate Advisors V, L.P. entered into a separation agreement, dated November 9, 2023 (the "Separation Agreement"). Pursuant to the Separation Agreement, the Sponsor will subsidize Mr. Goetz's COBRA premium for a period of twelve months and 72,675 restricted stock units granted to Mr. Goetz by the Company immediately vested as of the Separation Date and will settle on the original scheduled vesting dates, subject to Mr. Goetz's continued compliance with existing restrictive covenants. In addition, pursuant to the Separation Agreement, 11,452 restricted stock units granted to Mr. Goetz by NXRT, 11,300 restricted share units granted to Mr. Goetz by NXDT and 4,279 restricted stock units granted to Mr. Goetz by VineBrook immediately vested as of the Separation Date and will settle on the original scheduled vesting dates, subject to Mr. Goetz's continued compliance with existing restrictive covenants. The approximate value of the restricted stock units of the Company that vested on the Separation Date is \$412,000 and the approximate value of the aggregate restricted stock units of the Company, NXRT, NXDT and VineBrook that vested on the Separation Date is \$2 million.

The Severance Agreement additionally contains, among other things, mutual non-disparagement provisions and a mutual release of claims by Mr. Goetz and the Company.

In connection with the Separation Agreement, Mr. Goetz, the Company, NXRT, NXDT and VineBrook entered into a vesting agreement pursuant to which, among other things, the award agreements between Mr. Goetz and the Company relating to his restricted stock unit grants were amended to account for his separation and accelerated vesting of a portion of his outstanding restricted stock unit grants pursuant to the Separation Agreement.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides certain information as of the end of our most recently completed fiscal year with respect to compensation plans (including any individual compensation arrangements, of which there are none) under which our equity securities are authorized for issuance, aggregated as follows:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities issuable upon exercise of outstanding options, warrants and rights)
Equity compensation plans approved by securityholders			
2020 LTIP	867,834 shares of the Company's common stock (1)	N/A	2,433,458 shares of the Company's common stock
Equity compensation plans not approved by security holders			
None	-	N/A	-
Total	867,834 shares of the Company's common stock	N/A	2,433,458 shares of the Company's common stock

(1) Represents restricted stock units issued under our 2020 LTIP.

Clawback Policy and Clawbacks

In accordance with SEC and NYSE rules, the Company adopted a clawback policy in November 2023 (the "Clawback Policy"). Under the Company's Clawback Policy, the Company will recover reasonably promptly the amount of erroneously awarded incentive-based compensation in the event that the Company is required to prepare an accounting restatement (as such terms are defined in the Clawback Policy).

Prior to filing the Company's Annual Report on Form 10-K for the year ended December 31, 2022, the Company determined that its accounting treatment for its investment in Elysian at Hughes Center 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 with the Company's financial statements. Pursuant to the guidance of Staff Accounting Bulletin No. 99, Materiality, the Company concluded that the error was not material to any of its previously reported interim financial statements. However, the Company revised its consolidated financial statements for the three months ended March 31, 2022, June 30, 2022 and September 30, 2022 to correct this error in its Annual Report on Form 10-K for the year ended December 31, 2022. The compensation committee of the Board determined that no incentive-based compensation was received during the applicable recovery period and the recovery period was before October 2, 2023 so no clawbacks were required under the Clawback Policy.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following is a summary of transactions that occurred on or were in effect after January 1, 2022 to which we have been a party in which the amount involved exceeded the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last two completed fiscal years and in which any of our executive officers, directors or beneficial holders of more than 5% of our capital stock had or will have a direct or indirect material interest.

Our Management Agreement

We are externally managed by our Manager pursuant to our Management Agreement. Our Manager was organized on June 7, 2019 and is an affiliate of our Sponsor. Below is a summary of the terms of our Management Agreement.

Duties of Our Manager

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.

Management Fee

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").

Under the Management Agreement, as amended, "Equity" means (a) the sum of (1) total stockholders' equity immediately prior to the closing of our initial public offering (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 our formation transaction completed prior to the closing of the IPO.

"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 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.

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.

For the fiscal year ended December 31, 2023, the Company incurred an Annual Fee of \$3.3 million, paid entirely in cash. For the fiscal year ended December 31, 2022, the Company incurred an Annual Fee of \$3.2 million, paid entirely in cash.

Reimbursement of Expenses

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. For the fiscal years ended December 31, 2023 and December 31, 2022, the Company did not reimburse the Manager for any expenses.

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 fiscal years ended December 31, 2023 and December 31, 2022, operating expenses did not exceed the Expense Cap.

Term of the Management Agreement

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, which includes any one of the following: (i) the Manager or any of its agents or assignees is convicted of a felony or material violation of securities laws that has a material adverse effect on our business or the ability of the Manager to perform its duties under the terms of the Management Agreement; (ii) an order for relief in an involuntary bankruptcy case relating to the Manager or the Manager authorizing or filing a voluntary bankruptcy petition; (iii) the dissolution of the Manager; (iv) the Manager's fraud, misappropriation of funds or embezzlement against us; (v) the Manager's bad faith, willful misconduct, gross negligence or reckless disregard in the performance of its duties under the Management Agreement or (vi) the Manager's material breach of any material provision of the Management Agreement that continues for a period of 30 days after written notice thereof, unless the Manager has taken certain actions to cure such material breach within 30 days of the written notice. 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.

Modification

The Management Agreement may only be amended, supplemented, modified, terminated, or discharged in writing signed by the Company and our Manager, or their respective successors or assignees.

Limitation on Receiving Shares

The ability of our Manager to receive shares of our common stock as payment for all or a portion of the Annual Fee due under the terms of our Management Agreement will be subject to the following limitations: (a) the ownership of shares of common stock by our Manager may not violate the ownership limitations set forth in our charter or otherwise raise a material risk to the status of the Company as a REIT, after giving effect to any exception from such ownership limitations that our Board may grant to our Manager or its affiliates; and (b) compliance with all applicable restrictions under the U.S. federal securities laws and NYSE rules. In addition, notice of the election must be made to our Board at the time the Manager delivers to the Board the computation of the Annual Fee for such month.

Liability and Indemnification of Manager

Under the terms of the Management Agreement, our Manager will indemnify and hold harmless us, our subsidiaries and NexPoint Real Estate Finance Operating Partnership, L.P. (the "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.

Other Activities of Manager and its Affiliates

Our Manager and its affiliates expect to engage in other business ventures, and as a result, their resources will not be dedicated exclusively to our business. However, pursuant to the Management Agreement, our Manager is required to devote sufficient resources to our administration to discharge its obligations under the Management Agreement.

Registration Rights Agreement

In connection with the IPO, we entered into a registration rights agreement with our Manager with respect to (1) all current and future shares of our common stock owned by our Manager and affiliates of our Manager, including our Sponsor and its affiliates and (2) shares of our common stock at any time beneficially owned by our Manager which are issuable or issued as compensation for our Manager's services under the Management Agreement and any additional shares of our common stock issued as a dividend, distribution or exchange for, or in respect of such shares. Pursuant to the registration rights agreement, if we propose to file a registration statement (or a prospectus supplement pursuant to a then-existing shelf registration statement) under the Securities Act of 1933, as amended (the "Securities Act") with respect to a proposed underwritten equity offering by us for our own account or for the account of any of our respective securityholders of any class of security other than a registration statement on Form S-4 or S-8 (or any substitute form that may be adopted by the SEC) filed in connection with an exchange offer or offering of securities solely to our existing securityholders, then we will give written notice of such proposed filing to the holders of registrable securities and such notice will offer such holders the opportunity to register such number of shares of registrable securities as each such holder may request. We will use commercially reasonable efforts to cause the managing underwriter or underwriters of a proposed underwritten offering to permit the registrable securities requested to be included in such a registration to be included on the same terms and conditions as any similar securities included therein.

In addition, holders of registrable securities may make a written request for registration under the Securities Act of all or part of their registrable securities, or a demand registration. However, we will not be obligated to effect more than one such registration in any 12-month period and not more than two such registrations during the term of the Management Agreement. If the Management Agreement is extended, the holders will be entitled to one additional demand registration per year that the Management Agreement is extended. Holders making such written request must propose the sale of at least 100,000 shares of registrable securities (as adjusted for stock splits or recapitalizations) or such lesser number of registrable securities if such lesser number is all of the registrable securities owned by the holders. Any such request must specify the number of shares of registrable securities proposed to be sold and will also specify the intended method of disposition. Within 10 days after receipt of such request, we will give written notice of such registration request to all other holders of registrable securities and include in such registration all such registrable securities with respect to which we have received written requests for inclusion therein within 10 business days after the receipt by the applicable holder of our notice.

Notwithstanding the foregoing, any registration will be subject to cutback provisions, and we will be permitted to suspend the registration or sale of registrable securities in certain situations.

Indemnification Agreements

We have entered into indemnification agreements with each of our directors and executive officers. Each indemnification agreement provides that, subject to limited exceptions, and among other things, we will indemnify the director or executive officer to the fullest extent permitted by law for claims arising in his or her capacity as our director or officer. Insofar as the foregoing provisions permit indemnification of directors, officers or persons controlling us for liability arising under the Securities Act, we have been informed that, in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Share Repurchase Program

On February 22, 2023, the Board authorized a share repurchase program (the “Share Repurchase Program”) through which the Company may repurchase an indeterminate number of shares of our common stock and 8.50% Series A Cumulative Redeemable Preferred Stock (“Series A Preferred Stock”) at an aggregate market value of up to \$20.0 million 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 net asset value per share. Repurchases under this program may be discontinued at any time. The Company has not made any purchases under the Share Repurchase Program as of April 11, 2024.

The Board had previously authorized a share repurchase program (the “Prior Share Repurchase Program”) through which the Company could repurchase an indeterminate number of shares of our common stock and Series A Preferred Stock at an aggregate market value of up to \$10.0 million during a two year period that expired on March 9, 2022. 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.

The audit committee approved and ratified, subject to the prior authorization of our Board, repurchases from related party affiliates of the Company through the Share Repurchase Program and the Prior Share Repurchase Program, including accounts advised by affiliates of our Sponsor. From inception to expiration, the Company did not repurchased shares of common stock or Series A Preferred Stock under the Prior Share Repurchase Program from its officers, directors, Manager or Sponsor, or affiliates of any of the foregoing. From inception to April 11, 2024, the Company has not repurchased shares of common stock or Series A Preferred Stock under the Share Repurchase Program from its officers, directors, Manager or Sponsor, or affiliates of any of the foregoing.

OP Unit and SubOP 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 limited partnership units of the OP (“OP Units”) or of the subsidiary operating partnerships (“SubOP Units”) that may be redeemed for OP Units. Pursuant to the OP’s limited partnership agreement, the holders of OP Units other than the Company have the right to cause the 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’s limited partnership agreement. The Buffalo Pointe Contribution Agreement (defined below) provides the same rights with respect to the OP Units issued to the contributors therein, subject to stockholder approval which was received at the 2021 annual meeting of the Company. Holders of SubOP Units other than the OP, prior to the redemption all such units, had the same right to cause the SubOP to redeem their SubOP Units for cash or, at the OP’s election, OP Units on a one-for-one basis, subject to adjustment, as provided and subject to the limitations in the SubOP’s limited partnership agreement.

On January 7, 2022, the OP redeemed approximately 8,496,144 SubOP Units for cash and issued approximately 3,721,572 Class B OP Units and approximately 4,774,572 Class C OP Units to the redeeming unitholders for the same cash amount. Following the issuance of OP Units, on January 7, 2022, the Company redeemed approximately 4,774,572 Class C OP Units for cash and issued 4,774,570 shares of common stock to the redeeming unitholders for the same cash amount.

On February 14, 2022, the Company redeemed approximately 395,033 Class C OP Units and issued 395,033 shares of common stock in exchange to the redeeming unitholder.

On December 23, 2022, the Company redeemed 2,100,000 Class B OP Units and issued 2,100,000 shares of common stock in exchange to the redeeming unitholder.

As of December 31, 2023, the Company had issued 8,748,735 shares of the common stock to redeeming unitholders.

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 (the “Convertible Note Issuance”) to the Holder maturing on October 18, 2027. The Holder is an affiliate of the Manager. 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.

Investments with Affiliates of the Manager

The Company has made the following investments with affiliates of the Manager. The information set forth below is as of December 31, 2023 unless otherwise stated.

Connections at Buffalo Pointe

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 March 31, 2023, or \$17.72 per OP Unit. The Company additionally contributed an aggregate of approximately \$1.7 million on January 9, 2023, March 6, 2023, March 28, 2023, May 25, 2023, and August 16, 2023. Buffalo Pointe owns a stabilized multifamily property located in Houston, Texas with 93.8% occupancy as of December 31, 2023. 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 87.4% and a maturity date of May 1, 2030.

Pursuant to the second amended and restated limited partnership agreement of the OP (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.

NexPoint Storage Partners

The Company holds 41,963 shares, or approximately 25.7%, of the outstanding common stock of NSP, a self-storage REIT that is indirectly managed by an affiliate of the Manager. The Company’s fair value measurement of this investment as of December 31, 2023 was \$33.1 million. On December 8, 2022 and in connection with a restructuring of NSP, the Company, through a subsidiary (“REIT Sub”), together with NXDT, Highland Income Fund (“HFRO”) and NRESF (collectively, the “Co-Guarantors”), as guarantors, entered into a Sponsor Guaranty Agreement (the “Sponsor Guaranty”) in favor of Extra Space Storage, LP (“Extra Space”) pursuant to which REIT Sub and the Co-Guarantors guaranteed obligations with respect to accrued dividends on 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. On February 15, 2023, NSP paid down approximately \$15.0 million of these promissory notes, resulting in an aggregate principal amount of approximately \$49.2 million. On December 8, 2023, NSP paid down the remaining principal balance of \$49.2 million. The NSP Series D preferred stock remains outstanding as of December 31, 2023.

Bridge Loan

On March 31, 2022, the Company originated a bridge loan for \$13.5 million (the “Bridge Loan”). 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 Bridge 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.

Elysian at Hughes Center

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 (the “Asset Manager”). As of December 31, 2022, the Company owned a preferred equity investment and indirect common equity interests in Elysian at Hughes Center, which resulted in the consolidation at year end. However, the common equity interests have been transferred to the Asset Manager in exchange for \$54,000 and a guarantee of 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. The Company’s preferred investments were initially made from December 28, 2021 through July 26, 2022 and totaled \$65.3 million. Following the transfer of the common equity interests, the Company no longer is the primary beneficiary of the Trust and as such does not consolidate it. As of December 31, 2023, \$54.0 million of the Company's preferred investment in Elysian at Hughes Center had been redeemed, resulting in a remaining principal balance of \$11.4 million.

Cellipont

On May 17, 2023, the Company, through one of the subsidiary partnerships of the OP, committed to purchase \$4.2 million of the preferred units with respect to a life sciences property development located in Houston, Texas, of which \$0.0 million was unfunded as of December 31, 2023. The investment was entered into as a co-investment with affiliates of the Company.

Series B Preferred Stock Offering

On November 2, 2023, the Company announced the launch of the Series B Preferred Offering. NexPoint Securities, Inc., an affiliate of the Manager, serves as the Company’s dealer manager (the “Dealer Manager”) in connection with the Series B Preferred Offering. The Dealer Manager uses its reasonable best efforts to sell the shares of Series B Preferred Stock offered in the Series B Preferred Offering, and the Company pays the Dealer Manager, subject to the discounts and other special circumstances described or referenced therein, (i) selling commissions of 7.0% of the aggregate gross proceeds from sales of Series B Preferred Stock in the Series B Preferred Offering (“Selling Commissions”) and (ii) a dealer manager fee of 3.0% of the gross proceeds from sales of Series B Preferred Stock in the Series B Preferred Offering (the “Dealer Manager Fee”). The Dealer Manager, subject to federal and state securities laws, will reallocate all or any portion of the Selling Commissions and may reallocate a portion of the Dealer Manager Fee to other securities dealers that the Dealer Manager may retain who sold the shares of Series B Preferred Stock. The Company expects that the offering will terminate on the earlier of the date the Company sells all 16,000,000 shares of the Series B Preferred Stock in the offering or March 14, 2025 (which is the third anniversary of the effective date of the Company’s registration statement), which may be extended by the Company’s Board in its sole discretion. The Board may elect to terminate this offering at any time. As of December 31, 2023, the Company has issued 427,218 shares of Series B Preferred Stock for gross proceeds of \$10.5 million and paid the Dealer Manager \$0.6 million Selling Commissions and \$0.3 million Dealer Manager Fees.

Related Party Transaction Policy

The Board has adopted a written Related Party Transaction Policy for the review, approval or ratification of any related person transaction. This policy provides that all related party transactions must be reviewed and approved by the disinterested members of the audit committee. The term “related party transaction” refers to any transaction, arrangement or relationship (including charitable contributions and including any series of similar transactions, arrangements or relationships) with the Company in which any Related Party (as defined below) has a direct or indirect material interest, other than: (a) transactions available to employees generally; (b) transactions involving less than \$50,000 when aggregated with all related or similar transactions, except if receipt of any amount would result in a director no longer being considered independent under NYSE rules or would disqualify a director from serving as a member of a committee of the Board; (c) transactions involving compensation or indemnification of executive officers and directors duly authorized by the Board or an authorized Board committee; (d) transactions involving reimbursement for routine expenses in accordance with Company policy; and (e) purchases of any products on terms generally available to third parties.

For the purposes of our Related Party Transaction Policy, “Related Parties” include:

- directors (and nominees for director) and executive officers of the Company;
- immediate family members of such directors and executive officers;
- our Manager;
- a stockholder owning in excess of five percent of the Company’s voting securities or an immediate family member of such a stockholder; or
- an entity which is owned or controlled by any of the above persons.

POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

The following is a discussion of certain of our investment, financing and other policies. These policies have been determined by the Board and, in general, may be amended and revised from time to time at the discretion of the Board without notice to or a vote of our stockholders. We intend to disclose any changes in our investment policies in our next required periodic report.

If our Board determines that additional funding is required, we may raise such funds through additional public and private offerings of common and preferred equity or debt securities or the retention of cash flow (subject to the distribution requirements applicable to REITs and our desire to minimize our U.S. federal income tax obligations) or a combination of these methods. In the event that our Board determines to raise additional equity or debt capital, it has the authority, without stockholder approval, to cause us to issue additional shares of common stock, shares of preferred stock or debt securities in any manner and on such terms and for such consideration as it deems appropriate, at any time, and has similarly broad authority to incur debt.

In addition, we may finance the acquisition of investments using the various sources of financing discussed below under “Investment Policies.” Our investment guidelines, the assets in our portfolio and the decision to utilize, and the appropriate levels of, leverage are periodically reviewed by our Board as part of their oversight of our Manager.

We may offer equity or debt securities in exchange for property and may repurchase or otherwise reacquire shares of our stock. Subject to the requirements for qualification as a REIT, we may in the future invest in debt securities of other REITs, other entities engaged in real estate-related activities or securities of other issuers, including for the purpose of exercising control over these entities. We do not intend that our investments in securities will require us to register as an investment company under the Investment Company Act of 1940, and we would intend to divest such securities before any such registration would be required.

We engage in the purchase and sale of investments. Consistent with our investment guidelines, we may in the future make loans to third parties in the ordinary course of business for investment purposes and may underwrite securities of other issuers.

Our annual reports will be available to our stockholders, including our audited financial statements. We are subject to the information reporting requirements of the Securities Exchange Act of 1934 (the “Exchange Act”). Pursuant to those requirements, we will be required to file annual and periodic reports, proxy statements and other information, including audited financial statements, with the SEC.

Our Board may change any of these policies without prior notice to you or a vote of our stockholders.

Investment Policies

We invest in interests in real estate.

Investments in Interests in Real Estate

We conduct all of our investment activities through the OP. 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 first-lien mortgage loans, mezzanine loans, preferred equity, convertible notes, multifamily properties and common equity investments, as well as multifamily and SFR commercial mortgage backed securities securitizations (“CMBS securitizations”), multifamily structured credit risk notes (“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 metropolitan statistical areas. 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 the Company seeks to take advantage of market opportunities to achieve a superior portfolio risk-mix that delivers attractive total returns.

We may also participate with third parties in property ownership, through joint ventures, funds or other types of co-ownership. We also may acquire interests in real estate in exchange for the issuance of common stock, units, preferred stock or options to purchase stock. These types of investments may permit us to own interests in larger assets without unduly restricting our diversification and, therefore, provide us with flexibility in structuring our portfolio. We will not, however, enter into a joint venture or other partnership arrangement to make an investment that would not otherwise meet our investment policies.

Dispositions. We may dispose of some of our investments if, based upon management's periodic review of our investments, the Manager or the Board determines that such action would be in the best interest of us and our stockholders.

Financings and Leverage Policy. In the future, we anticipate using a number of different sources to finance our acquisitions, developments and operations, including, but not limited to, cash flows from operations, asset sales, seller financing, issuance of debt securities, private financings (such as bank credit facilities, which may or may not be secured by our assets), common or preferred equity issuances or any combination of these sources, to the extent available to us, or other sources that may become available from time to time. Any debt that we incur may be recourse or non-recourse and may be secured or unsecured. We also may take advantage of joint venture or other partnering opportunities as such opportunities arise in order to acquire properties that would otherwise be unavailable to us or if we believe joint ventures or other partnering structures are more favorable to us compared with owning the properties outright. We may use the proceeds of our borrowings to acquire assets, to refinance existing debt or for general corporate purposes.

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 terms and interest rate type to that of the underlying investment financed. We are not restricted by our governing documents or otherwise in the amount of leverage that we may use.

Lending Policies. We do not have a policy limiting our ability to make loans to other persons. We may consider offering purchase money financing in connection with the sale of investments where the provision of that financing will increase the value to be received by us for the investment sold. We also may make loans to joint ventures in which we participate. Any loan we make will be consistent with maintaining our status as a REIT.

Equity Capital Policies. To the extent that the Board determines to obtain additional capital, we may issue equity securities, including additional units or senior securities of the OP, retain earnings (subject to provisions in the Internal Revenue Code of 1986, as amended, requiring distributions of income to maintain REIT qualification) or pursue a combination of these methods. As long as the OP is in existence, we will generally contribute the proceeds of all equity capital raised by us to the OP in exchange for additional interests in the OP, which will dilute the ownership interests of the limited partners in the OP.

Existing stockholders will have no preemptive rights to common or preferred stock or units issued in any securities offering by us, and any such offering might cause a dilution of a stockholder's investment in us. We may in the future issue shares of common stock or units in connection with acquisitions of investments.

We may, under certain circumstances and subject to there being funds legally available, purchase shares of our common stock or other securities in the open market or in private transactions with our stockholders, provided that those purchases are approved by the Board. Any repurchases of shares of our common stock or other securities would only be taken in conformity with applicable federal and state laws and the applicable requirements for qualification as a REIT.

Conflicts of Interest

The following briefly summarizes the material potential and actual conflicts of interest which may arise from the overall investment activity of our Manager, its clients and its affiliates, but is not intended to be an exhaustive list of all such conflicts. The scope of the activities of the affiliates of our Manager and the funds and clients advised by affiliates of our Manager may give rise to conflicts of interest or other restrictions and/or limitations imposed on us in the future that cannot be foreseen or mitigated at this time.

Management Agreement

Under our Management Agreement, our Manager is entitled to fees that are structured in a manner intended to provide incentives to our Manager to perform in our best interest and in the best interest of our stockholders. However, because performance is only one aspect of our Manager's compensation, 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 Annual 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. Externally managed REITs may also have conflicts of interest with their advisors that are not common with self-managed REITs. These conflicts as they relate to us and our Manager are discussed in the following sections.

Other Accounts and Relationships

As part of their regular business, our Manager, its affiliates and their respective officers, directors, trustees, stockholders, members, partners and employees and their respective funds and investment accounts (collectively, the "Affiliated Parties") hold, purchase, sell, trade or take other related actions both for their respective accounts and for the accounts of their respective clients, on a principal or agency basis, subject to applicable law with respect to loans, securities and other investments and financial instruments of all types. The Affiliated Parties also provide investment advisory services, among other services, and engage in private equity, real estate and capital markets-oriented investment activities. The Affiliated Parties are not restricted in their performance of any such services or in the types of debt, equity, real estate or other investments which they may make. The Affiliated Parties may have economic interests in or other relationships with respect to investments made by us. In particular, the Affiliated Parties may make and/or hold an investment, including investments in securities, that may compete with, be *pari passu*, senior or junior in ranking to an, investment, including investments in securities, made and/or held by us or in which partners, security holders, members, officers, directors, agents or employees of such Affiliated Parties serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in restrictions on transactions by us and otherwise create conflicts of interest for us. In such instances, the Affiliated Parties may in their discretion make investment recommendations and decisions that may be the same as or different from those made with respect to our investments. In connection with any such activities described above, the Affiliated Parties may hold, purchase, sell, trade or take other related actions in securities or investments of a type that may be suitable for us. The Affiliated Parties are not required to offer such securities or investments to us or provide notice of such activities to us. In addition, in managing our portfolio, our Manager may take into account its relationship or the relationships of its affiliates with obligors and their respective affiliates, which may create conflicts of interest. Furthermore, in connection with actions taken in the ordinary course of business of our Manager in accordance with its fiduciary duties to its other clients, our Manager may take, or be required to take, actions which adversely affect our interests.

The Affiliated Parties have invested and may continue to invest in investments that would also be appropriate for us. Such investments may be different from those made on our behalf. Neither our Manager nor any Affiliated Party is necessarily prohibited from making or maintaining such investments, even if they are not favorable to us, subject to their fiduciary duties and disclosure obligations, and subject to our Manager's allocation policy set forth below. The investment policies, fee arrangements and other circumstances applicable to such other parties may vary from those applicable to us. Our Manager and/or any Affiliated Party may also provide advisory or other services for a customary fee with respect to investments made or held by us, and neither our stockholders nor we have any right to such fees. Our Manager and/or any Affiliated Party may also have ongoing relationships with, render services to or engage in transactions with other clients, including HFRO, NRESF, NexPoint Capital and Highland Global Allocation Fund ("GAF") as well as VineBrook, NXRT, NSP, NXDT, NXHT and NHT and other REITs, who make investments of a similar nature to ours, Delaware Statutory Trusts and with companies whose securities or properties are acquired by us. In connection with the foregoing activities our Manager and/or any Affiliated Party may from time to time come into possession of material nonpublic information that limits the ability of our Manager to affect a transaction for us, and our investments may be constrained as a consequence of our Manager's inability to use such information for advisory purposes or otherwise to effect transactions that otherwise may have been initiated on our behalf. In addition, officers or affiliates of our Manager and/or Affiliated Parties may possess

information relating to our investments that is not known to the individuals at our Manager responsible for monitoring our investments and performing the other obligations under the Management Agreement.

The Affiliated Parties currently provide services to HFRO, NRESF, NexPoint Capital, GAF, VineBrook, NXRT, NSP, NHT, NXDT, NXHT, Delaware Statutory Trusts, and may in the future provide services to other REITs, funds or other entities that compete with us for similar investments.

Although the professional staff of our Manager will devote as much time to our business and investments as our Manager deems appropriate to perform its duties in accordance with the Management Agreement and in accordance with reasonable commercial standards, the staff may have conflicts in allocating its time and services among us and any Affiliated Parties' other accounts. The Management Agreement places restrictions on our Manager's ability to buy and sell investments for us. Accordingly, during certain periods or in certain circumstances, our Manager may be unable to buy or sell investments or to take other actions that it might consider to be in our best interest as a result of such restrictions.

The directors, officers, employees and agents of the Affiliated Parties, and our Manager may, subject to applicable law, serve as directors (whether supervisory or managing), officers, employees, partners, agents, nominees or signatories, and receive arm's length fees in connection with such service, for us or any Affiliated Party, or for any of our investments or any affiliate thereof, and neither we nor our stockholders have the right to any such fees.

The Affiliated Parties serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as us, or of other investment funds managed by our Manager or its affiliates. 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 our best interest. We may compete with other entities managed by our Manager and its affiliates for capital and investment opportunities.

There is no limitation or restriction on our Manager or any of its Affiliated Parties with regard to acting as investment manager (or in a similar role) to other parties or persons. This and other future activities of our Manager and/or its Affiliated Parties may give rise to additional conflicts of interest. Such conflicts may be related to obligations that our Manager or its affiliates have to other clients.

Subject to prior approval of our Board, certain Affiliated Parties, including NexBank and Governance Re, Ltd., among others, may provide banking, agency, insurance and other services to us and its operating affiliates for customary fees, and neither we, nor our subsidiaries will have a right to any such fees.

Allocation Policy

If a potential investment is appropriate for either us or another entity managed by our Manager or its affiliates, such as HFRO, which as of December 31, 2023 has approximately \$1.0 billion of assets under management, NRESF, which as of December 31, 2023 has approximately \$43.0 million of assets under management, NexPoint Capital, which as of December 31, 2023 has approximately \$49.4 million of assets under management, GAF, which as of December 31, 2023 has approximately \$314.5 million of assets under management, VineBrook, which as of December 31, 2023 has an enterprise value of approximately \$3.8 billion, NXRT, which as of December 31, 2023 has an enterprise value of approximately \$2.4 billion, NXDT, which as of December 31, 2023 has an enterprise value of approximately \$499.6 million, and NHT, which as of December 31, 2023 has an enterprise value of approximately \$160.6 million, our Manager and its affiliates, including their respective personnel, have an allocation policy that provides that opportunities will be allocated among those accounts for which participation in their respective opportunity is considered most appropriate, taking into account the following objective factors.

First, the allocation policy looks to the investment objectives of the REITs managed by our Manager and its affiliates. For example, our targeted investments differ from the targeted investments of NXRT, which generally are direct ownership of well-located middle-income multifamily properties with value-add potential. We believe that most investment opportunities will be more appropriate for us, NXRT or other entities based on the differences in our primary investment objectives. We expect we will remain the primary vehicle in which investments are made in first-lien mortgage loans, mezzanine loans, preferred equity, multifamily and SFR CMBS securitizations, multifamily structured credit risk notes and mortgage-backed securities. Our Manager is not required to offer to us any opportunities that do not meet our investment objectives and criteria. Personnel of our Manager and its affiliates may invest in any such investment opportunities not required to be presented to us.

To the extent the opportunity is consistent with the investment objectives of more than one REIT managed by our Manager and its affiliates, the allocation policy then looks to other factors, such as:

- which REIT has available cash (including availability under lines of credit) to acquire the investment;
- whether there are any positive or negative income tax effects on any of the REITs relating to the purchase;
- whether the investment opportunity creates geographic, asset class or tenant concentration / diversification concerns for any of the REITs;
- how the investment size, potential leverage, transaction structure and anticipated cash flows affect each REIT, including earnings and distribution coverage; and
- whether one or more of the REITs has an existing relationship with the tenant(s), operator, facility or system associated with the investment, or a significant geographic presence that would make the investment strategically more important.

Our Manager will allocate investment opportunities across the entities for which such opportunities are appropriate, consistent with its internal conflict of interest and allocation policies. Our Manager will seek to allocate investment opportunities among such entities in a manner that is fair and equitable over time and consistent with its allocation policy. However, there is no assurance that such investment opportunities will be allocated to us fairly or equitably in the short-term or over time, and there can be no assurance that we will be able to participate in all such investment opportunities that are suitable for us.

Cross Transactions and Principal Transactions

As further described below, our Manager may affect client cross-transactions where our Manager causes a transaction to be affected between us and another client advised by our Manager or any of its affiliates. Our Manager may engage in a client cross-transaction involving us any time that our Manager believes such transaction to be fair to us and the other client of our Manager or its affiliates in accordance with our Manager's internal written cross-transaction policies and procedures.

As further described below, our Manager may effect principal transactions where we may make and/or hold an investment, including an investment in securities, in which our Manager and/or its affiliates have a debt, equity or participation interest, in each case in accordance with applicable law and with our Manager's internal written policies and procedures for principal transactions, which may include our Manager obtaining our consent and approval prior to engaging in any such principal transaction between us and our Manager or its affiliates.

Our Manager may direct us to acquire or dispose of investments in cross trades between us and other clients of our Manager or its affiliates in accordance with applicable legal and regulatory requirements. In addition, we may make and/or hold an investment, including an investment in securities, in which our Manager and/or its affiliates have a debt, equity or participation interest, and the holding and sale of such investments by us may enhance the profitability of our Manager's own investments in such companies. Moreover, we, along with our principals and persons or entities controlling, controlled by or under common control with the Manager, may invest in assets originated by, or enter into loans, borrowings and/or financings with our Manager or its affiliates, including but not limited to NexBank, including in primary and secondary transactions with respect to which our Manager or a Affiliated Party may receive customary fees from the applicable issuer, and neither we nor our subsidiaries have the right to any such fees. In each such case, our Manager and principals and persons or entities controlling, controlled by or under common control with the Manager may have a potentially conflicting division of loyalties and responsibilities regarding us and the other parties to such investment. Under certain circumstances, our Manager and its affiliates may determine that it is appropriate to avoid such conflicts by selling an investment at a fair value that has been calculated pursuant to our Manager's valuation procedures to another fund managed or advised by our Manager or principals and persons or entities controlling, controlled by or under common control with the Manager. In addition, our Manager may enter into agency cross-transactions where it or any of its affiliates acts as broker for us and for the other party to the transaction, to the extent permitted under applicable law. Our Manager may obtain our written consent as provided herein if any such transaction requires the consent of our Board.

Participation in Creditor Committees, Underwriting and Other Activities

Our Manager and/or its Affiliated Parties may participate in creditors or other committees with respect to the bankruptcy, restructuring or workout or foreclosure of our investments. In such circumstances, our Manager may take positions on behalf of itself or Affiliated Parties that are adverse to our interests.

Our Manager and/or its Affiliated Parties may act as an underwriter, arranger or placement agent, or otherwise participate in the origination, structuring, negotiation, syndication or offering of investments purchased by us. Such transactions are on an arm's-length basis and may be subject to arm's-length fees. There is no expectation for preferential access to transactions involving investments that are underwritten, originated, arranged or placed by our Manager and/or its Affiliated Parties and neither we nor our stockholders have the right to any such fees.

Material Non-Public Information

There are generally no ethical screens or information barriers among our Manager and certain of its affiliates of the type that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. If our Manager, any of its personnel or its affiliates were to receive material non-public information about an investment or issuer, or have an interest in causing us to acquire a particular investment, our Manager may be prevented from causing us to purchase or sell such asset due to internal restrictions imposed on our Manager. Notwithstanding the maintenance of certain internal controls relating to the management of material non-public information, it is possible that such controls could fail and result in our Manager, or one of its investment professionals, buying or selling an asset while, at least constructively, in possession of material non-public information. Inadvertent trading on material non-public information could have adverse effects on our Manager's reputation, result in the imposition of regulatory or financial sanctions, and as a consequence, negatively impact our Manager's ability to perform its investment management services to us. In addition, while our Manager and certain of its affiliates currently operate without information barriers on an integrated basis, such entities could be required by certain regulations, or decide that it is advisable, to establish information barriers. In such event, our Manager's ability to operate as an integrated platform could also be impaired, which would limit our Manager's access to personnel of its affiliates and potentially impair its ability to manage our investments.

Other Benefits to Our Manager

The 2020 LTIP provides us with the ability to grant awards to directors and officers of, and certain consultants to, us, our Manager and its affiliates and other entities that provide services to us. The management team of our Manager may receive awards under the 2020 LTIP and will benefit from the compensation provided by these awards. Any compensation payable under such plan is subject to the 2.5% of equity book value determined in accordance with GAAP described above under "Certain Relationships and Related Party Transactions-Our Management Agreement-Expense Cap."

In addition to the compensation provided to our Manager by the Management Agreement and any long-term incentive plan, our Manager may also receive reputational benefits from our future growth through capital-raising transactions and acquisitions. Our Manager will also have an incentive to raise capital and cause us to acquire additional assets, which would then contribute to the Annual Fee. The reputational benefit to our Manager from our future growth could assist our Manager and its affiliates in pursuing other real estate investments. These investments could be made through other entities managed by our Manager or its affiliates, and there can be no assurance that we will be able to participate in all such investment opportunities.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL HOLDERS AND MANAGEMENT

The tables below set forth the beneficial ownership information of our common stock, Series A Preferred Stock and Series B Preferred Stock as of February 29, 2024 for:

- each person known to us to be the beneficial owner of more than 5% of our shares of common stock, Series A Preferred Stock or Series B Preferred Stock;
- each of our named executive officers;
- each of our directors; and
- all of our executive officers and directors as a group.

Unless otherwise noted below, the address of the persons and entities listed on the table is the address of our Manager’s office, 300 Crescent Court, Suite 700, Dallas, Texas 75201. We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock or Series A Preferred Stock reflected as beneficially owned, subject to applicable community property laws. No director or named executive officer owns any of the Company’s Series B Preferred Stock.

Beneficial ownership and percentage of beneficial ownership is based on 17,593,244 shares of our common stock, 1,645,000 shares of our Series A Preferred Stock and 1,198,695 shares of our Series B Preferred Stock outstanding on February 29, 2024. Shares of common stock that a person has the right to acquire within 60 days of February 29, 2024 upon the vesting of restricted stock units are deemed to be outstanding and beneficially owned by the person for the purpose of computing the percentage of beneficial ownership of that person and any group of which that person is a member, but are not deemed outstanding for the purpose of computing the percentage of beneficial ownership for any other person.

<u>NAME</u>	<u>COMMON STOCK</u>		<u>SERIES A PREFERRED STOCK</u>	
	<u>BENEFICIALLY OWNED</u>	<u>PERCENT OF CLASS</u>	<u>BENEFICIALLY OWNED</u>	<u>PERCENT OF CLASS</u>
5% Stockholders:				
James Dondero (1)	8,940,877.71	50.8%	50,930.30	3.1%
Named Executive Officers and Directors				
James Dondero (1)	8,940,877.71	50.8%	50,930.30	3.1%
Matt McGraner (2)	195,908.25	1.1%	-	-
Brian Mitts (3).....	74,452.78	*	-	-
Scott Kavanaugh	15,261	*	-	-
Edward Constantino.....	28,874	*	-	-
Dr. Arthur Laffer.....	54,961	*	-	-
Dr. Carol Swain.....	4,274	*	-	-
Catherine Wood	20,180	*	-	-
Matthew Goetz (4)	161,839	*	-	-
All Directors and Executive Officers as a group (10 persons) (5).....	9,494,828	54.0%	50,930.30	3.1%

* Indicates ownership of less than 1%.

(1) James D. Dondero, our Sponsor, NXDT, NexPoint Real Estate Opportunities, LLC (“NREO”), NexPoint Asset Management, Highland Income Fund and Nancy Marie Dondero have sole voting power, shared voting power, sole dispositive power and shared dispositive power with respect to the shares of our common stock as follows:

Name of Reporting Person	Sole Voting Power	Shared Voting Power	Sole Dispositive Power	Shared Dispositive Power
James D. Dondero	168,093	8,940,877.71	168,093	8,940,877.71
NexPoint Advisors, L.P.....	0	2,863,485.72	0	2,863,485.72
NexPoint Diversified Real Estate Trust	0	2,100,000	0	2,100,000
NexPoint Real Estate Opportunities, LLC	0	2,100,000	0	2,100,000
NexPoint Asset Management, L.P.	0	5,694,671.06	0	5,694,671.06
Highland Income Fund.....	0	4,372,286.06	0	4,372,286.06
Nancy Marie Dondero.....	183,620.956	0	183,620.956	0

The shares of common stock held by Mr. Dondero are held indirectly through our Sponsor and NexPoint Asset Management, a proprietary account and a trust. The shares held by NexPoint are held indirectly through directly or indirectly managed or advised entities, including NXDT and NREO. Mr. Dondero is the sole member of the general partner of our Sponsor and may be deemed to be an indirect beneficial owner of shares held by our Sponsor. The shares held by NexPoint Asset Management are held indirectly through advised accounts, including HFRO. Mr. Dondero is also the sole stockholder and director of the general partner of NexPoint Asset Management and may be deemed to be an indirect beneficial owner of shares held by NexPoint Asset Management. The shares held by the trust includes shares with respect to which Mr. Dondero has the right to acquire beneficial ownership and he does not serve as trustee of such trust. Such shares also include shares held by a company which is an indirect wholly owned subsidiary of such trust, and a limited liability company in which such trust owns a majority interest. Mr. Dondero disclaims beneficial ownership of all such shares except to the extent of his pecuniary interest therein. The shares held by Ms. Dondero are held by the trust described above for which she is the trustee. Ms. Dondero is the sister of Mr. Dondero and disclaims beneficial ownership of such shares. 2,100,000 shares of our common stock are pledged by NREO.

With respect to the shares of Series A Preferred Stock described above, 31,419.30 shares are held by the trust described above and 19,511 shares are held by Drugcrafters, L.P., for which Mr. Dondero is the sole managing member of its general partner. Mr. Dondero has shared voting and dispositive power with respect to the shares of Series A Preferred Stock described above. As of February 29, 2024, 176,380 shares held by the trust are pledged as collateral to Raymond James Bank, N.A. Mr. Dondero disclaims beneficial ownership of all such shares except to the extent of his pecuniary interest therein.

- (2) Mr. McGraner has sole voting and dispositive power with respect to 195,908.25 shares of our common stock and shared voting and dispositive power with respect to 1,800 shares of our common stock held by a limited liability company in which Mr. McGraner owns an indirect minority interest. Mr. McGraner disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.
- (3) Mr. Mitts has sole voting and dispositive power with respect to 74,452.78 shares of our common stock, 7,748.53 of which are held by a 401(k) plan. Mr. Mitts has shared voting and dispositive power with respect to 95 shares of our common stock, which he may be deemed to own through his child. As of February 29, 2024, 50,802 shares held by Mr. Mitts are pledged as collateral to JP Morgan Chase & Co.
- (4) Mr. Goetz has sole voting and dispositive power with respect to 161,839 shares of our common stock.
- (5) In computing the aggregate number of shares beneficially owned and the aggregate percentage ownership by all directors and executive officers as a group, 1,800 shares which may be deemed to be beneficially owned by Mr. Dondero and Mr. McGraner, in each case have not been counted more than once.

AUDIT COMMITTEE REPORT

The audit committee reviewed and discussed with both the Company's management and independent registered public accounting firm, KPMG LLP, the audited financial statements of the Company for the year ended December 31, 2023 prior to their issuance. These reviews included discussion with the independent registered public accounting firm of the matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board ("PCAOB") and the SEC. The audit committee also discussed with its independent registered public accounting firm its independence and received the written disclosures and letter from its independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent accountant's communications with the audit committee concerning independence.

Based on all of these reviews and discussions, all of the audit committee members, whose names are listed below, recommended to the Board that it approve the inclusion of the Company's audited financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 for filing with the SEC.

Members of the Audit Committee

Edward Constantino
(Chair)

Scott Kavanaugh

Arthur Laffer

Catherine Wood

Carol Swain

STOCKHOLDER PROPOSALS FOR THE 2025 ANNUAL MEETING OF STOCKHOLDERS

In order to be included in the Company's proxy materials for the 2025 annual meeting of stockholders, a stockholder proposal must be received in writing by the Company at 300 Crescent Court, Suite 700, Dallas, Texas 75201 by December 19, 2024 and otherwise comply with all requirements of the SEC for stockholder proposals.

In addition, the Company's bylaws provide that any stockholder who desires to make a director nomination or a proposal of other business at an annual meeting without including the nomination or proposal in the Company's proxy materials must give timely written notice of the proposal to the Company's Secretary. To be timely, the notice must be delivered to the above address not less than 120 nor more than 150 calendar days prior to the first anniversary of the date of the proxy statement for the preceding year's annual meeting. In the event the annual meeting is advanced or delayed by 30 calendar days of the date of the anniversary of the preceding year's annual meeting, the notice must be received not earlier than 150 calendar days prior to the date of the annual meeting and not later than 5:00 p.m., Eastern Time, on the later of the 120th calendar day prior to such annual meeting and the tenth calendar day following the day on which public announcement of the date of the annual meeting is first made. To be timely, a notice must be received no earlier than November 19, 2024 and no later than December 19, 2024. The notice must also describe the stockholder proposal in reasonable detail and provide certain other information required by the Company's bylaws. A copy of the Company's bylaws is available upon request from the Company's Secretary.

In addition to satisfying the foregoing requirements under our bylaws, to comply with the universal proxy rules, stockholders who intend to solicit proxies in support of director nominees other than the Company's nominees must provide notice that sets forth the information required by Rule 14a-19 under the Exchange Act no later than March 8, 2025 and comply with the disclosure and procedural requirements in connection with stockholder nominations of directors in our bylaws.

MULTIPLE STOCKHOLDERS SHARING ONE ADDRESS

In accordance with Rule 14a-3(e)(1) under the Exchange Act, one set of proxy materials will be delivered to two or more stockholders who share an address, unless the Company has received contrary instructions from one or more of the stockholders. The Company will deliver promptly upon written or oral request a separate copy of the proxy materials to a stockholder at a shared address to which a single copy of the proxy materials was delivered. Requests for additional copies of the proxy materials, and requests that in the future separate proxy materials be sent to stockholders who share an address, should be directed by writing to Investor Relations at c/o NexPoint Real Estate Finance, Inc., 300 Crescent Court, Suite 700, Dallas, Texas 75201, Attn: Investor Relations or by calling (214) 276-6300. In addition, stockholders who share a single address but receive multiple copies of the proxy materials may request that in the future they receive a single copy by contacting the Company at the address and phone number set forth in the prior sentence.

OTHER MATTERS

The Board does not know of any other matters that are to be presented for action at the Annual Meeting. If any other matters properly come before the Annual Meeting or any adjournment or postponement thereof, it is intended that the enclosed proxy will be voted in the discretion of the persons voting the proxy.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "Brian Mitts". The signature is stylized and cursive.

Brian Mitts
*Chief Financial Officer, Executive VP-Finance,
Secretary and Treasurer*

Dallas, Texas
April 11, 2024

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NEXPOINT REAL ESTATE FINANCE (NYSE: NREF)

2023 ANNUAL REPORT

NexPoint Real Estate Finance, Inc. is an externally managed commercial mortgage real estate investment trust, with its shares of common stock listed on the New York Stock Exchange under the symbol "NREF." The company is primarily focused on investments in real estate sectors where its senior management team has operating expertise, including in the multifamily, single-family rental, self-storage, life science, hospitality and office sectors predominantly in the top 50 metropolitan statistical areas.

NEXPOINT

REAL ESTATE FINANCE

April 11, 2024

TO MY FELLOW SHAREHOLDERS,

NexPoint Real Estate Finance, Inc. (NYSE: NREF) (“NREF” or the “Company”) celebrated its third full year as a public company in 2023. Continuing our success, we were able to make numerous accretive investments, 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 2023, NREF provided investors with an annual dividend of \$2.00 per common share, along with a special dividend of \$0.74 per common share. Since inception and through March 31, 2024, NREF’s total return to common shareholders was 24.8%.

NREF Total Return Performance (Inception through March 31, 2024)



Note: See “Cautionary Statement Regarding Forward-Looking Statements” in our Form 10-K for the year ended December 31, 2023, accompanying this letter.

Diversifying Our Portfolio

As of December 31, 2023, our portfolio consisted of 87 investments totaling \$1.9 billion. The debt portfolio was comprised of 46.0% single family rental (SFR), 47.2% multifamily, 5.2% life sciences and specialty manufacturing, and 1.5% Self Storage.¹ The portfolio had 5.2 years of average remaining term, was 89.9% stabilized, and had a weighted average loan-to-value of 68.8%. The portfolio's weighted average debt service coverage ratio was 1.72x.

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 1994.² Since the introduction of the K-Deal securitization in 2009, Freddie Mac has issued approximately \$560.6B, with losses of only \$54.92MM.³

Similar to 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 4.5 years of weighted average term to maturity and generates an interest-rate spread of approximately 245 bps.⁴

In 2023, our portfolio allocation in self-storage remained flat at 1.5%. Of our self-storage assets, as of December 31, 2023, \$33.1 million is common stock, \$8.0 million is in mortgage-backed securities and \$17.0 million is in preferred equity investments.

The remaining 5.2% of our debt portfolio was invested in life sciences and specialty manufacturing. Propelled by tailwinds from COVID, CHIPS and Science Act, as well as other nearshoring/reshoring initiatives, the life-sciences and specialty manufacturing sector has become extremely sought after due to the undersupply of lab space and specialized biotechnology and fabrication 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 are also still very excited about the Company's ground lease investment, 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 and specialty

¹ Based upon unpaid principal balance.

² Freddie Mac; January 2024.

³ Freddie Mac K-Deal Performance; December 31, 2023.

⁴ As of December 31, 2023.

manufacturing portfolio, we have partnered with a well-known leader in the space and look forward to growing this book of business.

Series B Preferred Stock Offering

On November 2, 2023, the Company announced the launch of a continuous public offering of up to 16,000,000 shares of its newly designated Series B Preferred Stock at a price to the public of \$25.00 per share, for gross proceeds of \$400.0 million. The 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 debt-service coverage ratios (“DSCR”) and high-quality sponsors.

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 4.5 years⁴. As of December 31, 2023, outstanding repo financing was \$303.5 million, which equates to a 63.1% advance rate on our CMBS B-Piece and IO Strip portfolios.⁵

The Company also raised capital through the issuance of a debt offering achieving low costs of capital. In November 2023, the Company issued an additional \$15.0 million aggregate principal amount of its 5.75% Unsecured Notes at a price equal to 92.0% par value, including accrued interest, for proceeds of approximately \$13.6 million after underwriting discounts and commissions. Through this offering, we were able to connect with a wide variety of investors, and we continue to be excited about the future of the Company.

Sincerely,



James D. Dondero, President

⁵ Based on actual collateral posted

Note: The names of the directors and executive officers and brief bios are contained under the headings “Proposal 1 – Election of Directors” and “Executive Officers and Significant Employees” in the proxy statement on pages 3 and 16, respectively, which are included with this Annual Report to Shareholders.

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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, 2023
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

84-2178264

(State or other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

300 Crescent Court, Suite 700, Dallas, Texas

75201

(Address of Principal Executive Offices)

(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.

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).

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, 2023, was approximately \$269,000,000.00.

As of March 20, 2024, the registrant had 17,593,244 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 2024 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, 2023

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Cautionary Statement Regarding Forward-Looking Statements

This annual report ("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 then-current beliefs and assumptions made by, and information currently available to, management. When used, the words "anticipate," "believe," "could," "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:

- 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 management team of NexPoint Real Estate Advisors VII, L.P. (our "Manager") 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 pandemics, including unpredictable variants and the future outbreak of other highly infectious or contagious diseases;
- Risks associated with the Highland Bankruptcy (as defined below), including related litigation and potential conflicts of interest; 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 equity investments, as well as multifamily and single-family rental (“SFR”) commercial mortgage backed securities securitizations (“CMBS securitizations”), multifamily structured credit risk notes (“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 metropolitan statistical areas (“MSAs”). 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, 2023, the Company held approximately 83.82% 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).

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”) and all 427,218 of the issued and outstanding 9.00% Series B Cumulative Redeemable Preferred Units (liquidation preference \$25.00 per unit) in our OP (the “Series B Preferred Units”) as of December 31, 2023. 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”) and the Series B Preferred Units have economic terms that are substantially the same as the terms of our 9.00% Series B Cumulative Redeemable Preferred Stock (the “Series B Preferred Stock”). The Series A Preferred Units and the Series B 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 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, that renewed on February 6, 2024 for a one-year term and is automatically renewed for 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 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.

2023 Highlights

Key highlights and transactions completed in 2023 include the following:

Acquisitions and Originations

The Company acquired or originated the following investments through the Subsidiary OPs in the year ended December 31, 2023. The amounts in the table below are as of the purchase or investment date unless otherwise specified:

Investment	Property Type	Investment Date	Outstanding Principal Amount	Cost (% of Par Value)	Coupon (1)	Current Yield (1)	Maturity Date	Interest Rate Type
Preferred Equity.....	Multifamily	1/9/2023	\$ 1,166,000	100.0 %	11.00 %	11.00 %	5/1/2030	Fixed Rate
Preferred Equity.....	Life Science	1/12/2023	1,005,025	99.8 %	10.00 %	10.02 %	9/29/2023	Fixed Rate
Preferred Equity.....	Multifamily	2/10/2023	14,000,000	99.0 %	11.00 %	11.11 %	2/10/2025	Fixed Rate
Common Stock.....	Multifamily	2/10/2023	500,000	100.0 %	N/A	N/A	N/A	N/A
Preferred Equity.....	Multifamily	2/24/2023	11,200,000	99.0 %	11.00 %	11.11 %	2/10/2025	Fixed Rate
Common Stock.....	Multifamily	2/24/2023	500,000	100.0 %	N/A	N/A	N/A	N/A
Preferred Equity.....	Life Science	3/3/2023	1,710,553	100.0 %	10.00 %	10.00 %	9/29/2023	Fixed Rate
FREMF 2018-KF44.	Multifamily	3/10/2023	5,746,955	99.8 %	13.07 %	13.10 %	2/25/2025	Floating Rate
Preferred Equity.....	Life Science	4/6/2023	21,105,528	100.0 %	10.00 %	17.50 %	9/29/2023	Fixed Rate
Preferred Equity.....	Multifamily	5/25/2023	228,365	100.0 %	11.00 %	11.00 %	5/1/2030	Fixed Rate
Preferred Equity.....	Single-family	6/12/2023	1,200,000	99.0 %	13.25 %	13.38 %	4/28/2027	Floating Rate
Preferred Equity.....	Life Science	6/14/2023	3,950,391	99.0 %	13.00 %	13.13 %	8/17/2024	Fixed Rate
Preferred Equity.....	Life Science	7/11/2023	241,528	99.0 %	13.00 %	13.13 %	6/1/2026	Fixed Rate
Preferred Equity.....	Single-family	7/14/2023	2,720,000	99.0 %	13.50 %	13.64 %	4/28/2027	Floating Rate
Preferred Equity.....	Multifamily	7/27/2023	6,900,000	99.0 %	11.00 %	11.11 %	2/10/2025	Floating Rate
Preferred Equity.....	Multifamily	8/16/2023	303,841	100.0 %	11.00 %	11.00 %	5/1/2030	Fixed Rate
Preferred Equity.....	Multifamily	8/24/2023	3,000,000	99.0 %	11.00 %	11.11 %	2/10/2025	Floating Rate
Common Equity.....	Multifamily	8/28/2023	500,000	100.0 %	N/A	N/A	N/A	N/A
Common Equity.....	Multifamily	8/28/2023	500,000	100.0 %	N/A	N/A	N/A	N/A
Common Equity.....	Multifamily	9/8/2023	846,511	66.7 %	N/A	N/A	N/A	N/A
Preferred Equity.....	Life Science	9/27/2023	3,173,932	99.5 %	10.00 %	10.05 %	9/29/2024	Fixed Rate
Promissory Note.....	Self-Storage	9/29/2023	5,000,000	100.0 %	11.00 %	11.00 %	9/29/2024	Fixed Rate
Real Estate.....	Multifamily	12/31/2021	590,817 (2)	100.0 %	N/A	N/A	N/A	N/A
Preferred Equity.....	Multifamily	1/14/2022	552,764	99.5 %	10.00 %	10.05 %	9/29/2024	Fixed Rate
Preferred Equity.....	Single-family	5/16/2023	3,230,000 (3)	99.0 %	13.50 %	13.64 %	4/28/2027	Floating Rate
Preferred Stock.....	Multifamily	11/9/2023	15,273,841 (4)	95.0 %	11.00 %	11.58 %	N/A	Fixed Rate
Preferred Equity.....	Multifamily	2/24/2023	5,000,000 (5)	99.0 %	11.00 %	11.11 %	2/10/2025	Fixed Rate
Preferred Equity.....	Multifamily	2/10/2023	6,000,000 (5)	99.0 %	11.00 %	11.11 %	2/10/2025	Fixed Rate
Preferred Equity.....	Life Science	10/19/2022	1,733,668	99.5 %	10.00 %	10.05 %	9/29/2024	Fixed Rate
			<u>\$ 117,879,719</u>					

(1) Current yield and coupon as of December 31, 2023.

(2) Includes additional investments made on October 2, 2023

(3) Includes additional investments made on October 10, 2023, November 27, 2023, and December 28, 2023.

(4) Includes investments made on November 9, 2023, and December 27, 2023.

(5) Includes additional investments made on October 13, 2023, November 15, 2023, and December 12, 2023.

We exercised our right to replace the manager of one property in the year ended December 31, 2023, and due to our preferred equity and common equity interests in the property, we are required to consolidate the property in our consolidated financial statements herein. Details of the property are in the table below (dollars in thousands):

<u>Property Name</u>	<u>Location</u>	<u>Date of Takeover</u>	<u>Fair Value of Real Estate</u>	<u>Fair Value of Mortgage Debt</u>	<u># Units</u>	<u>Effective Ownership</u>
Alexander at the District	Atlanta, GA	10/10/2023	\$68,840	\$ 63,500	280	100 %

Redemptions and Sales

The following investments were redeemed or sold during the year ended December 31, 2023:

<u>Investment</u>	<u>Property Type</u>	<u>Investment Date</u>	<u>Disposition Date</u>	<u>Amortized Cost Basis</u>	<u>Redemption/Sales Proceeds</u>	<u>Prepayment Penalties</u>	<u>Net Gain (Loss) on Repayment (1)</u>
Preferred Equity ...	Multifamily	12/28/2021	1/13/2023	\$ 6,758,707	\$ 6,758,707	\$ —	\$ —
Preferred Equity ...	Multifamily	12/28/2021	2/16/2023	1,490,000	1,490,000	—	—
Preferred Equity ...	Multifamily	12/28/2021	3/24/2023	3,206,618	3,206,618	—	—
Mezzanine Loan ...	Multifamily	1/21/2021	3/24/2023	24,681,963	24,844,117	—	162,154
Preferred Equity ...	Multifamily	12/28/2021	4/25/2023	1,292,054	1,292,054	—	—
Preferred Equity ...	Multifamily	12/28/2021	5/17/2023	1,915,695	1,915,695	—	—
SFR Loan	Single-family	2/11/2020	5/25/2023	5,543,934	5,148,347	457,889	62,302
SFR Loan	Single-family	2/11/2020	6/25/2023	5,545,153	5,356,022	—	(189,131)
Preferred Equity ...	Multifamily	12/28/2021	6/26/2023	3,000,000	3,000,000	—	—
Preferred Equity ...	Multifamily	12/28/2021	8/4/2023	3,470,504	3,470,504	—	—
Preferred Equity ...	Multifamily	12/28/2021	9/12/2023	64,635	64,635	—	—
CMBS B-Piece	Multifamily	12/9/2021	9/27/2023	45,411,874	44,787,461	—	(624,413)
Preferred Equity ...	Multifamily	12/28/2021	10/4/2023	977,895	977,895	—	—
Preferred Equity ...	Multifamily	11/28/2021	10/10/2023	9,712,723	5,210,723	—	(4,502,000)
Preferred Equity ...	Multifamily	12/28/2021	10/17/2023	238,781	238,781	—	—
Promissory Note ...	Self-Storage	9/29/2023	10/27/2023	5,000,000	5,044,306	—	44,306
Preferred Equity ...	Multifamily	12/28/2021	11/7/2023	1,749,667	1,749,667	—	—
Senior loan	Single-family	2/11/2020	11/25/2023	6,091,460	6,093,723	—	2,263
Preferred Equity ...	Multifamily	12/28/2021	12/6/2023	480,000	480,000	—	—
Senior loan	Single-family	2/11/2020	12/26/2023	7,104,762	7,106,558	369,144	370,940
Senior loan	Single-family	2/11/2020	12/26/2023	15,977,554	16,337,130	163,371	522,947
				<u>\$149,713,980</u>	<u>\$ 144,572,944</u>	<u>\$ 990,404</u>	<u>\$(4,150,633)</u>

(1) Net Gains (Losses) on repayment are generally attributable to acceleration of premiums net of any prepayment penalties assessed.

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, 2023 (dollars in thousands):

December 31, 2023

	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	303,514	303,514	N/A (5)	7.26 %	0.0	931,296	470,761	464,888	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.
- (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.

Series B Preferred Stock Offering

On November 2, 2023, the Company announced the launch of a continuous public offering of up to 16,000,000 shares of its newly designated Series B Preferred Stock at a price to the public of \$25.00 per share, for gross proceeds of \$400.0 million. Beginning on the first day of the calendar month following the date of original issuance, the Series B Preferred Stock are redeemable at the option of the Holder at a redemption price per share equal to the liquidation preference of \$25.00 per share, plus all accrued but unpaid cash dividends and less certain redemption fees. After the first day of the calendar month following the second anniversary of the original issue date, the Company also has the option to redeem, in whole or in part, subject to certain restrictions in the Company’s charter and the articles supplementary setting forth the terms of the Series B Preferred Stock, at a redemption price per share equal to the liquidation preference of \$25.00 per share, plus any accrued but unpaid cash dividends. In all optional redemptions, the Company has the right, in its sole discretion, to pay the redemption in cash or in equal value of shares of the Company’s common stock for so long as the common stock is listed or admitted to trading on the New York Stock Exchange (“NYSE”) or another national securities exchange or automated quotation system. NexPoint Securities, Inc., an affiliate of the Manager, serves as the Company’s dealer manager (the “Dealer Manager”) in connection with the offering. The Dealer Manager uses its reasonable best efforts to sell the shares of Series B Preferred Stock offered in the offering, and the Company pays the Dealer Manager, subject to the discounts and other special circumstances described or referenced therein, (i) selling commissions of 7.0% of the aggregate gross proceeds from sales of Series B Preferred Stock in the offering (“Selling Commissions”) and (ii) a dealer manager fee of 3.0% of the gross proceeds from sales of Series B Preferred Stock in the offering (the “Dealer Manager Fee”). The Dealer Manager, subject to federal and state securities laws, will reallow all or any portion of the Selling Commissions and may reallow a portion of the Dealer Manager Fee to other securities dealers that the Dealer Manager may retain who sold the shares of Series B Preferred Stock as is described more fully in the agreements between such dealers and the Dealer Manager. The Company expects that the offering will terminate on the earlier of the date the Company sells all 16,000,000 shares of the Series B Preferred Stock in the offering or March 14, 2025 (which is the third anniversary of the effective date of the Company’s registration statement), which may be extended by Board in its sole discretion. The Board may elect to terminate this offering at any time. As of December 31, 2023, the Company has issued 427,218 shares of Series B Preferred Stock for gross proceeds of \$10.5 million in this offering.

Notes Offering

On November 15, 2023, the Company issued an additional \$15.0 million in aggregate principal amount of its 5.75% Senior Unsecured Notes (the “5.75% Notes”) at a price equal to 92.0% par value, including accrued interest, for proceeds of approximately \$13.6 million after original issue discount and underwriting fees. As of December 31, 2023, there was \$180.0 million in aggregate principal amount of the 5.75% Notes outstanding.

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, 2023, 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 "Prior 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 (the "common stock"), during a two-year period that expired on March 9, 2022. On September 28, 2020, the Board authorized the expansion of the Prior 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, 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.

On February 22, 2023, the Board authorized a share repurchase program (the "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. As of December 31, 2023, the Company had not made any purchases under the Share Repurchase Program.

Freddie Mac Credit Facility

During 2023, the Company made payments under a Credit Facility (defined below) assumed by the Company as part of the Formation Transaction in the amount of \$38.3 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, 2023, the outstanding balance on the Credit Facility was \$590.3 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. As of the date hereof, the Holder has not elected to convert all or any part of the outstanding principal and accrued but unpaid interest or other amounts due and payable to Holder thereunder 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 equity investments, multifamily properties, MSCR Notes and mortgage backed securities with a combined unpaid principal balance of \$1.9 billion at December 31, 2023 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, 2023, excluding the consolidation of the CMBS B-Pieces, as described further below, is approximately 41.6% SFR Loans, approximately 31.4% multifamily CMBS B-Pieces, approximately 2.7% CMBS I/O Strips, approximately 8.6% mezzanine loans, approximately 12.6% preferred equity investments, approximately 0.7% MSCR Notes, and approximately 2.6% 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 \$590.3 million, approximately \$251.1 million, approximately \$27.5 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, 2023, including the consolidation of the CMBS B-Pieces, is approximately 9.6% SFR Loans, approximately 84.2% multifamily CMBS B-Pieces, approximately 0.6% CMBS I/O Strips, approximately 2.0% mezzanine loans, approximately 2.9% preferred equity investments, approximately 0.2% MSCR Notes, and approximately 0.6% 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 \$590.3 million, approximately \$5.3 billion, approximately \$27.5 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, 2023, is approximately 13.5% SFR Loans, approximately 21.4% multifamily CMBS B-Pieces, approximately 2.1% CMBS I/O Strips, approximately 11.9% mezzanine loans, approximately 30.5% preferred equity investments, approximately 9.6% common equity investments, approximately 2.3% preferred stock investments, approximately 4.8% multifamily property real estate, approximately 0.8% MSCR Notes, and approximately 2.9% 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: 89.9% of the underlying properties in our portfolio are stabilized and have a weighted average occupancy of 91.4%; the portfolio-wide weighted average debt service coverage ratio ("DSCR") is 1.72; the weighted average loan to value ("LTV") of our investments is 68.8%; and the weighted average maturity is 5.2 years as of December 31, 2023. These metrics do not reflect our common equity investments in NSP and a private ground lease REIT (the "Private REIT"), our preferred stock investments in IQHQ Inc. or our multifamily properties, shown as real estate investments, net on the Consolidated Balance Sheets, at December 31, 2023. 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 equity investments, as well as multifamily and SFR 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, life science, 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.

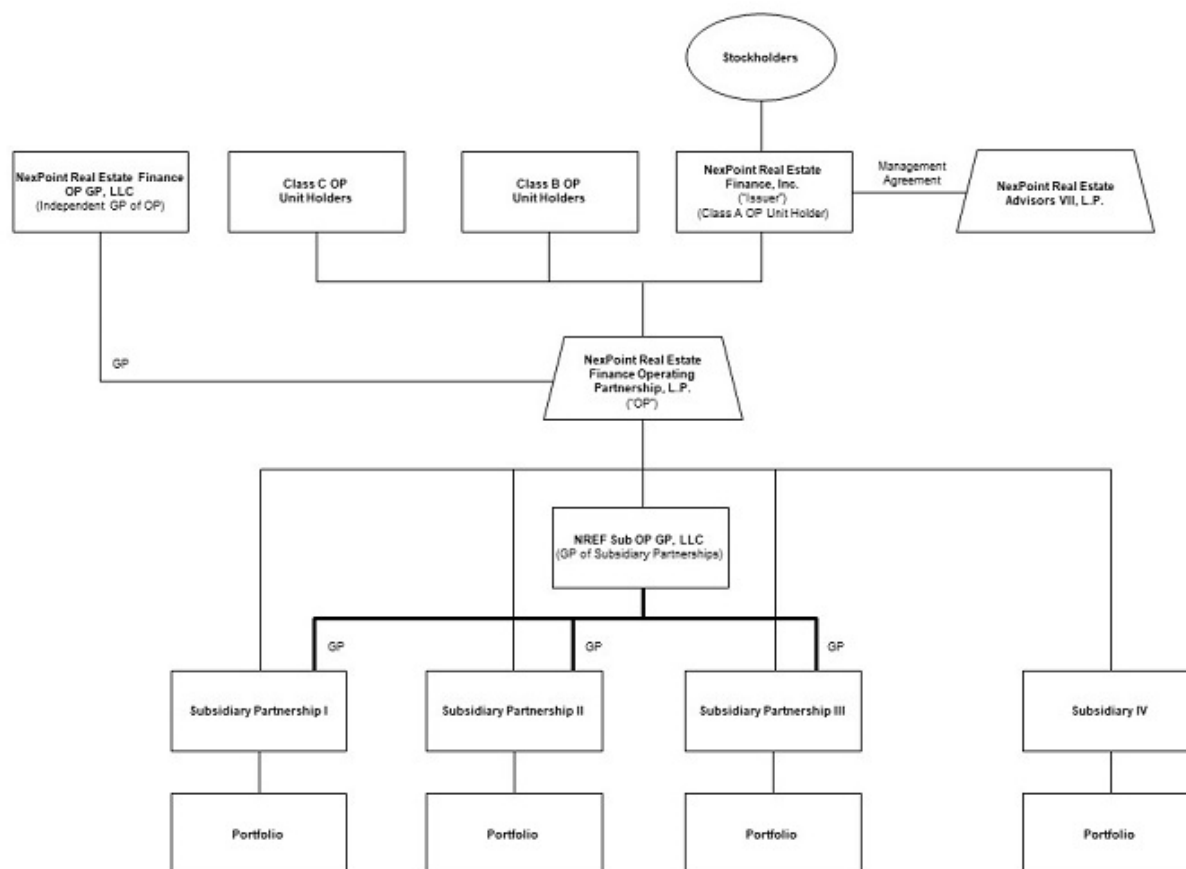
- **Mezzanine Loans:** We originate or acquire mezzanine loans. These loans are subordinate to the first-lien mortgage loan on a property, but senior to the equity of the borrower. These loans are not secured by the underlying real estate, but generally can be converted into preferred equity of the mortgage 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, 2023, there have been 510 Freddie Mac K-deal issuances for a combined \$557.5 billion and 26,246 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 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 or preferred 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, that renewed on February 6, 2024 for a one-year term and is automatically renewed for 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 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 was renewed on February 6, 2024 for a one-year term and is automatically renewed for 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, 2023, 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.

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. 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, high 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 pandemics, including the future outbreak of other highly infectious or contagious diseases;
- 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;
- risks associated with holding shares of the Series B Preferred Stock, including limited voting rights, subordination to our debt and dilution upon future issuances;
- 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 of 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.

Residential loans are subject to increased risks of loss.

We acquire and manage residential loans, including performing, re-performing, non-performing and business purpose loans and loans that may not meet or conform to the underwriting standards of any government-sponsored enterprise ("GSE"). Residential loans are subject to increased risks of loss. The residential loans we invest in generally are not guaranteed by the federal government or any GSE. Additionally, by directly acquiring residential loans, we do not receive the structural credit enhancements that benefit senior securities of residential mortgage backed securities. A residential loan is directly exposed to losses resulting from default. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower and the priority and enforceability of the lien will significantly impact the value of such mortgage. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of such real estate may not be sufficient to recover our cost basis in the loan, and any costs or delays involved in the foreclosure or liquidation process may increase losses.

Many of the loans we own or seek to acquire have been purchased by us at a discount to par value. These residential loans sell at a discount because they generally constitute riskier investments than those selling at or above par value. The residential loans we invest in may be distressed or purchased at a discount because a borrower may have defaulted thereupon, because the borrower is or has been in the past delinquent on paying all or a portion of his obligation under the loan, because the loan may otherwise contain credit quality that is considered to be poor, because of errors by the originator in the loan origination underwriting process or because the loan documentation fails to meet certain standards. In addition, non-performing or sub-performing loans may require a substantial amount of workout negotiations and/or restructuring, which may divert the attention of our management team from other activities and entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments, and a substantial write-down of the principal of the loan. However, even if such restructuring were successfully accomplished, a risk exists that the borrower will not be able or willing to maintain the restructured payments or refinance the restructured mortgage upon maturity. Although we typically expect to receive less than the principal amount or face value of the residential loans that we purchase, the return that we in fact receive thereupon may be less than our investment in such loans due to the failure of the loans to perform or reperform. An economic downturn would exacerbate the risks of the recovery of the full value of the loan or the cost of our investment therein.

Finally, residential loans are also subject to "special hazard" risk (property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies), and to bankruptcy risk (reduction in a borrower's mortgage debt by a bankruptcy court). In addition, claims may be asserted against us on account of our position as a mortgage holder or property owner, including assignee liability, responsibility for tax payments, environmental hazards and other liabilities. In some cases, these liabilities may be "recourse liabilities" or may otherwise lead to losses in excess of the purchase price of the related mortgage or property.

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 or high 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, high interest rates or recession may adversely affect our financial condition and results of operations.

Macroeconomic trends, including high inflation and high interest rates, may adversely impact our business, financial condition and results of operations. 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. In addition, the Federal Reserve began a quantitative tightening program in June of 2022. The combination of these actions 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 or high 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 and the Israel-Hamas war add, 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. 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, it could negatively impact the value of commercial and residential real estate and the value of our investments, potentially materially. Should a recession occur, there can be no guarantee 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 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 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.

Approximately 41.6% of our portfolio is in the SFR asset class and approximately 48.9% 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 equity 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 high 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.

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.

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 securitization market is subject to an evolving regulatory environment that may affect certain aspects of these activities.

As a result of past dislocation of the credit markets, the securitization market has become subject to additional regulation. In particular, pursuant to the Dodd-Frank Act, various federal agencies have promulgated rules that require issuers in securitizations to retain at least 5% of the risk associated with the securities. While the rule as adopted generally allows the purchase of the CMBS B-Piece by a party not affiliated with the issuer to satisfy the risk retention requirement, current CMBS B-Pieces are generally not large enough to fully satisfy the 5% requirement. Accordingly, if we buy CMBS B-Pieces, we may be required to purchase larger CMBS B-Pieces, potentially reducing returns on such investments. Furthermore, any such CMBS B-Pieces purchased by us in an unaffiliated issuer generally cannot be transferred for a period of five years following the closing date of the securitization or hedged against credit risk. These restrictions may reduce our liquidity and could potentially reduce our returns on such investments. To the extent we utilize the securitization market and retain this risk of loss through subordinate interests or CMBS B-Pieces in our securitized debt transactions, these requirements could reduce our returns on these transactions. In addition, if we fail to operate in compliance with existing and future regulations, our business, reputation, financial condition or results of operations could be materially and adversely affected.

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 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.

Failure of our internal control over financial reporting could harm our business, financial condition and results of operations.

Our management is responsible for establishing and maintaining effective internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. The identification of a material weakness could indicate a lack of controls adequate to generate accurate financial statements that, in turn, could cause a loss of investor confidence and decline in the market price of our common stock and Series A Preferred Stock. We cannot assure you that we will be able to timely remediate any material weaknesses that may be identified in future periods or maintain all of the controls necessary for continued compliance.

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, 2023, we had approximately \$1.3 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, 2023, we had \$180.0 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 have and will continue 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. On October 10, 2023, the Company, through a subsidiary, entered into a \$63.5 million interest rate cap agreement at a strike rate of 1.50% to hedge the variable cash flows associated with the Company's floating rate debt. The interest rate cap terminates on November 6, 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.

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, 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 equity 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 14 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. On March 27, 2023, Marc S. Kirschner filed a motion seeking to voluntarily stay the Bankruptcy Trust Lawsuit, which motion was granted on April 4, 2023. As of January 30, 2024, the Bankruptcy Trust Lawsuit continues to be stayed. 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 formed an independent special committee to oversee a review of the UBS Lawsuit and its potential impact on the Company. For additional information on the independent special committee and its review of the UBS Lawsuit, see “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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.

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 have or 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 and invest in 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 or invest in 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 originate or 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 and Series B 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 outstanding 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. 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 such change of 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. 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 also 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 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 debt instruments, including but not limited to SFR mortgage loans and CMBS B-Pieces, 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, 2023. 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 8,867,206 shares (or 51.5% of our common stock) and shared voting and dispositive power over approximately 8,765,545 shares (or 50.9% of our common stock) as of December 31, 2023.

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 and 16,000,000 shares have been classified as shares of our Series B 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 Series B 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 and Series B 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 in the articles supplementary setting forth the terms of the Series B 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) for the Series A Preferred Stock, 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 and Series B 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. Holders of Series B Preferred Stock also have the right to request we redeem their shares at any time, and we may elect to pay any such redemption price in shares of our common stock, which would be dilutive to existing holders of shares of our common stock.

Risks Related to the Ownership of the Series A Preferred Stock and Series B 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.

Holders of Series B Preferred Stock have extremely limited voting rights.

Holders of Series B 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 B Preferred Stock exist primarily with respect to voting on amendments to our charter or articles supplementary relating to the Series B Preferred Stock that materially and adversely affect the rights of the holders of Series B Preferred Stock or create additional classes or series of our capital stock expressly designated as ranking senior to the Series B 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 B Preferred Stock, holders of Series B 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.

There is no market for our Series B Preferred Stock and one may not develop.

The Series B Preferred Stock is not listed on a national exchange. There is no public market for our Series B Preferred Stock and one is not guaranteed to develop. However, should one develop or should we determine to publicly list our Series B Preferred Stock, we cannot predict the effect, if any, of future sales of our Series B Preferred Stock on the market price, if any, of our Series B Preferred Stock. Sales of substantial amounts of Series B Preferred Stock or the perception that such sales could occur may adversely affect the prevailing market price, if any, for our Series B Preferred Stock.

Our cash available for distribution may not be sufficient to pay dividends on the Series A Preferred Stock and Series B 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 Series A preferred stockholders and regular monthly dividends to our Series B 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 and Series B Preferred Stock are 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 and Series B Preferred Stock rank 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 and Series B 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 and 16,000,000 of which have been classified as Series B 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, Series B Preferred Stock or additional shares of our capital stock ranking on parity with the Series A Preferred Stock and Series B 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 Series B 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 and Series B 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 and Series B 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 and the redemption right afforded to holders of Series B Preferred Stock, none of the provisions relating to the Series A Preferred Stock or Series B Preferred Stock contain any terms relating to or limiting our indebtedness or affording the holders of Series A Preferred Stock or Series B 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 and Series B Preferred Stock, so long as the rights of the holders of Series A Preferred Stock and Series B Preferred Stock are not materially and adversely affected.

The Series A Preferred Stock and Series B Preferred Stock have not been rated.

We have not sought to obtain ratings for the Series A Preferred Stock and Series B 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 or Series B Preferred Stock (if any). In addition, we may elect in the future to obtain a rating of the Series A Preferred Stock or Series B Preferred Stock, which could adversely impact the market price of the Series A Preferred Stock or Series B Preferred Stock (if any). 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 or Series B Preferred Stock (if any).

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 and Series B 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 and Series B 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 or Series B Preferred Stock and may result in dilution to owners of the Series A Preferred Stock or Series B 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 and Series B 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, the risk of which may be heightened by the increased prevalence and use of artificial intelligence. 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.

Risk of Pandemics or Other Health Crises.

Pandemics, epidemics or other health crises, including COVID-19, have and could in the future disrupt our business. Both global and locally targeted health events could materially affect areas where our properties, corporate offices or major service providers are located. These events have and could in the future have an adverse effect on our business, results of operations, financial condition and liquidity in a number of ways, including, but not limited to:

- the deterioration of global economic conditions as a result of such a crisis could ultimately decrease occupancy levels and pricing across our portfolio and/or increase concessions, reduce or defer our residents' spending, result in changes in resident preferences (including changes resulting from increased employer flexibility to work from home) or negatively impact our residents' ability to pay their rent on time or at all;
- local and national authorities expanding or extending certain measures that impose restrictions on our ability to enforce residents' contractual rental obligations (such as eviction moratoriums or rental forgiveness) and limit our ability to raise rents or charge certain fees;
- the risk of a prolonged outbreak and/or multiple waves of an outbreak could cause long-term damage to economic conditions, which in turn could diminish our access to capital at attractive terms and/or cause material declines in the fair value of our assets, leading to asset impairment charges; and
- the potential inability to maintain adequate staffing at our properties and corporate offices due to an outbreak and/or changes in employee preferences causing them to leave their jobs.

To the extent a pandemic, epidemic or other health crisis adversely affects our business, results of operations, cash flows and financial condition, it may also continue to heighten many of the other risks described elsewhere in this Item 1A, Risk Factors.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

The Company's Board recognizes the critical importance of maintaining the trust and confidence of our customers, clients, business partners and employees. The Board is actively involved in oversight of the Company's risk management program, and cybersecurity represents an important component of the Company's overall approach to risk management. Our Manager maintains cybersecurity policies, standards, processes and practices that are based on recognized security frameworks such as the National Institute of Standards and Technology cybersecurity framework (the "NIST CF") and the Azure Security Benchmark. In general, our Manager seeks to address cybersecurity risks of the Company through a comprehensive, cross-functional approach that is focused on continually assessing the Company's information systems to detect, prevent and mitigate cybersecurity threats and effectively respond to cybersecurity incidents when they occur.

As one of the critical elements of the Company's overall risk management, our Manager's cybersecurity program is focused on the following key areas:

Governance: The Board's oversight of cybersecurity risk management is supported by the Audit Committee of the Board (the "Audit Committee"), which interacts with our Manager's Director of Information Technology and Chief Compliance Officer and other members of management of our Manager that implement and oversee our Manager's cybersecurity program.

Risk Assessment: No less frequently than annually, our Manager completes an assessment to identify potential cybersecurity threats and vulnerabilities to better prioritize and mitigate the Company's cybersecurity risk. The assessment includes, among other things, evaluating the nature, sensitivity and location of information the Company collects, processes and stores and the resiliency of the underlying technologies, the validity and effectiveness of the Company's security policies, controls and processes and the cybersecurity preparedness of the third-party vendors used by the Company and our Manager. To supplement our Manager's internal assessment, our Manager also periodically engages third-party consultants to assess system configurations through configuration review and penetration testing.

Technical Safeguards: Our Manager deploys technical safeguards that are designed to protect the Company's and our Manager's information systems from cybersecurity threats, including firewalls, intrusion prevention and detection systems, anti-malware functionality and access controls, which are evaluated and improved through vulnerability assessments and cybersecurity threat intelligence.

Incident Response and Recovery Planning: Our Manager has established and maintains comprehensive business continuity plans that address potential impacts should the information or technology systems become compromised, and such plans are tested and evaluated on a regular basis.

Third-Party Risk Management: Our Manager maintains a comprehensive, risk-based approach to identifying and overseeing cybersecurity risks presented by third parties, including key vendors, service providers and other external users of the Company's and the Manager's systems, as well as the systems of third parties that could adversely impact our business in the event of a cybersecurity incident affecting those third-party systems.

Education and Awareness: Our Manager provides regular, mandatory training for its employees regarding cybersecurity threats as a means to equip its employees with effective tools to address cybersecurity threats, and to communicate our Manager's evolving information security policies, standards, processes and practices.

Our Manager engages in the periodic assessment and testing of our Manager's policies, standards, processes and practices that are designed to address the Company's cybersecurity threats and incidents. These efforts include a wide range of activities, including annual penetration and third-party compliance testing and ongoing internal testing and creation and modification of policies and procedures. The results of the annual assessments are reported to the Audit Committee and the Board, and our Manager adjusts its cybersecurity policies, standards, processes and practices as necessary based on the information provided by these assessments and ongoing testing.

The Audit Committee oversees the Company's risk management policies, including the management of risks arising from cybersecurity threats. The Audit Committee receives presentations and reports on cybersecurity risks, which address a wide range of topics including annual assessments of internal and third-party policies, vulnerability assessments, technological trends and information security considerations arising with respect to the Company and our Manager. The Audit Committee also receives prompt and timely information regarding any cybersecurity incident that meets established reporting thresholds, as well as ongoing updates regarding any such incident until it has been addressed. On an annual basis, the Board and the Audit Committee discuss the Company's approach to cybersecurity risk management with our Manager, including the Manager's Director of Information Technology.

The Manager's Director of Information Technology, in coordination with relevant senior management and personnel of the Manager, which includes our Manager's Chief Financial Officer, Senior Infrastructure Engineer, and Chief Compliance Officer, work to conceive, implement, and monitor the effectiveness of a program designed to protect the Company's information systems from cybersecurity threats and to promptly respond to any security incidents in accordance with the Company's business continuity plan. To ensure the effectiveness of these controls, the Manager's technology team continually monitors, hardens, and evolves systems' security postures to model and mirror various security frameworks such as NIST CSF and Azure Security Benchmark. The Manager's Director of Information Technology will promptly notify our General Counsel of any cybersecurity events, with material cybersecurity events promptly communicated to the Audit Committee and publicly disclosed as deemed necessary.

The Manager's Director of Information Technology has served in various roles in information technology and information security for 25 years, including serving as Global Technology Manager at a multi-national publicly traded broker-dealer, and 15 years as the Director of Information Technology at a privately held financial services firm. The Manager's Director of Information Technology holds an undergraduate degree in biochemistry and has attained numerous information technology certifications over the years including Microsoft Certified Systems Engineer (MCSE) and Cisco Certified network Professional (CCNP). The Manager's Senior Infrastructure Engineer has over 20 years industry experience, holds an undergraduate degree in radiology, and has completed various Microsoft related information technology certifications. Combined, our Manager's information technology team has over 50 years of experience covering all major aspects of network architecture and management.

Cybersecurity threats, including as a result of any previous cybersecurity incidents, have not materially affected and are not reasonably likely to materially affect the Company, including its business strategy, results of operations or financial condition. However, the risk of cybersecurity threats could be significant if the cyber-attack disrupts the Company's critical operations, service or financial systems. See Item 1A. "Risk Factors—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."

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 \$32.4 million as of December 31, 2023. The Company owns the Hudson Montford indirectly through wholly owned subsidiaries.

The Company consolidated ownership of Alexander at the District, which is a 280-unit multifamily property in Atlanta, Georgia, as of December 31, 2023. The Company's ownership is subject to mortgage debt with an outstanding principal balance of approximately \$63.5 million as of December 31, 2023.

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 20, 2024, we had 17,593,244 shares of common stock outstanding held by a total of eight record holders. The number of record holders is based on the records of Equiniti 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 equity investments, as well as multifamily and SFR 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.

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, 2023 approximately \$21.7 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 \$26.0 billion of loans and debt or credit related investments as of December 31, 2023 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, a lawsuit (the "Bankruptcy Trust Lawsuit") was filed by a litigation subtrust formed in connection with Highland's bankruptcy against various persons and entities, including our Sponsor and James Dondero. In addition, on February 8, 2023, a lawsuit (the "UBS Lawsuit") was filed by UBS Securities LLC and its affiliate 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.

On February 22, 2023, as previously disclosed, the Board formed an independent special committee to oversee a review of the potential impact to the Company of the UBS Lawsuit and the Bankruptcy Trust Lawsuit. The special committee retained Reichman Jorgensen Lehman Feldberg LLP ("Reichman Jorgensen") as independent legal counsel to advise the special committee on the review. Reichman Jorgensen completed their review and found no evidence that the Company engaged in any conduct that would expose it to liability from the UBS Lawsuit or the Bankruptcy Trust Lawsuit. On June 13, 2023, the special committee delivered these findings to the Board. Following the review of the special committee, we reaffirm our expectation that neither the Bankruptcy Trust Lawsuit nor 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, 2023, 2022 and 2021

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, 2023 as compared to the year ended December 31, 2022

The following table presents the components of net interest income for the years ended December 31, 2023 and 2022 (dollars in thousands):

	For the Year Ended December 31,							
	2023			2022			\$ Change	% Change
	Interest income/ (expense)	Average Balance (1)	Yield (2)	Interest income/ (expense)	Average Balance (1)	Yield (2)		
Interest income								
SFR Loans, held-for-investment	\$ 27,259	\$ 712,592	3.83 %	\$ 43,946	\$ 746,111	5.89 %	\$ (16,687)	(38.0)%
Mezzanine loans, held-for-investment	14,191	144,536	9.82 %	15,464	157,789	9.80 %	(1,273)	(8.2)%
Preferred equity, held-for-investment	19,641	165,674	11.86 %	9,263	102,471	9.04 %	10,378	112.0 %
Convertible notes, held-for-investment	—	N/A	N/A	2,545	47,821	5.32 %	(2,545)	(100.0)%
CMBS structured pass-through certificates, at fair value	2,218	43,824	5.06 %	4,682	66,442	7.05 %	(2,464)	(52.6)%
Bridge loan	—	N/A	N/A	346	6,787	5.10 %	(346)	(100.0)%
MSCR notes	1,341	10,267	13.06 %	590	4,385	13.45 %	751	127.3 %
Mortgage backed securities	3,708	32,450	11.43 %	1,152	11,025	10.45 %	2,556	221.9 %
Total interest income	<u>\$ 68,358</u>	<u>\$ 1,109,343</u>	<u>6.16 %</u>	<u>\$ 77,988</u>	<u>\$ 1,142,831</u>	<u>6.82 %</u>	<u>\$ (9,630)</u>	<u>(12.3)%</u>
Interest expense								
Master repurchase agreements, net	\$ (22,576)	\$ (323,443)	6.98 %	\$ (11,280)	\$ (147,850)	7.63 %	\$ (11,296)	100.1 %
Long-term seller financing, net	(15,032)	(678,245)	2.22 %	(15,817)	(822,820)	1.92 %	785	(5.0)%
Unsecured notes, net	(13,952)	(207,697)	6.72 %	(13,158)	(201,697)	6.52 %	(794)	6.0 %
Total interest expense	<u>\$ (51,560)</u>	<u>\$(1,209,384)</u>	<u>4.26 %</u>	<u>\$ (40,255)</u>	<u>\$(1,172,367)</u>	<u>3.43 %</u>	<u>\$ (11,305)</u>	<u>28.1 %</u>
Net interest income (3)	<u>\$ 16,798</u>			<u>\$ 37,733</u>			<u>\$ (20,935)</u>	<u>(55.5)%</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.

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			\$ Change	% Change
	Interest income/ (expense)	Average Balance (1)	Yield (2)	Interest income/ (expense)	Average Balance (1)	Yield (2)		
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	<u>\$ 77,988</u>	<u>\$ 1,142,830</u>	<u>6.82 %</u>	<u>\$ 55,827</u>	<u>\$ 1,107,176</u>	<u>6.72 %</u>	<u>\$ 26,889</u>	<u>48.2 %</u>
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.....	<u>\$ (40,255)</u>	<u>\$ (1,172,367)</u>	<u>3.43 %</u>	<u>\$ (29,772)</u>	<u>\$ (1,062,458)</u>	<u>2.80 %</u>	<u>\$ (10,483)</u>	<u>35.2 %</u>
Net interest income (3)	<u>\$ 37,733</u>			<u>\$ 26,055</u>			<u>\$ 16,406</u>	<u>63.0 %</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 7 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 MSKR notes. Includes unrealized gain (loss) based on changes in the fair value of our MSKR Notes. See Note 7 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 7 to our consolidated financial statements for additional information.

Provision for (reversal of) credit losses, net. Provision for (reversal of) credit losses, net 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 from the multifamily properties.

Equity in Income (Losses) of Equity Method Investments. Equity in earnings (losses) of unconsolidated ventures represents the change in our basis in equity method investments resulting from our share of the investments' income and expenses. Profit and loss from equity method investments for which we've elected the fair value option are classified in divided income, change in unrealized gains and realized gains as applicable.

Other income. Includes exit fees, placement 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 (as amended and restated, the "LTIP"). Direct payment of operating expenses by us, which includes compensation expense relating to equity awards granted under the 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, 2023 and 2022

The following table sets forth a summary of our operating results for the years ended December 31, 2023 and 2022 (in thousands):

	For the Year Ended December 31,		\$ Change	% Change
	2023	2022		
Net interest income	\$16,798	\$37,733	\$(20,935)	(55.5)%
Other income (loss).....	25,292	2,661	22,631	850.5 %
Operating expenses	(23,350)	(26,180)	2,830	(10.8)%
Net income.....	18,740	14,214	4,526	31.8 %
Net (income) attributable to Series A Preferred shareholders.....	(3,496)	(3,512)	16	(0.5)%
Net (income) attributable to Series B Preferred shareholders.....	(80)	—	(80)	N/A
Net (income) attributable to redeemable noncontrolling interests.....	(4,765)	(4,969)	204	(4.1)%
Net (income) attributable to redeemable noncontrolling interests in subsidiaries.....	—	(2,499)	2,499	N/A
Net income attributable to common stockholders.....	<u>\$ 10,399</u>	<u>\$ 3,234</u>	<u>\$ 7,165</u>	<u>221.6 %</u>

The change in our net income for the year ended December 31, 2023 as compared to the net income for the year ended December 31, 2022 primarily relates to an decrease in operating expenses and a decrease in other income including changes in net assets related to consolidated CMBS VIEs. Our net income attributable to common stockholders for the year ended December 31, 2023 was approximately \$10.4 million. We earned approximately \$16.8 million in net interest income, generated income of \$25.3 million in other income, incurred operating expenses of \$23.4 million, allocated \$3.5 million of income to Series A Preferred stockholders, allocated \$0.1 million of income to Series B Preferred stockholders, and allocated \$4.8 million of income to redeemable non-controlling interests for the year ended December 31, 2023.

Revenues

Net interest income. Net interest income was \$16.8 million for the year ended December 31, 2023 compared to \$37.7 million for the year ended December 31, 2022 which was a decrease of approximately \$20.9 million. The decrease between the periods is primarily due to a decrease in SFR Loans and mezzanine loans in the portfolio compared to the prior period. As of December 31, 2023 we own 87 discrete investments compared to 83 as of December 31, 2022.

Other income (loss). Other income was \$25.3 million for the year ended December 31, 2023 compared to \$2.7 million for the year ended December 31, 2022 which was an increase of approximately \$22.6 million. This was primarily due to an increase in unrealized gains related to consolidated CMBS VIEs and an increase in fair value marks between the periods.

Expenses

G&A expenses. G&A expenses were \$9.2 million for the year ended December 31, 2023 compared to \$7.2 million for the year ended December 31, 2022 which was an increase of approximately \$2.0 million. The increase between the periods was primarily due to a \$1.1 million increase in stock compensation expense, a \$0.6 million increase in legal fees, and a \$0.7 million increase in audit fees compared to the prior period.

Loan servicing fees. Loan servicing fees were \$4.2 million for the year ended December 31, 2023 compared to \$4.4 million for the year ended December 31, 2022 which was a decrease of approximately \$0.2 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 \$3.3 million for the year ended December 31, 2023 compared to \$3.2 million for the year ended December 31, 2022 which was an increase of approximately \$0.1 million. The increase between the periods was primarily due to an increase in Equity as defined by the Management Agreement.

Results of Operations for the Years Ended December 31, 2022 and 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 owned 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.

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,		
	2023	2022	2021
Net income attributable to common stockholders.....	\$ 10,399	\$ 3,234	\$ 39,577
Net income attributable to redeemable noncontrolling interests.....	4,765	4,969	40,387
Weighted-average number of shares of common stock outstanding.....			
Basic.....	17,199	14,686	6,601
Diluted (1).....	17,199	22,476	22,366
Net income per share, basic	\$ 0.60	\$ 0.22	\$ 6.00
Net income per share, diluted	\$ 0.60	\$ 0.22	\$ 3.93
Dividends declared per share	\$ 2.7400	\$ 2.0000	\$ 1.9000

(1) Diluted EPS calculations were higher than basic EPS and thus anti-dilutive for the years ended December 31, 2023 and 2022, respectively. As such, the Company is presenting diluted EPS as equal to basic EPS.

Earnings Available for Distribution and Cash Available for Distribution

EAD is a non-GAAP financial measure. We believe EAD serves 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 provision for (reversal of) credit losses and 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.

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. For the purpose of calculating EAD for the management fee, net income (loss) attributable to common stockholders may 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.

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 (loss) attributable to common stockholders for the years ended December 31, 2023, 2022 and 2021 (in thousands, except per share amounts):

	For the Year Ended December 31,			% Change 2023 - 2022	% Change 2022 - 2021
	2023	2022	2021		
Net income attributable to common stockholders	\$ 10,399	\$ 3,234	\$ 39,577	221.6 %	(91.8)%
Adjustments					
Amortization of stock-based compensation	4,411	3,286	2,023	34.2 %	62.4 %
Provision for (reversal of) credit losses...	3,603	—	—	N/A	N/A
Equity in (income) losses of equity method investments (1).....	2,149	—	—	N/A	N/A
Unrealized (gains) or losses (2).....	14,098	33,539	(23,811)	(58.0)%	240.9 %
EAD attributable to common stockholders	<u>\$ 34,660</u>	<u>\$ 40,059</u>	<u>\$ 17,789</u>	<u>(13.5)%</u>	<u>125.2 %</u>
EAD per Diluted Weighted-Average Share	<u>\$ 1.93</u>	<u>\$ 2.63</u>	<u>\$ 2.53</u>	<u>(26.6)%</u>	<u>4.0 %</u>
Adjustments					
Amortization of premiums	\$ 12,825	\$ 16,397	\$ 5,408	(21.8)%	203.2 %
Accretion of discounts.....	(11,631)	(10,655)	(5,587)	9.2 %	90.7 %
Depreciation and amortization of real estate investments	2,066	2,280	—	(9.4)%	N/A
Amortization of deferred financing costs	(38)	38	—	(199.3)%	N/A
CAD attributable to common stockholders	<u>\$ 37,882</u>	<u>\$ 48,119</u>	<u>\$ 17,610</u>	<u>(21.3)%</u>	<u>173.2 %</u>
CAD per Diluted Weighted-Average Share	<u>\$ 2.11</u>	<u>\$ 3.15</u>	<u>\$ 2.50</u>	<u>(33.0)%</u>	<u>26.0 %</u>
Weighted-average common shares outstanding - basic	<u>17,199</u>	<u>14,686</u>	<u>6,601</u>	<u>17.1 %</u>	<u>122.5 %</u>
Weighted-average common shares outstanding - diluted (3)	<u>17,939</u>	<u>15,257</u>	<u>7,045</u>	<u>17.6 %</u>	<u>116.6 %</u>

(1) Starting in the third quarter of 2023, the Company has adjusted EAD to remove the (income) / loss from equity method investments as it does not represent distributable earnings. We will include income from equity method investments to the extent that we receive cash distributions and upon realizing gains and/or losses.

(2) Unrealized gains are the net change in unrealized loss on investments held at fair value applicable to common stockholders.

(3) 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, 2023, 2022 and 2021 (in thousands, except per share amounts):

	For the Year Ended December 31,			% Change 2023 - 2022	% Change 2022 - 2021	
	2023	20	2022			2021
Net income (loss) attributable to common stockholders	\$ 10,399	\$	3,234	\$ 39,577	221.6 %	(91.8)%
Net income (loss) attributable to redeemable noncontrolling interests	4,765		4,969	40,387	(4.1)%	(87.7)%
Adjustments						
Amortization of stock-based compensation	4,411		3,286	2,023	34.2 %	62.4 %
Provision for (reversal of) credit losses...	4,299		—	—	N/A	N/A
Equity in (income) losses of equity method investments (1)	2,564		—	—	N/A	N/A
Unrealized (gains) or losses (2)	16,820		44,765	(43,503)	(62.4)%	202.9 %
EAD	<u>\$ 43,258</u>	<u>\$</u>	<u>56,254</u>	<u>\$ 38,484</u>	<u>(23.1)%</u>	<u>46.2 %</u>
EAD per Diluted Weighted-Average Share	<u>\$ 1.88</u>	<u>\$</u>	<u>2.50</u>	<u>\$ 1.89</u>	<u>(24.8)%</u>	<u>32.3 %</u>
Adjustments						
Amortization of premiums	\$ 15,301	\$	20,840	\$ 15,769	(26.6)%	32.2 %
Accretion of discounts	(13,877)		(13,312)	(9,196)	4.2 %	44.8 %
Depreciation and amortization of real estate investments	2,465		2,895	—	(14.9)%	N/A
Amortization of deferred financing costs	(45)		48	—	(193.8)%	N/A
CAD	<u>\$ 47,102</u>	<u>\$</u>	<u>66,725</u>	<u>\$ 45,057</u>	<u>(29.4)%</u>	<u>48.1 %</u>
CAD per Diluted Weighted-Average Share	<u>\$ 2.05</u>	<u>\$</u>	<u>2.97</u>	<u>\$ 2.21</u>	<u>(31.0)%</u>	<u>34.4 %</u>
Weighted-average common shares outstanding - basic	<u>17,199</u>		<u>14,686</u>	<u>6,601</u>	<u>17.1 %</u>	<u>122.5 %</u>
Weighted-average common shares outstanding - diluted	<u>23,001</u>		<u>22,476</u>	<u>20,366</u>	<u>2.3 %</u>	<u>10.4 %</u>

(1) Starting in the third quarter of 2023, the Company has adjusted EAD to remove the (income) / loss from equity method investments as it does not represent distributable earnings. We will include income from equity method investments to the extent that we receive cash distributions and upon realizing gains and/or losses.

(2) Unrealized gains are the net change in unrealized loss on investments held at fair value applicable to common stockholders.

Book Value per Share / Unit

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

	December 31, 2023	December 31, 2022
Common stockholders' equity.....	\$ 309,832	\$ 346,474
Shares of common stock outstanding at period end.....	17,232	17,080
Book value per share of common stock.....	<u>\$ 17.98</u>	<u>\$ 20.29</u>

Due to the large noncontrolling interest in the OP (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, 2023	December 31, 2022
Common stockholders' equity.....	\$ 309,832	\$ 346,474
Redeemable noncontrolling interests in the OP.....	89,471	96,501
Total equity.....	<u>\$ 399,303</u>	<u>\$ 442,975</u>
Redeemable OP Units at period end.....	5,038	5,038
Shares of common stock outstanding at period end.....	17,232	17,080
Combined shares of common stock and redeemable OP Units.....	<u>22,270</u>	<u>22,118</u>
Combined book value per share / unit.....	<u>\$ 17.93</u>	<u>\$ 20.03</u>

Our Portfolio

Our portfolio consists of SFR Loans, CMBS B-Pieces, CMBS I/O Strips, mezzanine loans, preferred equity investments, common equity investments, multifamily properties, MSCR Notes and mortgage backed securities with a combined unpaid principal balance of \$1.6 billion as of December 31, 2023 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, 2023 (dollars in thousands):

	Investment (1)	Investment Date	Current Principal Amount	Net Equity (2)	Location	Property Type	Coupon	Current Yield (3)	Remaining Term (4) (years)
SFR Loans									
1	Senior loan.....	2/11/2020	\$ 508,700	\$ 68,452	Various	Single-family	4.65 %	4.43 %	4.67
2	Senior loan.....	2/11/2020	9,316	1,374	Various	Single-family	5.35 %	5.25 %	4.09
3	Senior loan.....	2/11/2020	10,015	1,345	Various	Single-family	5.30 %	5.05 %	4.67
4	Senior loan.....	2/11/2020	5,361	720	Various	Single-family	5.24 %	4.98 %	4.76
5	Senior loan.....	2/11/2020	34,967	4,331	Various	Single-family	4.74 %	4.64 %	1.75
6	Senior loan.....	2/11/2020	9,473	1,254	Various	Single-family	6.10 %	5.75 %	4.76
7	Senior loan.....	2/11/2020	36,164	4,649	Various	Single-family	5.55 %	5.20 %	4.84
8	Senior loan.....	2/11/2020	5,645	751	Various	Single-family	5.99 %	5.64 %	4.92
9	Senior loan.....	2/11/2020	8,641	1,199	Various	Single-family	5.88 %	5.60 %	5.01
10	Senior loan.....	2/11/2020	6,473	911	Various	Single-family	5.46 %	5.23 %	5.17
11	Senior loan.....	2/11/2020	10,522	1,430	Various	Single-family	4.72 %	4.64 %	2.17
	Total.....		645,277	86,416			4.79 %	4.57 %	4.49
CMBS B-Piece									
1	CMBS B-Piece.....	2/11/2020	21,024 (5)	6,611	Various	Multifamily	9.76 %	9.76 %	2.16
2	CMBS B-Piece.....	2/11/2020	28,581 (5)	9,585	Various	Multifamily	10.59 %	10.58 %	2.90
3	CMBS B-Piece.....	4/23/2020	81,999 (5)	26,582	Various	Multifamily	3.50 %	5.11 %	6.16

4	CMBS B-Piece	7/30/2020	16,349 (5)	5,536	Various	Multifamily	14.43 %	14.43 %	3.48
5	CMBS B-Piece	8/6/2020	108,643 (5)	21,877	Various	Multifamily	— %	9.12 %	6.49
6	CMBS B-Piece	4/20/2021	25,751 (5)	6,435	Various	Multifamily	11.57 %	11.57 %	7.16
7	CMBS B-Piece	6/30/2021	108,305 (5)	27,358	Various	Multifamily	0.00 %	10.19 %	3.00
8	CMBS B-Piece	5/2/2022	32,556 (5)	10,708	Various	Multifamily	4.43 %	4.76 %	14.91
9	CMBS B-Piece	7/28/2022	63,397 (5)	21,945	Various	Multifamily	10.57 %	10.57 %	5.57
Total			486,605	136,637			4.40 %	9.00 %	5.64

CMBS I/O Strips

1	CMBS I/O Strip	5/18/2020	17,590 (6)	504	Various	Multifamily	2.02 %	14.64 %	22.75
2	CMBS I/O Strip	8/6/2020	108,643 (6)	5,538	Various	Multifamily	2.98 %	17.98 %	6.49
3	CMBS I/O Strip	4/28/2021 (7)	64,550 (6)	1,382	Various	Multifamily	1.59 %	17.68 %	6.07
4	CMBS I/O Strip	5/27/2021	20,000 (6)	1,172	Various	Multifamily	3.39 %	17.79 %	6.40
5	CMBS I/O Strip	6/7/2021	4,266 (6)	122	Various	Multifamily	2.31 %	22.31 %	4.91
6	CMBS I/O Strip	6/11/2021 (8)	104,471 (6)	1,335	Various	Multifamily	1.18 %	14.57 %	5.40
7	CMBS I/O Strip	6/24/2021	25,387 (6)	296	Various	Multifamily	1.17 %	18.07 %	6.40
8	CMBS I/O Strip	8/10/2021	25,000 (6)	721	Various	Multifamily	1.89 %	17.98 %	6.32
9	CMBS I/O Strip	8/11/2021	6,942 (6)	421	Various	Multifamily	3.10 %	15.24 %	7.57
10	CMBS I/O Strip	8/24/2021	1,625 (6)	70	Various	Multifamily	2.61 %	16.15 %	7.07
11	CMBS I/O Strip	9/1/2021	34,625 (6)	1,015	Various	Multifamily	1.92 %	17.01 %	6.49
12	CMBS I/O Strip	9/11/2021	20,902 (6)	1,113	Various	Multifamily	2.95 %	15.14 %	7.74
Total			434,001	13,689			2.06 %	16.75 %	6.87

Mezzanine Loans

1	Mezzanine	6/12/2020	7,500	7,500	Houston, TX	Multifamily	11.00 %	11.00 %	1.50
2	Mezzanine	10/20/2020	5,470	2,249	Wilmington, DE	Multifamily	7.50 %	7.33 %	5.34
3	Mezzanine	10/20/2020	10,380	4,294	White Marsh, MD	Multifamily	7.42 %	7.23 %	7.50
4	Mezzanine	10/20/2020	14,253	5,879	Philadelphia, PA	Multifamily	7.59 %	7.41 %	5.42
5	Mezzanine	10/20/2020	3,700	1,518	Daytona Beach, FL	Multifamily	7.83 %	7.66 %	4.76
6	Mezzanine	10/20/2020	12,000	4,963	Laurel, MD	Multifamily	7.71 %	7.52 %	7.25
7	Mezzanine	10/20/2020	3,000	1,241	Temple Hills, MD	Multifamily	7.32 %	7.14 %	7.59
8	Mezzanine	10/20/2020	1,500	621	Temple Hills, MD	Multifamily	7.22 %	7.04 %	7.59
9	Mezzanine	10/20/2020	5,540	2,277	Lakewood, NJ	Multifamily	7.33 %	7.17 %	5.34
10	Mezzanine	10/20/2020	6,829	2,804	Rosedale, MD	Multifamily	7.53 %	7.36 %	5.01
11	Mezzanine	10/20/2020	3,620	1,498	North Aurora, IL	Multifamily	7.42 %	7.23 %	7.50
12	Mezzanine	10/20/2020	9,610	3,976	Cockeysville, MD	Multifamily	7.42 %	7.23 %	7.50
13	Mezzanine	10/20/2020	7,390	3,057	Laurel, MD	Multifamily	7.42 %	7.23 %	7.50
14	Mezzanine	10/20/2020	2,135	876	Tyler, TX	Multifamily	7.74 %	7.57 %	4.76
15	Mezzanine	10/20/2020	1,190	489	Las Vegas, NV	Multifamily	7.71 %	7.54 %	5.17
16	Mezzanine	10/20/2020	3,310	1,361	Atlanta, GA	Multifamily	6.91 %	6.75 %	5.50
17	Mezzanine	10/20/2020	2,880	1,182	Des Moines, IA	Multifamily	7.89 %	7.72 %	4.84
18	Mezzanine	10/20/2020	4,010	1,646	Urbandale, IA	Multifamily	7.89 %	7.72 %	4.84
19	Mezzanine	11/18/2021	12,600	12,506	Irving, TX	Multifamily	16.33 %	16.45 %	4.92
20	Mezzanine	12/29/2021	7,760	7,749	Rogers, AR	Multifamily	16.33 %	16.35 %	1.03
21	Mezzanine	6/9/2022	4,500	4,477	Rogers, AR	Multifamily	16.03 %	16.11 %	1.44
22	Mezzanine	10/5/2022 (9)	4,030	3,998	Kirkland, WA	Multifamily	16.03 %	16.16 %	4.01
Total			133,207	76,161			9.61 %	9.50 %	5.36

Preferred Equity

1	Preferred Equity	5/29/2020 (10)	11,698	11,698	Houston, TX	Multifamily	11.00 %	11.00 %	6.34
2	Preferred Equity	9/29/2021	9,505	9,492	Holly Springs, NC	Life Science	10.00 %	10.01 %	0.75
3	Preferred Equity	12/28/2021 (11)	11,377	11,377	Las Vegas, NV	Multifamily	10.50 %	10.50 %	8.17
4	Preferred Equity	1/14/2022	23,956	23,955	Vacaville, CA	Life Science	10.00 %	10.00 %	0.75

5	Preferred Equity	4/7/2022	(12)	4,000	3,967	Beaumont, TX	Self-Storage	15.33 %	15.46 %	6.67
6	Preferred Equity	6/8/2022		4,000	3,967	Temple, TX	Self-Storage	14.61 %	14.73 %	6.67
7	Preferred Equity	7/1/2022	(13)	9,000	8,935	Medley, FL	Self-Storage	11.00 %	11.08 %	3.50
8	Preferred Equity	8/10/2022		8,500	8,450	Plano, TX	Multifamily	16.12 %	16.22 %	1.69
9	Preferred Equity	9/30/2022		9,000	8,943	Fort Worth, TX	Multifamily	15.03 %	15.13 %	1.75
10	Preferred Equity	10/19/2022		19,908	19,923	Woodbury, MN	Life Science	10.00 %	9.99 %	0.75
11	Preferred Equity	2/10/2023		28,685	28,562	Forney, TX	Multifamily	11.00 %	11.05 %	1.12
12	Preferred Equity	2/24/2023		20,464	20,373	Richmond, VA	Multifamily	11.00 %	11.05 %	1.12
13	Preferred Equity	4/6/2023		23,957	23,971	Temecula, CA	Life Science	17.50 %	17.49 %	0.75
14	Preferred Equity	5/16/2023	(14)	7,150	7,083	Phoenix, AZ	Single-family	13.50 %	13.63 %	3.33
15	Preferred Equity	5/17/2023	(15)	4,192	4,151	Houston, TX	Life Science	13.00 %	13.13 %	2.98
	Total.....			195,392	194,847			12.20 %	12.24 %	2.21

Common Equity

1	Common Stock.....	11/6/2020		N/A	33,129	N/A	Self-Storage	N/A	N/A	N/A
2	Common Stock.....	4/14/2022		N/A	28,400	N/A	Ground Lease	N/A	N/A	N/A
3	Common Equity	2/10/2023		N/A	—	Forney, TX	Multifamily	N/A	N/A	N/A
4	Common Equity	2/24/2023		N/A	—	Richmond, VA	Multifamily	N/A	N/A	N/A
5	Common Equity	9/8/2023		N/A	—	Atlanta, GA	Multifamily	N/A	N/A	N/A
	Total.....				61,529					

Preferred Stock

1	Preferred Stock.....	11/9/2023		N/A	14,776	Various	Life Science	10.50 %	N/A	5.00
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Real Estate

1	Real Estate.....	12/31/2021	(16)	N/A	25,989	Charlotte, NC	Multifamily	N/A	N/A	N/A
2	Real Estate.....	10/10/2023	(17)	N/A	4,905	Atlanta, GA	Multifamily	N/A	N/A	N/A
	Total.....				30,894					

MSCR Notes

1	MSCR Note.....	5/25/2022		4,000	2,020	Various	Multifamily	14.83 %	14.83 %	28.42
2	MSCR Note.....	5/25/2022		5,000	2,248	Various	Multifamily	11.83 %	11.83 %	28.42
3	MSCR Note.....	9/23/2022		1,500	676	Various	Multifamily	12.18 %	13.38 %	27.92
	Total.....			10,500	4,944			13.02 %	13.19 %	28.35

Mortgage Backed Securities

1	Mortgage Backed Securities	6/1/2022		10,074	3,410	Various	Single-family	4.87 %	5.01 %	1.89
2	Mortgage Backed Securities	6/1/2022		10,419	3,524	Various	Single-family	8.64 %	8.91 %	2.30
3	Mortgage Backed Securities	7/28/2022		575	275	Various	Single-family	6.23 %	6.31 %	3.80
4	Mortgage Backed Securities	7/28/2022		1,057	361	Various	Single-family	3.60 %	4.12 %	4.47
5	Mortgage Backed Securities	9/12/2022		3,927	1,325	Various	Multifamily	11.57 %	11.55 %	7.07
6	Mortgage Backed Securities	9/29/2022		8,000	7,960	Various	Self-Storage	11.10 %	11.12 %	3.71
7	Mortgage Backed Securities	3/10/2023		5,747	1,987	Various	Multifamily	13.93 %	13.95 %	1.16
	Total.....			39,799	18,842			9.06 %	9.19 %	2.86

- (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 reclassified this investment from preferred equity to a mezzanine loan effective January 1, 2023.
- (10) The Company, through the Subsidiary OPs, invested \$10.0 million on May 29, 2020, an aggregate of \$1.2 million on January 9, 2023, March 6, 2023 and March 28, 2023, and \$0.2 million on May 25, 2023 in this preferred equity investment.
- (11) The Company, through the Subsidiary OPs, invested \$5.0 million, \$1.8 million, \$40.1 million and \$18.5 million in this real estate investment on December 28, 2021, January, 27, 2022, February 1, 2022 and July 26, 2022, respectively.
- (12) 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.
- (13) The Company reclassified this investment from a mezzanine loan to preferred equity effective January 1, 2023.
- (14) The Company, through the Subsidiary OPs, invested \$0.5 million and \$0.7 million in this preferred equity investment on May 16, 2023 and June 12, 2023, respectively.
- (15) The Company, through the Subsidiary OPs, invested \$3.7 million and \$0.3 million in this preferred equity investment on May 17, 2023 and June 24, 2023, respectively.
- (16) Real Estate is a 204-unit multifamily property. As of December 31, 2023, the property was 95.1% occupied, with effective rent per occupied unit of \$1,693 per month.
- (17) Real Estate is a 280-unit multifamily property. As of December 31, 2023, the property was 68.6% occupied with effective rent per occupied unit of \$1,633 per month.

The following table details overall statistics for our portfolio as of December 31, 2023 (dollars in thousands):

	Total Portfolio	Floating Rate Investments	Fixed Rate Investments	Common Equity Investments	Preferred Stock Investment	Real Estate Investments
Number of investments.....	87	26	53	5	1	2
Principal balance (1).....	\$ 1,563,654	\$ 341,533	\$ 1,222,121	N/A	N/A	N/A
Carrying value	\$ 1,687,460	\$ 338,673	\$ 1,145,931	\$ 61,529	\$ 14,776	\$ 126,551
Weighted-average cash coupon	5.92 %	9.91 %	4.81 %	N/A	N/A	N/A
Weighted-average all-in yield.....	6.93 %	12.47 %	5.29 %	N/A	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 \$3.6 million of the Preferred Units (defined below) and dividend requirements for the twelve-month period following December 31, 2023.

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 investments under the Company's commitments noted in Note 15 to our consolidated financial statements 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	5.30%	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	5.88%	1/1/2029	Fixed	3.14%	1/1/2029	2.74%
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. As of December 31, 2023, the outstanding balance on the Credit Facility was \$590.3 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 CMBS acquisitions, we, through the OP and the Subsidiary OPs, have borrowed approximately \$303.5 million under our repurchase agreements and posted approximately \$931.3 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, 2023									
	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	303,514	303,514	N/A (5)	7.26 %	0.0	931,296	470,761	464,888	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.
- (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 15, 2022, the Company, the OP and the Manager separately entered into the 2022 Equity Distribution Agreements with the 2022 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, 2023, pursuant to the 2022 Equity Distribution Agreements, the Company has 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.

Series B Preferred Stock Offering

On November 2, 2023, the Company announced the launch of a continuous public offering of up to 16,000,000 shares of its Series B Preferred Stock at a price to the public of \$25.00 per share, for gross proceeds of \$400 million. Beginning on the first day of the calendar month following the date of original issuance, the Series B Preferred Stock are redeemable at the option

of the Holder at a redemption price per share equal to the liquidation preference of \$25.00 per share, plus all accrued but unpaid cash dividends and less certain redemption fees. After the first day of the calendar month following the second anniversary of the original issue date, the Company also has the option to redeem, in whole or in part, subject to certain restrictions in the Company's charter and the articles supplementary setting forth the terms of the Series B Preferred Stock, at a redemption price per share equal to the liquidation preference of \$25.00 per share, plus any accrued but unpaid cash dividends. In all optional redemptions, the Company has the right, in its sole discretion, to pay the redemption in cash or in equal value of shares of the Company's common stock for so long as the common stock is listed or admitted to trading on the NYSE or another national securities exchange or automated quotation system. The Dealer Manager serves as the Company's dealer manager in connection with the offering. The Dealer Manager uses its reasonable best efforts to sell the shares of Series B Preferred Stock offered in the offering, and the Company pays the Dealer Manager, subject to the discounts and other special circumstances described or referenced therein, (i) Selling Commissions of 7.0% of the aggregate gross proceeds from sales of Series B Preferred Stock in the offering and (ii) a Dealer Manager Fee of 3.0% of the gross proceeds from sales of Series B Preferred Stock in the offering. The Dealer Manager, subject to federal and state securities laws, will reallow all or any portion of the Selling Commissions and may reallow a portion of the Dealer Manager Fee to other securities dealers that the Dealer Manager may retain who sold the shares of Series B Preferred Stock as is described more fully in the agreements between such dealers and the Dealer Manager. The Company expects that the offering will terminate on the earlier of the date the Company sells all 16,000,000 shares of the Series B Preferred Stock in the offering or March 14, 2025 (which is the third anniversary of the effective date of the Company's registration statement), which may be extended by the Board in its sole discretion. The Board may elect to terminate this offering at any time. As of December 31, 2023, the Company has sold 427,218 shares of Series B Preferred Stock for total gross proceeds of \$10.5 million.

Company Notes Offering

In 2022 and 2023, the Company issued a total of \$35 million and \$15 million in aggregate principal amount, respectively, of its 5.75% Notes for proceeds of approximately \$35.1 million and \$13.6 million, respectively, after original issue discount and underwriting fees.

In 2022, the Company purchased a total of \$5 million aggregate principal amount of its 5.75% Notes for approximately \$4.9 million. The purchased 5.75% notes were cancelled upon settlement.

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, 2023, our cash and cash equivalents were \$16.6 million.

Cash Flows

The following table presents selected data from our Consolidated Statements of Cash Flows for the years ended December 31, 2023, 2022, and 2021 (in thousands):

	For the Year Ended December 31,		
	2023	2022	2021
Net cash provided by operating activities	\$ 31,556	\$ 65,801	\$ 49,298
Net cash provided by investing activities	741,342	950,578	517,878
Net cash (used in) financing activities	(776,596)	(1,029,264)	(567,415)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(3,698)	(12,885)	(239)
Cash, cash equivalents and restricted cash, beginning of year.....	20,347	33,232	33,471
Cash, cash equivalents and restricted cash, end of year.....	<u>\$ 16,649</u>	<u>\$ 20,347</u>	<u>\$ 33,232</u>

The year ended December 31, 2023 as compared to the year ended December 31, 2022

Cash flows from operating activities. During the year ended December 31, 2023, net cash provided by operating activities was \$31.6 million, compared to net cash provided by operating activities of \$65.8 million for the year ended December 31, 2022. This decrease was due to an increase in provision for credit losses and an increase in unrealized gains on investments held at fair value.

Cash flows from investing activities. During the year ended December 31, 2023, net cash provided by investing activities was \$741.3 million, compared to net cash provided by operating activities of \$950.6 million for the year ended December 31, 2022. This decrease was primarily driven by the increase in proceeds from payments on mortgage loans held in VIEs.

Cash flows from financing activities. During the year ended December 31, 2023, net cash used in financing activities was \$776.6 million, compared to net cash used in financing activities of \$1.0 billion for the year ended December 31, 2022. This decrease was primarily driven by the increase in distributions to bondholders of VIEs.

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.

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, 2023.

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, 2023.

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 and the Series B Preferred Stock, which are payable monthly as provided in the articles supplementary setting forth the terms of the Series B 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 and Series B 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 the fourth regular quarterly dividend to common stockholders of \$0.50 per share on October 30, 2023, which was paid on December 29, 2023, to stockholders of record as of December 15, 2023. Our Board also declared a special dividend to common stockholders of \$0.185 per share on October 30, 2023, which was paid on December 29, 2023, to common stockholders of record as of December 15, 2023. On December 12, 2023, our Board declared a Series A Preferred Stock dividend to Series A Preferred stockholders of \$0.53125 per share, which was paid on January 25, 2024, to Series A Preferred stockholders of record as of January 12, 2024. On November 30, 2023, our Board declared a Series B Preferred Stock dividend to Series B Preferred stockholders of \$0.1875 per share, which was paid on January 5, 2024, to Series B Preferred stockholders of record as of December 22, 2023.

Off-Balance Sheet Arrangements

As of December 31, 2023, we had one off balance sheet arrangement that has or is 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 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 (the "NSP 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 accrued dividends on 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, and 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. On February 15, 2023, NSP paid down approximately \$15.0 million of these promissory notes, resulting in an aggregate principal amount of

approximately \$49.2 million. On December 8, 2023, NSP paid down the remaining principal balance of \$49.2 million. The NSP Series D preferred stock remains outstanding as of December 31, 2023.

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. On September 22, 2023, the issuer exercised its right to extend the final obligation date to purchase any additional Preferred Units to September 29, 2024. As of December 31, 2023, the Company may have the obligation to fund an additional \$3.6 million by September 29, 2024, which the issuer may extend for up to one year 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. Upon the redemption of any Preferred Units and if the parties agree, the remaining amount to be funded by the Company may be increased by the aggregate purchase price of the redeemed Preferred Units. 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 ("MOIC") equal to 1.25x for unstabilized PropCos and 1.10x for stabilized PropCos. As of December 31, 2023, the Company has not recorded any contingencies on its Consolidated Balance Sheets as the obligation to fund additional Preferred Units other than under the existing commitment is considered remote for the year ended December 31, 2023.

The Company provides certain guarantees in connection with the NSP Sponsor Guaranty Agreement. See Off-Balance Sheet Arrangements above for further details.

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 single-family property located in Phoenix, Arizona, of which \$16.9 million was unfunded as of December 31, 2023. 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. The Company was also issued a common interest at the time of its first funding of preferred equity on May 16, 2023. The common interest allows the Company to receive a 10% profit share once aggregate distributions exceed the 20% internal rate of return ("IRR") hurdle as shown below. There was no value ascribed to the common interest as of December 31, 2023. Further, once the Company's preferred equity and accrued interest has been repaid, any additional cash flow and net sale proceeds shall be distributed as follows:

- 0% to the Company and 100% to issuer up to a 20.0% IRR
- 10% to the Company and 90% to issuer thereafter

On February 10, 2023, the Company, through one of the Subsidiary OPs, through a unit purchase agreement, committed to purchase \$30.3 million of the preferred units with respect to a multifamily property development located in Forney, Texas, of which \$3.4 million was unfunded as of December 31, 2023. Further, the Company committed to purchase \$4.3 million of common equity with respect to the same property, of which \$3.3 million was unfunded as of December 31, 2023.

On February 10, 2023, the Company, through one of the Subsidiary OPs, through a unit purchase agreement, committed to purchase \$30.3 million of the preferred units with respect to a multifamily property development located in Richmond, Virginia, of which \$11.1 million was unfunded as of December 31, 2023. Further, the Company committed to purchase \$4.3 million of common equity with respect to the same property, of which \$3.3 million was unfunded as of December 31, 2023.

On January 26, 2024, the Company, along with related party The Ohio State Life Insurance Company (“OSL”), entered into a Mezzanine Loan and Security Agreement whereby it made a loan in the maximum principal amount of up to \$218 million to IQHQ-Alewife Holdings, LLC, which is solely owned by IQHQ, LP. The Company has an ownership interest in the Series D-1 preferred stock in IQHQ, Inc., who is the limited partner in IQHQ, LP; however, the Company has no controlling financial interest nor significant influence in IQHQ, LP. The loan is secured by a first mortgage with a first lien position and other security interests. The Company made the initial advances of \$20 million, and subsequent advances of the mezzanine loan may be made by the Company or OSL. The Company’s portion of the total commitment is \$208 million.

The table below shows the Company's unfunded commitments by investment type as of December 31, 2023 and December 31, 2022 (in thousands):

Investment Type	December 31, 2023		December 31, 2022	
	Unfunded Commitments		Unfunded Commitments	
Preferred Equity.....	\$	34,966	\$	33,704
Common Equity.....		6,600		—
	\$	41,566	\$	33,704

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 Credit Losses

In periods ending on or prior to December 31, 2022, the Company, with the assistance of an independent valuations firm, performed 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 determined that it was probable that it would be unable to collect all amounts owed according to the contractual terms of a loan, impairment of that loan was indicated. If a loan was considered to be impaired, the Company would establish an allowance for loan losses, through a valuation provision in earnings that reduced 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 was expected solely from the collateral. For non-impaired loans with no specific allowance the Company determined an allowance for loan losses in accordance with ASC 450-20, *Loss Contingencies* (“ASC 450-20”), which represented 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 considered quantitative factors likely to cause estimated credit losses, including default rate and loss severity rates. The Company also evaluated 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 for the fiscal year ended December 31, 2022 and prior years are included in “Loan loss (provision)” on the accompanying Consolidated Statements of Operations.

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 requires the use of a current expected credit loss (“CECL”) 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 ASU 2016-13 as of January 1, 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. These models are also utilized for estimating expected life-time credit losses for unfunded loan commitments for which the Company has a present contractual obligation to extend the credit and the obligation is not unconditionally cancellable. The 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. The allowance for loan and lease losses reserve as of December 31, 2022, was \$0.7 million and the CECL reserve as of January 1, 2023, is \$2.3 million. As such, the cumulative effect of adoption of ASU 2016-13 is a \$1.6 million reduction in retained earnings. The provision for credit losses of \$4.3 million for the year ended December 31, 2023 is included in other income on the accompanying Consolidated Statements of Operations, resulting in a December 31, 2023 ending allowance for credit loss of \$2.1 million.

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.

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.

Valuation of Common and Preferred Equity

As of December 31, 2023, the Company owns approximately 25.7% 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, 2023, the unrealized loss related to the change in fair value estimate is \$17.3 million. See Notes 5 and 10 to our consolidated financial statements for additional disclosures regarding the valuation of NSP.

As of December 31, 2023, the Company owns approximately 6.36% of the total outstanding common equity 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. The necessary input for the valuation includes the yield 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, 2023, the unrealized loss related to the change in fair value estimate is \$0.5 million. See Notes 5 and 10 to our consolidated financial statements for additional disclosures regarding the valuation of the Private REIT.

As of December 31, 2023, the Company owns approximately 98.0% of the total outstanding common equity of each of Resmark Forney Gateway Holdings, LLC ("RFGH") and Resmark the Brook, LLC ("RTB"). The Company holds RFGH and RTB based on the Company's proportionate share of income (losses) for the year ended December 31, 2023. See Notes 5 and 6 to our consolidated financial statements for additional disclosures regarding the equity method investments RFGH and RTB.

As of December 31, 2023, the Company owns 9.5% of the total outstanding shares of the Series D-1 preferred stock in IQHQ, Inc. See Notes 5 and 10 to our consolidated financial statements for additional disclosures regarding the equity security investment in IQHQ, Inc.

Considerations Related to Tightening Monetary Policy

The macroeconomic environment remains challenging as central banks have held interest rates high to combat inflation. The high rate environment, coupled with large bank failures in early 2023 and ongoing economic uncertainty, has limited credit availability to commercial real estate. Less available and more expensive debt capital has had pronounced effects on the capital markets, making property acquisitions and other investments harder to finance. Similar factors also impact the timing of and proceeds generated from asset sales and our ability to obtain debt capital.

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, 2023 and December 31, 2022. 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, 2023, 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 effective as of December 31, 2023, to provide reasonable assurance that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Exchange Act and is accumulated and communicated to management, including the President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

We believe, however, that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, within a company have been detected.

Remediation of Previously Reported Material Weakness

For our fiscal year ended December 31, 2022, management identified a single material weakness in our internal control over financial reporting related to the Elysian at Hughes Center investment. The material weakness resulted in an immaterial revision of our consolidated statements as of and for the year-to-date periods ended March 31, 2022, June 30, 2022 and September 30, 2022. During the fiscal year ended December 31, 2023, Management implemented a pre-close and post-close acquisition checklist for proposed investments. The pre-close checklist includes 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.

As a result, Management has determined that the remediation actions discussed above were effectively designed and operating for a sufficient period of time to support the conclusion that the material weakness has been remediated as of December 31, 2023.

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, 2023, 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 effective as of December 31, 2023.

Changes in Internal Control over Financial Reporting

Other than as set forth above, 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, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 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	Articles Supplementary to the Articles of Amendment and Restated of NexPoint Real Estate Finance, Inc., designating the Company's 9.00% Series B 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 November 2, 2023)
3.5	Second 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 January 4, 2024)
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 First Amendment to the Second Amended and Restated Limited Partnership Agreement of NexPoint Real Estate Finance Operating Partnership, L.P., dated November 2, 2023 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed by the Company on November 2, 2023)
- 10.3† 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)
- 10.4† 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)
- 10.5† 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)
- 10.6 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)
- 10.7† 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)
- 10.8† Amended and Restated NexPoint Real Estate Finance, Inc. 2020 Long Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed by the Company on January 29, 2024)
- 10.9† Form of Restricted Stock Units Agreement (Directors) (prior to 2024) (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)
- 10.10† Form of Restricted Stock Units Agreement (Officers) (prior to 2024) (incorporated by reference to Exhibit 10.10 to the Annual Report on Form 10-K, filed by the Company on February 25, 2021)
- 10.11†* Form of Restricted Stock Units Agreement (Directors)
- 10.12†* Form of Restricted Stock Units Agreement (Officers)
- 10.13† 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)
- 10.14 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)
- 10.15 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)

10.16	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. (incorporated by reference to Exhibit 10.12 to the Annual Report on Form 10-K, filed by the Company on March 31, 2023)
10.17	Separation Agreement, dated as of November 9, 2023, by and among NexPoint Advisors, L.P., NexPoint Residential Trust, Inc., NexPoint Real Estate Advisors, L.P., NexPoint Real Estate Finance, Inc., NexPoint Real Estate Advisors VII, L.P., NexPoint Diversified Real Estate Trust, NexPoint Real Estate Advisors X, L.P., VineBrook Homes Trust, Inc., NexPoint Real Estate Advisors V, L.P. and Matthew Goetz (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q, filed by the Company on November 13, 2023)
10.18	Dealer Manager Agreement, by and between NexPoint Real Estate Finance, Inc. and NexPoint Securities, Inc., dated November 2, 2023 (incorporated by reference to Exhibit 1.1 to the Current Report on Form 8-K, filed by the Company on November 2, 2023)
19.1*	Insider Trading Policy
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
97.1	Clawback Policy (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed by the Company on November 7, 2023).
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.

March 21, 2024 /s/ Jim Dondero
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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jim Dondero</u> Jim Dondero	Chairman of the Board and President (Principal Executive Officer)	March 21, 2024
<u>/s/ Brian Mitts</u> Brian Mitts	Director, Chief Financial Officer, Executive VP-Finance, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 21, 2024
<u>/s/ Edward Constantino</u> Edward Constantino	Director	March 21, 2024
<u>/s/ Dr. Arthur Laffer</u> Dr. Arthur Laffer	Director	March 21, 2024
<u>/s/ Scott Kavanaugh</u> Scott Kavanaugh	Director	March 21, 2024
<u>/s/ Catherine Wood</u> Catherine Wood	Director	March 21, 2024
<u>/s/ Dr. Carol Swain</u> Carol Swain	Director	March 21, 2024

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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, 2023 and 2022, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2023 due to the adoption of ASU Topic 326, Financial Instruments - Credit Losses.

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 21, 2024

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

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
ASSETS		
Cash and cash equivalents.....	\$ 13,824	\$ 20,048
Restricted cash.....	2,825	299
Real estate investments, net.....	126,551	245,222
Loans, held-for-investment, net (\$22,989 and \$46,022 with related parties, respectively).....	328,460	256,147
Common stock investments, at fair value (\$33,129 and \$50,380 with related parties, respectively).....	61,529	78,264
Mortgage loans, held-for-investment, net.....	676,420	726,531
Preferred stock investments, at fair value.....	14,776	—
Accrued interest and dividends.....	22,033	15,665
Mortgage loans held in variable interest entities, at fair value.....	5,677,763	6,720,246
CMBS structured pass-through certificates, at fair value.....	41,212	46,876
MSCR notes, at fair value.....	10,378	10,313
Mortgage backed securities, at fair value.....	38,270	32,328
Accounts receivable and other assets.....	4,312	2,197
TOTAL ASSETS	<u>\$ 7,018,353</u>	<u>\$ 8,154,136</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Secured financing agreements, net.....	\$ 649,558	\$ 687,885
Master repurchase agreements.....	303,514	331,020
Unsecured notes, net.....	219,483	204,960
Mortgages payable, net.....	95,657	121,236
Accounts payable and other accrued liabilities.....	6,428	6,231
Accrued interest payable.....	8,209	7,986
Bonds payable held in variable interest entities, at fair value.....	5,289,997	6,249,804
Total Liabilities	<u>6,572,846</u>	<u>7,609,122</u>
Redeemable Series B Preferred stock, \$0.01 par value: 16,000,000 and 0 shares authorized; 427,218 and 0 shares issued and 427,218 and 0 shares outstanding, respectively.....	8,599	—
Redeemable noncontrolling interests in the OP.....	89,471	96,501
Stockholders' Equity:		
Noncontrolling interest in subsidiary.....	95	64,529
Series A 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; 17,518,900 and 17,366,930 shares issued and 17,231,913 and 17,079,943 shares outstanding, respectively.....	172	171
Additional paid-in capital.....	395,737	392,124
Retained earnings (accumulated deficit).....	(35,821)	4,435
Series A 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)
Total Stockholders' Equity	<u>347,437</u>	<u>448,513</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 7,018,353</u>	<u>\$ 8,154,136</u>

See Notes to Consolidated Financial Statements

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

	For the Year Ended December 31,		
	2023	2022	2021
Net interest income			
Interest income	\$ 68,358	\$ 77,988	\$ 55,827
Interest expense	(51,560)	(40,255)	(29,772)
Total net interest income	16,798	37,733	26,055
Other income (loss)			
Change in net assets related to consolidated CMBS variable interest entities	38,213	10,239	57,618
Change in unrealized gain (loss) on CMBS structured pass-through certificates	1,533	(12,664)	(483)
Change in unrealized gain (loss) on common stock investments	(16,736)	(5,196)	13,834
Change in unrealized gain (loss) on preferred stock investments	266	—	—
Change in unrealized gain (loss) on MSCR notes	65	(53)	—
Change in unrealized gain (loss) on mortgage backed securities	467	(1,230)	—
Reversal of (provision for) credit losses	(4,299)	(169)	(189)
Dividend income, net	193	—	—
Realized Losses	—	(1,084)	(257)
Other income	1,520	399	780
Gain on deconsolidation of real estate owned	1,490	—	—
Gain on extinguishment of debt	—	17	—
Equity in income (losses) of equity method investments	(2,564)	—	—
Revenues from consolidated real estate owned	5,144	12,402	10
Total other income (loss)	25,292	2,661	71,313
Operating expenses			
General and administrative expenses	9,204	7,243	6,371
Loan servicing fees	4,187	4,388	5,179
Management fees	3,281	3,151	2,296
Expenses from consolidated real estate owned	6,678	11,398	50
Total operating expenses	23,350	26,180	13,896
Net income (loss)	18,740	14,214	83,472
Net (income) loss attributable to series A preferred shareholders	(3,496)	(3,512)	(3,508)
Net (income) loss attributable to series B preferred shareholders	(80)	—	—
Net (income) loss attributable to redeemable noncontrolling interests	(4,765)	(4,969)	(40,387)
Net (income) loss attributable to redeemable noncontrolling interests in subsidiaries	—	(2,499)	—
Net income (loss) attributable to common stockholders	\$ 10,399	\$ 3,234	\$ 39,577
Weighted-average common shares outstanding - basic	17,199	14,686	6,601
Weighted-average common shares outstanding - diluted (1)	17,199	14,686	20,366
Earnings (loss) per share outstanding - basic	\$ 0.60	\$ 0.22	\$ 6.00
Earnings (loss) per share outstanding - diluted	\$ 0.60	\$ 0.22	\$ 3.93
Dividends declared per common share	\$ 2.7400	\$ 2.0000	\$ 1.9000

(1) Diluted EPS calculations were higher than basic EPS and thus anti-dilutive for the years ended December 31, 2023 and 2022, respectively. 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 STATEMENTS 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	Series A 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							
Balances, December 31, 2020	1,645,000	\$ 16.00	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)
Balances, December 31, 2021	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)
Balances, December 31, 2022	1,645,000	\$ 16	17,079,943	\$ 171	\$ 392,124	\$ 4,435	\$ (4,195)	\$ (8,567)	\$ —	\$ 64,529	\$448,513
Vesting of stock-based compensation ...	—	—	151,970	1	3,613	—	—	—	—	—	3,614
Adjustment to noncontrolling interest in subsidiary on deconsolidation of real estate	—	—	—	—	—	—	—	—	—	(64,434)	(64,434)
Cumulative effect of adoption of ASU 2016-13 (See Note 2).....	—	—	—	—	—	(1,624)	—	—	—	—	(1,624)
Net income attributable to preferred stockholders	—	—	—	—	—	3,496	—	—	—	—	3,496
Net income attributable to common stockholders	—	—	—	—	—	10,399	—	—	—	—	10,399
Series A Preferred stock dividends declared (\$2.1250 per share)	—	—	—	—	—	(3,496)	—	—	—	—	(3,496)
Common stock dividends declared (\$2.7400 per share)	—	—	—	—	—	(49,031)	—	—	—	—	(49,031)
Balances, December 31, 2023	1,645,000	\$ 16	17,231,913	\$ 172	\$ 395,737	\$ (35,821)	\$ (4,195)	\$ (8,567)	\$ —	\$ 95	\$347,437

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

	For the Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities			
Net income.....	\$ 18,740	\$ 14,214	\$ 83,472
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of premiums	15,301	20,840	15,769
Accretion of discounts.....	(13,877)	(13,312)	(9,196)
Depreciation and amortization of real estate investment.....	2,465	2,895	—
Amortization of deferred financing costs.....	(45)	48	—
Change in fair value on interest rate caps included in other assets.....	(1,675)	—	—
Net cash received (paid) on interest rate caps.....	(440)	—	—
Provision for (reversal of) credit losses, net.....	4,299	169	189
Net change in unrealized (gain) loss on investments held at fair value.....	16,820	44,765	(43,503)
Realized Losses	—	1,084	257
Equity in (income) losses of unconsolidated equity method ventures.....	2,564	—	—
Gain on deconsolidation of variable interest entity.....	(1,490)	—	—
Stock-based compensation expense	4,411	3,286	2,023
Payment in kind income	(8,990)	(715)	(91)
Gain on extinguishment of debt	—	(17)	—
Changes in operating assets and liabilities:			
Accrued interest and dividends receivable.....	(4,319)	(10,247)	(3,241)
Accounts receivable and other assets	(354)	(433)	352
Accrued interest payable	338	2,914	1,674
Accounts payable, accrued expenses and other liabilities	(2,192)	310	1,593
Net cash provided by operating activities	<u>31,556</u>	<u>65,801</u>	<u>49,298</u>
Cash flows from investing activities			
Proceeds from payments received on mortgage loans held in variable interest entities	717,966	1,223,322	841,953
Proceeds from payments received on mortgage loans held for investment.....	97,259	178,990	62,991
Proceeds from payments received on bridge loan.....	—	13,500	32,759
Proceeds from payments received on mortgage backed securities.....	546	518	—
Originations of bridge loan.....	—	(13,434)	(32,595)
Originations of loans, held-for-investment, net	(92,701)	(110,502)	(117,727)
Purchases of preferred stock.....	(14,510)	—	—
Purchases of equity method investments	(2,564)	—	—
Purchases of CMBS structured pass-through certificates, at fair value.....	—	(4,542)	(39,061)
Sale of CMBS securitizations held in variable interest entities, at fair value.....	44,783	—	—
Sale 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)
Purchases of MSCR notes, at fair value.....	—	(10,365)	—
Purchases of mortgage backed securities, at fair value.....	(5,733)	(33,926)	—
Increase in Cash in connection with VIE consolidation	1,814	—	—
Decrease in Cash in connection with VIE deconsolidation	(4,992)	—	—
Acquisitions of real estate investments	—	(184,552)	(29,789)
Additions to real estate investments.....	(526)	(117)	—
Net cash provided by investing activities.....	<u>741,342</u>	<u>950,578</u>	<u>517,878</u>
Cash flows from financing activities			
Principal repayments on borrowings under secured financing agreements.....	(38,327)	(98,341)	(54,227)
Distributions to bondholders of variable interest entities	(668,898)	(1,131,916)	(781,210)
Borrowings under master repurchase agreements.....	55,239	130,629	153,844
Principal repayments on borrowings under master repurchase agreements.....	(82,745)	(85,933)	(28,985)

Proceeds received on borrowings under secured financing agreements.....	—	89,634	—
Proceeds received from unsecured notes offering	13,557	40,674	132,813
Repurchase of unsecured notes	—	(4,829)	(304)
Borrowings under bridge facility	—	55,000	20,000
Bridge facility payments.....	—	(55,000)	(20,000)
Proceeds from the issuance of common stock through public offering, net of offering costs .	—	11,499	50,795
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 series B preferred stock through public offering, net of offering costs	8,599	—	—
Proceeds from the issuance of subsidiary preferred membership units through private offering, net of offering costs.....	—	—	95
Proceeds received from mortgages payable.....	416	—	—
Principal repayments on mortgages payable.....	(22)	—	—
Payments for taxes related to net share settlement of stock-based compensation.....	(797)	(495)	(323)
Dividends paid to common stockholders	(47,950)	(29,652)	(14,164)
Dividends paid to series A preferred stockholders	(3,496)	(3,512)	(3,508)
Dividends paid to series B preferred stockholders.....	(80)	—	—
Distributions to redeemable noncontrolling interests in the OP	(12,092)	(14,277)	(22,241)
Contributions from noncontrolling interests	—	67,255	—
Net cash used in financing activities	<u>(776,596)</u>	<u>(1,029,264)</u>	<u>(567,415)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash.....	(3,698)	(12,885)	(239)
Cash, cash equivalents and restricted cash, beginning of year	20,347	33,232	33,471
Cash, cash equivalents and restricted cash, end of year.....	<u>\$ 16,649</u>	<u>\$ 20,347</u>	<u>\$ 33,232</u>

Supplemental Disclosure of Cash Flow Information

Interest paid.....	51,337	35,416	27,546
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Supplemental Disclosure of Noncash Investing and Financing Activities

Adjustment to loans, held for investment, net on deconsolidation of real estate.....	36,022	—	—
Adjustment to real estate investments, net on deconsolidation of real estate	(185,732)	—	—
Adjustment to accrued interest and dividends on deconsolidation of real estate.....	2,049	—	—
Adjustment to accounts receivable and other assets on deconsolidation of real estate	(799)	—	—
Adjustment to mortgages payable, net on deconsolidation of real estate	89,012	—	—
Adjustment to accounts payable and accrued liabilities on deconsolidation of real estate.....	705	—	—
Adjustment to accrued interest payable on deconsolidation of real estate.....	1,087	—	—
Adjustment to noncontrolling interest in subsidiary on deconsolidation of real estate	64,434	—	—
Adjustment to retained earnings on deconsolidation of real estate	1,490	—	—
Adjustment to redeemable noncontrolling interest in the OP on deconsolidation of real estate.....	(297)	—	—
Increase in dividends payable upon vesting of restricted stock units.....	1,081	1,187	—
Deconsolidation of mortgage loans and bonds payable held in variable interest entities.....	(448,396)	—	—
Consolidation of mortgage loans and bonds payable held in variable interest entities	—	1,244,826	2,946,224
Conversion of convertible notes to common stock	—	25,000	—
Adjustment to loans, held for investment, net on consolidation of real estate.....	(9,685)	—	—
Adjustment to real estate investments, net on consolidation of real estate	69,000	—	—
Adjustment to accounts receivable and other assets on consolidation of real estate	445	—	—
Adjustment to mortgages payable, net on consolidation of real estate	(63,084)	—	—
Adjustment to accrued interest payable on consolidation of real estate	(972)	—	—
Adjustment to accounts payable and accrued liabilities on consolidation of real estate	(2,436)	—	—
Consolidation of noncontrolling interest in CMBS variable interest entities	—	—	7,175
Increase in dividends payable upon vesting of restricted stock units.....	—	—	531
Other assets acquired from acquisitions	—	—	14
Liabilities assumed from acquisitions.....	—	—	47
Assumed debt on acquisitions.....	—	—	32,480

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 and the Company believes the current organization and method of operation will enable it to maintain its status as a REIT. The Company is focused on originating, structuring and investing in first-lien mortgage loans, mezzanine loans, preferred equity, convertible notes, multifamily properties and common equity investments, as well as multifamily and single-family rental (“SFR”) commercial mortgage backed securities securitizations (“CMBS securitizations”), multifamily structured credit risk notes (“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 metropolitan statistical areas (“MSAs”). 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, 2023, the Company holds approximately 83.82% of the common limited partnership units in the OP (“OP Units”) which represents 100.00% 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 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, that renewed on February 6, 2024 for a one-year term and is automatically renewed for 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 U.S. generally accepted accounting principles (“GAAP”). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and 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. Other than described below pertaining to the adoption of the new accounting pronouncement, there have been no significant changes to the Company’s significant accounting policies during the year ended December 31, 2023.

The accompanying consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (“SEC”). 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, 2023, 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 (see Note 6).

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, 2023 and December 31, 2022, 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 83.82% of the OP Units in the OP as of December 31, 2023 which represent 100.00% 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, 2023, 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, net

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 credit 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 Credit Losses

In periods ending on or prior to December 31, 2022, the Company, with the assistance of an independent valuations firm, performed 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 determined that it was probable that it would be unable to collect all amounts owed according to the contractual terms of a loan, impairment of that loan was indicated. If a loan was considered to be impaired, the Company would establish an allowance for loan losses, through a valuation provision in earnings that reduced 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 was expected solely from the collateral. For non-impaired loans with no specific allowance the Company determined an allowance for loan losses in accordance with ASC 450-20, *Loss Contingencies* ("ASC 450-20"), which represented 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 considered quantitative factors likely to cause estimated credit losses, including default rate and loss severity rates. The Company also evaluated 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 for the fiscal year ended December 31, 2022 are included in "Reversal of (provision for) credit losses" on the accompanying Consolidated Statements of Operations.

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 requires the use of a current expected credit loss ("CECL") 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 ASU 2016-13 as of January 1, 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. These models are also utilized for estimating expected life-time credit losses for unfunded loan commitments for which the Company has a present contractual obligation to extend the credit and the obligation is not unconditionally cancellable. The 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. The reasonable and supportable forecast period is determined based on the Company's assessment of the most likely scenario of assumptions and plausible outcomes for the U.S. economy, current portfolio composition, level of historical loss forecast estimates, material changes in growth and credit strategy and other factors that may affect its loss experience. The Company regularly evaluates the reasonable and supportable forecast period to determine if a change is needed. The Company has determined that economic forecasts used in our CECL model can be reasonable and supportable over four quarters as it provides enough time to account for the expected changes of the economic conditions and the performance of the underlying assets. Beyond the Company's reasonable and supportable forecast period, the Company immediately reverts to historical loss information. The Company considers an immediate reversion period appropriate in the CECL model because it provides a suitable balance between the stability of historical data and the flexibility to account for changing market conditions. The allowance for loan and lease losses reserve as of December 31, 2022, was \$0.7 million and the CECL reserve as of January 1, 2023, was \$2.3 million. As such, the cumulative effect of adoption of ASU 2016-13 was a \$1.6 million reduction in retained earnings. The provision for credit losses of \$4.3 million for the year ended December 31, 2023 is included in reversal of (provision for) credit losses on the accompanying Consolidated Statements of Operations, resulting in an ending allowance for credit loss of \$2.1 million as of December 31, 2023.

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.

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, 2023, there were no loans acquired with deteriorated credit quality.

The Company also recognizes a liability for expected credit losses for off-balance sheet exposures if the Company has a present contractual obligation to extend the credit and the obligation is not unconditionally cancelable by the entity.

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, 2023, 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, 2023.

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 consolidated 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 November 2023, the FASB issued ASU 2023-07, *Segment Reporting – Improvements to Reportable Segment Disclosures* (“ASU 2023-07”), which requires a public entity to disclose significant segment expenses and other segment items in interim and annual periods and expands the ASC 280 disclosure requirements for interim periods. The ASU also explicitly requires public entities with a single reportable segment to provide all segment disclosures under ASC 280, including the new disclosures under ASU 2023-07. The amendments are effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. Management is currently evaluating this ASU to determine its impact on the Company's disclosures.

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, 2023 and December 31, 2022, 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, 2023						
Mortgage loans, held-for-investment	\$ 645,277	\$ 676,420	11	100.00 %	4.79 %	4.49
Mezzanine loans, held-for-investment	133,207	135,069	22	78.31 %	9.61 %	5.36
Preferred equity, held-for-investment	195,392	193,391	15	39.12 %	12.20 %	2.22
	<u>\$ 973,876</u>	<u>\$ 1,004,880</u>	<u>48</u>	<u>84.82 %</u>	<u>6.94 %</u>	<u>4.15</u>

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
	<u>\$ 942,449</u>	<u>\$ 982,678</u>	<u>48</u>	<u>90.64 %</u>	<u>6.43 %</u>	<u>5.11</u>

- (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, 2023 and 2022, the loan and preferred equity portfolio activity was as follows (in thousands):

	For the Year Ended December 31,	
	2023	2022
Balance at January 1,	\$ 982,678	\$ 1,088,881
Recognition of retained preferred equity investment upon deconsolidation of real estate (Note 14)	36,022	—
Cumulative effect of adoption of ASU 2016-13 (See Note 2)	(1,624)	—
Conversion of convertible bonds to common stock	—	(25,000)
Originations	92,701	110,502
Decrease in loans, held for investment, net on consolidation of real estate	(9,685)	—
Proceeds from principal repayments	(97,259)	(178,990)
PIK distribution reinvested in Preferred Units	8,990	715
Amortization of loan premium, net (1)	(7,146)	(13,261)
(Provision for) reversal of credit losses	(4,299)	(169)
Reversal of specific reserve of credit losses	4,502	—
Balance at December 31,	\$ 1,004,880	\$ 982,678

(1) Includes net amortization of loan purchase premiums.

As of December 31, 2023, and December 31, 2022, there were \$33.1 million and \$40.9 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):

Risk Rating	December 31, 2023		
	Number of Loans	Carrying Value	% of Loan Portfolio
1	—	\$ —	—
2	—	—	—
3	46	992,751	98.79 %
4	2	12,129	1.21 %
5	—	—	— %
	48	\$ 1,004,880	100.00 %

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

As of December 31, 2023, 46 loans held-for-investment in our portfolio were rated “3,” or “Satisfactory”, 2 loans held-for-investment in our portfolio were rated "4," or "Underperformance", and 0 loans held-for-investment in our portfolio were rated "5," or "Risk of Impairment/Default", based on the factors assessed by the Company and discussed in Note 2. Our loan portfolio had a weighted-average risk rating of 3.0 as of December 31, 2023, and 3.0 as of December 31, 2022.

The following tables present the carrying value of the loan portfolio by the Company's internal risk rating and year of origination as of December 31, 2023 and December 31, 2022 (dollars in thousands):

December 31, 2023									
Carrying Value by Year of Origination (1)									
Risk Rating	Number of Loans	Outstanding Face Amount	2023	2022	2021	2020	2019	Prior	Total Carrying Value
1	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
2	—	—	—	—	—	—	—	—	—
3	46	961,756	82,879	69,958	40,981	19,158	759,828	19,947	992,751
4	2	12,120	—	12,129	—	—	—	—	12,129
5	—	—	—	—	—	—	—	—	—
	<u>48</u>	<u>\$ 973,876</u>	<u>\$82,879</u>	<u>\$82,087</u>	<u>\$40,981</u>	<u>\$19,158</u>	<u>\$759,828</u>	<u>\$19,947</u>	<u>\$ 1,004,880</u>

December 31, 2022									
Carrying Value by Year of Origination (1)									
Risk Rating	Number of Loans	Outstanding Face Amount	2022	2021	2020	2019	2018	Prior	Total Carrying Value
1	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
2	—	—	—	—	—	—	—	—	—
3	48	999,080	72,606	98,129	17,500	774,381	20,062	—	982,678
4	—	—	—	—	—	—	—	—	—
5	—	—	—	—	—	—	—	—	—
	<u>48</u>	<u>\$ 999,080</u>	<u>\$72,606</u>	<u>\$98,129</u>	<u>\$17,500</u>	<u>\$774,381</u>	<u>\$20,062</u>	<u>\$ —</u>	<u>\$ 982,678</u>

(1) Represents the date a loan was originated or acquired.

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, 2023	December 31, 2022
Georgia.....	30.50 %	34.04 %
Florida.....	18.40 %	19.34 %
Texas.....	13.87 %	11.21 %
Nevada.....	1.46 %	*
Maryland.....	5.47 %	5.59 %
Minnesota.....	7.31 %	6.97 %
California.....	4.92 %	4.66 %
Alabama.....	3.51 %	3.81 %
North Carolina.....	2.78 %	2.65 %
Virginia.....	2.65 %	*
Arkansas.....	1.37 %	1.42 %
Other (18 and 19 states each at <1%).....	7.76 %	10.31 %
	100.00 %	100.00 %

* Included in "Other."

Collateral Property Type	December 31, 2023	December 31, 2022
Single Family Rental.....	69.94 %	72.26 %
Multifamily.....	21.99 %	23.11 %
Life Science.....	6.33 %	2.85 %
Self-Storage.....	1.75 %	1.79 %
	100.00 %	100.00 %

4. CMBS Trusts

As of December 31, 2023, 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 investing and financing cash flows, respectively.

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

Trust's Assets	December 31, 2023	December 31, 2022
Mortgage loans held in variable interest entities, at fair value.....	\$ 5,677,763	\$ 6,720,246
Accrued interest receivable.....	3,902	4,029
Trust's Liabilities		
Bonds payable held in variable interest entities, at fair value.....	(5,289,997)	(6,249,804)
Accrued interest payable.....	(3,220)	(3,207)

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

	For the Year Ended December 31,		
	2023	2022	2021
Net interest earned	\$ 40,627	\$ 35,866	\$ 27,780
Unrealized gain (loss)	(2,414)	(25,627)	29,838
Change in net assets related to consolidated CMBS variable interest entities	<u>\$ 38,213</u>	<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:

Geography	December 31, 2023	December 31, 2022
Texas	15.85 %	17.95 %
Florida	14.07 %	13.82 %
Arizona	4.05 %	6.98 %
California	8.69 %	9.28 %
Georgia	4.00 %	4.68 %
Washington	7.75 %	6.88 %
New Jersey	4.02 %	3.97 %
Nevada	2.49 %	1.99 %
Pennsylvania	1.27 %	1.01 %
Colorado	7.74 %	6.21 %
Connecticut	2.04 %	3.64 %
North Carolina	4.17 %	3.53 %
New York	3.37 %	2.76 %
Ohio	2.48 %	2.00 %
Virginia	2.03 %	1.62 %
Indiana	2.13 %	1.69 %
Illinois	1.65 %	1.37 %
Michigan	1.38 %	1.11 %
Maryland	1.18 %	*
Missouri	1.56 %	1.25 %
Other (21 and 22 states each at <1%)	8.08 %	8.26 %
	<u>100.00 %</u>	<u>100.00 %</u>

* Included in “Other.”

Collateral Property Type	December 31, 2023	December 31, 2022
Multifamily	97.45 %	98.45 %
Manufactured Housing	2.55 %	1.55 %
	<u>100.00 %</u>	<u>100.00 %</u>

5. Common and Preferred Stock Investments

Common Stock Investments

The Company owns approximately 25.7% 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 owns approximately 6.4% of the total outstanding shares of common stock of the Private REIT as of December 31, 2023 and 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, 2023 and 2022, the Company valued this investment based on the Private REIT's market approach yield of \$20.37 and \$19.33 per share, respectively.

As of December 31, 2023, the Company owns approximately 98.0% of the total outstanding common equity of Resmark Forney Gateway Holdings, LLC ("RFGH") and Resmark the Brook, LLC ("RTB"). The investments in RFGH and RTB are equity method investments. These investments are held in entities that are considered VIEs as the power to direct activities is not proportional to ownership interests. The Company is not the primary beneficiary, but is deemed to have significant influence, and as such accounts for them using the equity method.

The following table presents the common stock investments as of December 31, 2023 and 2022, respectively (in thousands, except share amounts):

Investment	Investment Date	Property Type	Shares		Fair Value	
			December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Common Stock						
NexPoint Storage Partners	11/6/2020	Self-storage	41,963	41,963	\$ 33,129	\$ 50,380
Private REIT.....	4/14/2022	Ground lease	1,394,213	1,394,213	28,400	27,884

The following table presents “Change in unrealized gain (loss) on common stock investments” (in thousands):

	For the Year Ended December 31,		
	2023	2022	2021
Change in unrealized gain (loss) on NexPoint Storage Partners.....	\$ (17,251)	\$ (8,080)	\$ 13,834
Change in unrealized gain (loss) on Private REIT	515	2,884	—
Change in unrealized gain (loss) on common stock investments.....	<u>\$ (16,736)</u>	<u>\$ (5,196)</u>	<u>\$ 13,834</u>

Preferred Stock Investments

On November 9, 2023, the Company invested in the Series D-1 preferred stock (“Series D-1”) of IQHQ, Inc. (“IQHQ”), a privately held life sciences real estate investment trust. The preferred stock dividend accumulates quarterly at a 10.5% dividend rate per annum. The Series D-1 are not deemed to be in-substance common stock and are accounted for as investments in equity securities measured at fair value. The securities do not have a readily determinable fair value, and the Company does not elect the measurement alternative. The Company owns approximately 9.5% of the total outstanding shares of preferred stock of the Series D-1 as of December 31, 2023.

The investment in the Series D-1 is a Level 3 asset in the fair value hierarchy and was initially measured using the entry price of the asset. As of December 31, 2023, the Company valued this investment using the discounted cash flow method based on the present value of the expected future cash flows of the underlying investment. The discount rate of 11.5% considered the implied yield of both the payment in kind and cash interest margins.

6. Unconsolidated Variable Interest Entities

Unconsolidated VIEs

The Company continually reassesses whether it remains the primary beneficiary for VIEs consolidated under the VIE model.

As of December 31, 2023, the Company has accounted for the following investments as unconsolidated VIEs:

Entities	Instrument	Asset Type	Accounting Treatment	Percentage Ownership as of December 31, 2023	Relationship as of December 31, 2023
Unconsolidated Entities:					
NexPoint Storage Partners, Inc....	Common Stock	Self-storage	Fair Value	25.7 %	VIE
Resmark Forney Gateway Holdings, LLC	Common Equity	Multifamily	Equity Method	98.0 %	VIE
Resmark the Brook, LLC	Common Equity	Multifamily	Equity Method	98.0 %	VIE
Private REIT	Common Equity	Ground lease	Fair Value	6.4 %	VIE

The Company's maximum exposure to loss of value for the NSP investment is the fair value of the Company's \$33.1 million NSP common stock investment. The Company's maximum exposure to loss of value for the RFGH and RTB common equity investments is the \$1.0 million carrying value for each investment and may include an additional \$2.8 million in unfunded commitments for each investment to the extent those commitments are funded.

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

As of December 31, 2023, the Company held twelve CMBS I/O Strips, three MSCR Notes and seven 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.

The following table presents the CMBS I/O Strips, MSCR Notes and mortgage backed securities as of December 31, 2023 (dollars in thousands):

Investment	Investment Date	Carrying Value	Property Type	Interest Rate	Current Yield (1)	Maturity Date
CMBS I/O Strips						
CMBS I/O Strip.....	5/18/2020	\$ 1,622	Multifamily	2.02 %	14.64 %	9/25/2046
CMBS I/O Strip.....	8/6/2020	16,601	Multifamily	2.98 %	17.98 %	6/25/2030
CMBS I/O Strip.....	4/28/2021 (2)	5,022	Multifamily	1.59 %	17.68 %	1/25/2030
CMBS I/O Strip.....	5/27/2021	3,436	Multifamily	3.39 %	17.79 %	5/25/2030
CMBS I/O Strip.....	6/7/2021	395	Multifamily	2.31 %	22.31 %	11/25/2028
CMBS I/O Strip.....	6/11/2021 (3)	2,643	Multifamily	1.18 %	14.57 %	5/25/2029
CMBS I/O Strip.....	6/21/2021	833	Multifamily	1.17 %	18.07 %	5/25/2030
CMBS I/O Strip.....	8/10/2021	2,255	Multifamily	1.89 %	17.98 %	4/25/2030
CMBS I/O Strip.....	8/11/2021	1,241	Multifamily	3.10 %	15.24 %	7/25/2031
CMBS I/O Strip.....	8/24/2021	229	Multifamily	2.61 %	16.15 %	1/25/2031
CMBS I/O Strip.....	9/1/2021	3,390	Multifamily	1.92 %	17.01 %	6/25/2030
CMBS I/O Strip.....	9/11/2021	3,545	Multifamily	2.95 %	15.14 %	9/25/2031
Total		<u>\$ 41,212</u>		<u>2.50 %</u>	<u>17.21 %</u>	
MSCR Notes						
MSCR Notes	5/25/2022	\$ 4,020	Multifamily	14.83 %	14.83 %	5/25/2052
MSCR Notes	5/25/2022	5,000	Multifamily	11.83 %	11.83 %	5/25/2052
MSCR Notes	9/23/2022	1,358	Multifamily	12.18 %	13.38 %	11/25/2051
Total		<u>\$ 10,378</u>		<u>13.04 %</u>	<u>13.20 %</u>	
Mortgage Backed Securities						
Mortgage Backed Securities.....	6/1/2022	\$ 9,924	Single-Family	8.64 %	8.91 %	4/17/2026
Mortgage Backed Securities.....	6/1/2022	9,369	Single-Family	4.87 %	5.01 %	11/19/2025
Mortgage Backed Securities.....	7/28/2022	538	Single-Family	6.23 %	6.31 %	10/17/2027
Mortgage Backed Securities.....	7/28/2022	856	Single-Family	3.60 %	4.12 %	6/20/2028
Mortgage Backed Securities.....	9/12/2022	3,881	Multifamily	11.57 %	11.55 %	1/25/2031
Mortgage Backed Securities.....	9/29/2022	7,960	Self Storage	11.10 %	11.12 %	9/15/2027
Mortgage Backed Securities.....	3/10/2023	5,742	Multifamily	13.93 %	13.95 %	2/25/2025
Total		<u>\$ 38,270</u>		<u>9.17 %</u>	<u>9.30 %</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.

The following table presents the CMBS I/O Strips, MSCR Notes and Mortgage Backed Securities as of December 31, 2022 (dollars in thousands):

Investment	Investment Date	Carrying Value	Property Type	Interest Rate	Current Yield (1)	Maturity Date
CMBS I/O Strips						
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
Total		\$ 46,876		2.46 %	15.32 %	
MSCR Notes						
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
Total		\$ 10,313		11.23 %	11.36 %	
Mortgage Backed Securities						
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
Total		\$ 32,328		7.28 %	7.45 %	

- (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.

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,		
	2023	2022	2021
Net interest earned	\$ 2,905	\$ 5,668	\$ 3,052
Change in unrealized gain (loss) on CMBS structured pass-through certificates.....	1,533	(12,664)	(483)
Change in unrealized gain (loss) on MSCR notes	65	(53)	—
Change in unrealized gain (loss) on mortgage backed securities.....	467	(1,230)	—
Realized gain on CMBS structured pass-through certificates.....	—	—	484
Total	\$ 4,970	\$ (8,279)	\$ 3,053

8. Real Estate Investments, net

On December 31, 2021, the Company acquired a 204-unit multifamily property in Charlotte, North Carolina (Hudson Montford).

On February 1, 2022, the Company acquired a 368-unit multifamily property in Las Vegas, Nevada (Elysian at Hughes Center). The Company no longer maintains a common equity interest in this property and through a restructuring effective January 1, 2023, the investment was deconsolidated and presented solely as a preferred equity investment as of December 31, 2023.

On October 10, 2023, the Company exercised its right to terminate and replace the existing manager of SPG Alexander JV LLC, which owns a 280-unit multifamily property in Atlanta, Georgia. The Company, through its subsidiaries, holds both preferred and common equity investment in SPG Alexander JV LLC and also solely owns the replacement manager. As such, the Company is the primary beneficiary of SPG Alexander JV LLC and consolidates the property within our consolidated financial statements. The investment was considered an asset acquisition, and the fair value of the components of the investment as of October 10, 2023 totaled \$68.8 million. The total value consisted of \$7.9 million of land, \$59.0 million of buildings and improvements, \$0.6 million of furniture, fixtures, and equipment, and \$1.3 million of intangible assets.

As of December 31, 2023, the components of the Company's investments in multifamily properties was as follows (in thousands):

Real Estate Investments, Net	Land	Buildings and Improvements	Intangible Lease Assets	Construction in Progress	Furniture, Fixtures and Equipment	Totals
Hudson Montford... \$	10,996	\$ 49,912	\$ —	\$ 401	\$ 691	\$ 62,000
Alexander at the District.....	7,806	59,162	1,271	—	716	68,955
Accumulated depreciation and amortization.....	—	(3,948)	—	—	(456)	(4,404)
Total Real Estate Investments, Net... \$	18,802	\$ 105,126	\$ 1,271	\$ 401	\$ 951	\$ 126,551

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

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

The following table reflects the revenue and expenses for the years ended December 31, 2023 and 2022, for our multifamily properties (in thousands).

	For the Year Ended December 31,	
	2023	2022
Revenues		
Rental income.....	\$ 4,962	\$ 11,116
Other income	182	1,286
Total revenues.....	5,144	12,402
Expenses		
Interest expense	3,984	4,183
Real estate taxes and insurance	862	1,493
Property operating expenses.....	1,145	2,548
Property general and administrative expenses.....	257	366
Property management fees	158	301
Depreciation and amortization	2,465	2,895
Rate cap (income) expense.....	(2,045)	(1,014)
Debt service bridge.....	—	626
Casualty (gain) loss	(148)	—
Total expenses	6,678	11,398
Net income (loss) from consolidated real estate owned	\$ (1,534)	\$ 1,004

9. Debt

The following table summarizes the Company's financing arrangements in place as of December 31, 2023 (dollars in thousands):

	December 31, 2023									
	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	\$ 303,514	\$ 303,514	N/A (5)	7.26 %	0.0	\$ 931,296	\$ 470,761	\$ 464,888	6.4
Asset Specific Financing										
Single Family Rental loans										
Freddie Mac.....	7/12/2019	590,306	590,306	7/12/2029	2.34 %	4.5	645,277	676,420	676,420	4.5
Mezzanine loans										
Freddie Mac.....	10/20/2020	59,252	59,252	8/1/2031	0.30 %	6.3	96,817	98,839	98,839	6.3
Multifamily properties										
CBRE	12/31/2021	32,366	32,157	6/1/2028 (6)	8.05 %	4.4	N/A	64,697	64,697	4.4
Various	10/10/2023	63,500	63,500	11/6/2024 (7)	8.84 %	0.9	N/A	61,854	61,854	0.9
Unsecured Financing										
Various	10/15/2020	36,500	35,852	10/25/2025	7.50 %	1.8	N/A	N/A	N/A	N/A
Various	4/20/2021	180,000	177,131	5/1/2026	5.75 %	2.3	N/A	N/A	N/A	N/A
Various	10/18/2022	6,500	6,500	10/18/2027	7.50 %	3.8	N/A	N/A	N/A	N/A
Total/weighted average		<u>\$ 1,271,938</u>	<u>\$1,268,212</u>		<u>4.55 %</u>	<u>2.9</u>	<u>\$ 676,420</u>	<u>\$ 1,372,571</u>	<u>\$1,366,698</u>	<u>5.6</u>

- (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.
- (7) Debt was assumed upon consolidation of this property and recorded at the outstanding principal amount.

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

December 31, 2022										
	Date issued	Facility				Collateral				
		Outstanding face amount	Carrying value	Maximum facility size	Final stated maturity	Weighted average interest rate (1)	Weighted average life (years) (2)	Outstanding face amount	Carrying value (3)	Weighted average life (years) (2)
Master Repurchase Agreements										
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
Asset Specific Financing										
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 properties										
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
Unsecured Financing										
Various	10/15/2020	36,500	35,530	10/25/2025	7.50 %	2.8	N/A	N/A	N/A	N/A
Various	4/20/2021	165,000	162,930	5/1/2026	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		<u>\$ 1,349,019</u>	<u>\$1,345,101</u>		<u>3.85 %</u>	<u>4.1</u>	<u>\$ 1,768,303</u>	<u>\$ 1,624,062</u>	<u>\$1,619,879</u>	<u>6.4</u>

- (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. 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.

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, 2023. 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, 2023 and 2022, the outstanding balance on the Credit Facility was \$590.3 million and \$628.6 million, respectively.

We, through the Subsidiary OPs, have borrowed approximately \$303.5 million under our repurchase agreements and posted \$931.3 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, 2023. 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 November 15, 2023, the Company issued an additional \$15.0 million aggregate principal amount of its 5.75% Notes at a price equal to 92.0% par value, including accrued interest, for proceeds of approximately \$13.6 million after original issue discount and underwriting fees.

As of December 31, 2023, the outstanding principal balances related to the SFR Loans and levered Mezzanine Loans consisted of the following (dollars in thousands):

<u>Investment</u>	<u>Investment Date</u>	<u>Outstanding Principal Balance (1)</u>	<u>Location</u>	<u>Property Type</u>	<u>Interest Type</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
SFR Loans							
Senior loan.....	2/11/2020	\$ 465,690	Various	Single-family	Fixed	2.24 %	9/1/2028
Senior loan.....	2/11/2020	31,416	Various	Single-family	Fixed	2.14 %	10/1/2025
Senior loan.....	2/11/2020	33,967	Various	Single-family	Fixed	2.70 %	11/1/2028
Senior loan.....	2/11/2020	9,156	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	8,111	Various	Single-family	Fixed	3.51 %	2/1/2028
Senior loan.....	2/11/2020	8,787	Various	Single-family	Fixed	3.30 %	10/1/2028
Senior loan.....	2/11/2020	7,881	Various	Single-family	Fixed	3.14 %	1/1/2029
Senior loan.....	2/11/2020	5,848	Various	Single-family	Fixed	2.99 %	3/1/2029
Senior loan.....	2/11/2020	5,240	Various	Single-family	Fixed	3.14 %	12/1/2028
Senior loan.....	2/11/2020	4,926	Various	Single-family	Fixed	2.64 %	10/1/2028
Total		<u>\$ 590,306</u>				<u>2.34 %</u>	
Mezzanine Loans							
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
Total		<u>\$ 59,252</u>				<u>0.30 %</u>	

(1) Outstanding principal balance represents the total repurchase agreement balance outstanding as of December 31, 2023.

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):

Investment	Investment Date	Outstanding Principal Balance (1)	Location	Property Type	Interest Type	Interest Rate	Maturity Date
SFR Loans							
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
Total		<u>\$ 628,633</u>				<u>2.35 %</u>	
Mezzanine Loans							
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
Total		<u>\$ 59,252</u>				<u>0.30 %</u>	

(1) Outstanding principal balance represents the total repurchase agreement balance outstanding as of December 31, 2022.

For the years ended December 31, 2023 and 2022, 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,	
	2023	2022
Balances as of December 31,	\$ 1,345,101	\$ 1,273,355
Decrease in Mortgages Payable in connection with VIE deconsolidation	(89,012)	—
Increase in Mortgages Payable in connection with VIE consolidation	63,500	—
Principal borrowings	55,239	260,937
Principal repayments	(121,094)	(185,200)
Unsecured notes offering.....	13,557	—
Repurchase of unsecured notes	—	(4,829)
Accretion of discounts.....	966	790
Amortization of deferred financing costs	(45)	48
Balances as of December 31,	\$ 1,268,212	\$ 1,345,101

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, 2023 are as follows (in thousands):

Year	Recourse	Non-recourse	Total
2024(1).....	\$ 63,500	\$ 303,514	\$ 367,014
2025	36,500	31,416	67,916
2026	180,000	9,284	189,284
2027	6,500	—	6,500
2028	32,366	543,665	576,031
Thereafter.....	—	65,193	65,193
	\$ 318,866	\$ 953,072	\$ 1,271,938

(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 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, 2023 and 2022 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, 2023 and 2022, this interest rate cap had a fair value of approximately \$1.0 million and \$1.1 million, respectively. On October 10, 2023, the Company, through a subsidiary, entered into a \$63.5 million interest rate cap agreement at a strike rate of 1.50% to hedge the variable cash flows associated with the Company's floating rate debt. The interest rate cap terminates on November 6, 2024. As of December 31, 2023, this interest rate cap had a fair value of approximately \$1.8 million. The fair value of the interest rate caps are presented in "Accounts receivable and other assets" on the Consolidated Balance Sheets.

Financial Instruments Carried at Fair Value

See Notes 2, 4, 5, and 7 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 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, 2023 (in thousands):

	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
Assets					
Cash and cash equivalents	\$ 13,824	\$ 13,824	\$ —	\$ —	\$ 13,824
Restricted cash.....	2,825	2,825	—	—	2,825
Loans, held-for-investment, net.....	328,460	—	—	337,110	337,110
Preferred stock investments, at fair value.....	14,776	—	—	14,776	14,776
Common stock investments, at fair value.....	61,529	—	—	61,529	61,529
Mortgage loans, held-for-investment, net.....	676,420	—	—	663,866	663,866
Accrued interest.....	22,033	22,033	—	—	22,033
Mortgage loans held in variable interest entities, at fair value	5,677,763	—	5,677,763	—	5,677,763
CMBS structured pass-through certificates, at fair value.....	41,212	—	41,212	—	41,212
MSCR notes, at fair value	10,378	—	10,378	—	10,378
Mortgage backed securities, at fair value.....	38,270	—	38,270	—	38,270
Accounts receivable and other assets.....	4,312	1,560	2,752	—	4,312
	<u>\$ 6,891,802</u>	<u>\$ 40,242</u>	<u>\$ 5,770,375</u>	<u>\$ 1,077,281</u>	<u>\$ 6,887,898</u>
Liabilities					
Secured financing agreements, net..	\$ 649,558	\$ —	\$ —	\$ 666,423	\$ 666,423
Master repurchase agreements	303,514	—	—	303,514	303,514
Unsecured notes, net.....	219,483	—	199,859	—	199,859
Mortgages payable, net.....	95,657	—	—	95,470	95,470
Accounts payable and other accrued liabilities	6,428	6,428	—	—	6,428
Accrued interest payable	8,209	8,209	—	—	8,209
Bonds payable held in variable interest entities, at fair value	5,289,997	—	5,289,997	—	5,289,997
	<u>\$ 6,572,846</u>	<u>\$ 14,637</u>	<u>\$ 5,489,856</u>	<u>\$ 1,065,407</u>	<u>\$ 6,569,900</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):

	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
Assets					
Cash and cash equivalents	\$ 20,048	\$ 20,048	\$ —	\$ —	\$ 20,048
Restricted cash.....	299	299	—	—	299
Loans, held-for-investment, net.....	256,147	—	—	255,254	255,254
Common stock investment, 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	1,120	1,077	—	2,197
	<u>\$ 7,908,914</u>	<u>\$ 37,132</u>	<u>\$ 6,810,840</u>	<u>\$ 1,061,051</u>	<u>\$ 7,909,023</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 as of December 31, 2023 (dollars in thousands):

	Carrying Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average (1)
NexPoint Storage Partners.....	\$ 33,129	Discounted cash flow	Terminal cap rate	5.00% - 5.50%	5.25 %
			Discount rate	7.50% - 9.50%	8.50 %
IQHQ Inc.....	\$ 14,776	Discounted cash flow	Discount rate	11.00% - 12.00%	11.50 %
Private REIT.....	\$ 28,400	Market approach	NAV per share multiple	1.00 - 1.20x	1.10x

(1) Averages are weighted based on the fair value of the related instrument

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 as of December 31, 2022 (dollars in thousands):

	Carrying Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average (1)
NexPoint Storage Partners.....	\$ 50,380	Discounted cash flow	Terminal cap rate	5.13% - 5.63%	5.38 %
			Discount rate	7.75% - 9.75%	8.75 %
Private REIT.....	\$ 27,884	Recent transaction	Yield	3.35% - 5.00%	3.81 %

(1) Averages are weighted based on the fair value of the related instrument

The table below reflects a summary of changes for the Company's Level 3 common and preferred stock assets carried at fair value on the Consolidated Balance Sheets for the year ended December 31, 2023:

	Balance as of 12/31/22	Additions	Change in Unrealized Gains/(Losses)	Balance as of 12/31/23
NexPoint Storage Partners.....	\$ 50,380	\$ —	\$ (17,251)	\$ 33,129
Private REIT.....	\$ 27,884	\$ —	\$ 516	\$ 28,400
IQHQ Inc.....	\$ —	\$ 14,510	\$ 266	\$ 14,776

The table below reflects a summary of changes for the Company's Level 3 common and preferred stock assets carried at fair value on the Consolidated Balance Sheets for the year ended December 31, 2022:

	Balance as of 12/31/21	Additions	Change in Unrealized Gains/(Losses)	Balance as of 12/31/22
NexPoint Storage Partners.....	\$ 58,460	\$ —	\$ (8,080)	\$ 50,380
Private REIT.....	\$ —	\$ 27,884	\$ —	\$ 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. As of December 31, 2023 and 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

During the year ended December 31, 2023, the Company issued 151,970 shares of common stock, par value of \$0.1 per share (the "common stock") pursuant to the NexPoint Real Estate Finance 2020 Long Term Incentive Plan (as amended and restated, the "LTIP").

As of December 31, 2023, the Company had 17,518,900 shares of common stock issued and 17,231,913 shares of common stock 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.

On November 2, 2023, the Company announced the launch of a continuous public offering (the “Series B Preferred Offering”) of up to 16,000,000 shares of its 9.00% Series B Cumulative Redeemable Preferred Stock (the “Series B Preferred Stock”) at a price to the public of \$25.00 per share. As of December 31, 2023, the Company has issued 427,218 shares of Series B Preferred Stock for gross proceeds of \$10.5 million before deducting selling commissions and dealer manager fees of approximately \$0.9 million. The Series B Preferred Stock has a \$25.00 per share liquidation preference. The Company expects that the Series B Preferred Offering will terminate on the earlier of the date the Company sells all 16,000,000 shares of the Series B Preferred Stock in the Series B Preferred Offering or March 14, 2025 (which is the third anniversary of the effective date of the Company’s registration statement), which may be extended by the Board in its sole discretion. The Board may elect to terminate the Series B Preferred Offering at any time.

Share Repurchase Program

On March 9, 2020, the Board authorized a share repurchase program (the “Prior 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 during a two-year period that expired on March 9, 2022. On September 28, 2020, the Board authorized the expansion of the Prior 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 net asset value (“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.

On February 22, 2023, the Board authorized a share repurchase program (the “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 Share Repurchase Program as of December 31, 2023.

Long Term Incentive Plan

On January 31, 2020, the 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, which the Company may issue pursuant to the LTIP. The 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.

On January 26, 2024, the Amended & Restated NexPoint Real Estate, Inc. 2020 Long Term Incentive Plan was approved and on January 30, 2024, the Company filed a registration statement on Form S-8 registering an additional 2,308,000 shares of common stock, which the Company may issue pursuant to the amended LTIP. The amended 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 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 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, 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 and on April 4, 2023, the Company granted 418,685 restricted stock units to its officers and other employees of the Manager and 21,370 restricted stock units to its directors. Compensation expense is recognized on a straight-line basis over the total requisite service period for the entire award. Forfeitures are recognized as they occur.

The following table includes the number of restricted stock units granted, vested, forfeited and outstanding as of December 31, 2023:

	2023	
	Number of Units	Weighted Average Grant Date Fair Value
Outstanding December 31, 2022.....	577,360	\$ 17.88
Granted	440,055	15.14
Vested	(201,678) (1)	17.27
Forfeited.....	(44,066)	16.81
Outstanding December 31, 2023.....	<u>771,671</u>	<u>\$ 16.70</u>

(1) Certain key employees of the Manager elected to net the taxes owed upon vesting against the shares issued resulting in 151,970 shares being issued as shown on the consolidated statements of stockholders' equity.

The vesting schedule for restricted stock units as of December 31, 2023, is as follows:

	Shares Vesting			Total
	February	April	May	
2024	120,640	126,042	68,564	315,246
2025	116,998	102,201	—	219,199
2026	54,893	91,166	—	146,059
2027	—	91,167	—	91,167
Total	<u>292,531</u>	<u>410,576</u>	<u>68,564</u>	<u>771,671</u>

As of December 31, 2023, total unrecognized compensation expense on restricted stock unit awards was approximately \$9.8 million, and the expense is expected to be recognized over a weighted average vesting period of 1.3 years.

At-The-Market-Offering

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 (collectively, the “2022 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 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.

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 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, 2023:

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.

OP Unit Redemptions

At the 2021 annual meeting of the Company, the Company's stockholders approved the potential issuance of 13,758,906 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, 2023, the Company had issued 8,748,735 shares of the Company's common stock to redeeming unitholders.

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 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 second amended and restated limited partnership agreement of the OP (as amended, the “OP LPA”). The Company also includes the assumed conversion of the Series B Preferred Stock using the if-converted method. 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):

	For the Year Ended December 31,		
	2023	2022	2021
Net income (loss) attributable to common stockholders.....	\$ 10,399	\$ 3,234	\$ 39,577
Earnings for basic computations			
Net income attributable to redeemable noncontrolling interests.....	4,765	4,969	40,387
Net income for diluted computations.....	\$ 15,164	\$ 8,203	\$ 79,964
Weighted-average common shares outstanding			
Average number of common shares outstanding - basic.....	17,199	14,686	6,601
Average number of common shares from assumed vesting of unvested restricted stock units.....	740	571	444
Average number of common shares from assumed conversion of OP Units.....	5,038	7,218	13,321
Average number of common shares from assumed conversion of Series B Preferred Stock.....	24	—	—
Average number of common shares outstanding - diluted.....	23,001	22,475	20,366
Earnings per weighted average common share:			
Basic.....	\$ 0.60	\$ 0.22	\$ 6.00
Diluted (1).....	\$ 0.60	\$ 0.22	\$ 3.93

(1) Diluted EPS calculations were higher than basic EPS and thus anti-dilutive for the years ended December 31, 2023 and 2022, respectively. 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, 2023 and 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 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, 2023 was \$15.75, 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, 2023, and (3) the Company then elected to purchase all of the OP Units by paying the Cash Amount, the Company would have paid \$79.4 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. As of December 31, 2023, the Company owns 83.82% of the OP Units representing 100% of the Class A 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.

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, 2023, 2022, and 2021 (in thousands):

	For the Year Ended December 31,		
	2023	2022	2021
Redeemable noncontrolling interests in the OP, January 1,	\$ 96,501	\$ 261,423	\$ 275,670
Adjustment to redeemable noncontrolling interest in the OP on deconsolidation of real estate	297	—	—
Net income attributable to redeemable noncontrolling interests in the OP	4,765	4,969	40,387
Redemption of redeemable noncontrolling interests in the OP	—	(155,614)	(32,393)
Distributions to redeemable noncontrolling interests in the OP	(12,092)	(14,277)	(22,241)
Redeemable noncontrolling interests in the OP, December 31,	\$ 89,471	\$ 96,501	\$ 261,423

The tables below present 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	Combined Outstanding
December 31, 2023	17,231,913	5,038,382	22,270,295
Period End	Common Shares Outstanding	OP 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. For the purpose of calculating EAD for the Annual Fee, 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 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, 2023, 2022, and 2021, 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 March 31, 2023, or \$17.72 per OP Unit. The Company additionally contributed an aggregate of approximately \$1.7 million on January 9, 2023, March 6, 2023, March 28, 2023, May 25, 2023, and August 16, 2023. Buffalo Pointe owns a stabilized multifamily property located in Houston, Texas with 93.8% occupancy as of December 31, 2023. 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 76.1% 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 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, 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, and on April 4, 2023, the Company granted 418,685 restricted stock units to its officers and other employees of the Manager and 21,370 restricted stock units to its directors.

OP Unit Redemptions

At the 2021 annual meeting of the Company, the Company's stockholders approved the potential issuance of 13,758,906 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, 2023, the Company had issued 8,748,735 shares of the Company's common stock to 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 LTIP, together with reimbursement of operating expenses of 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 years ended December 31, 2023, 2022 and 2021, operating expenses did not exceed the Expense Cap.

For the years ended December 31, 2023, 2022, and 2021 and the Company incurred management fees of \$3.3 million, \$3.2 million, and \$2.3 million, respectively.

Bridge Loan

On March 31, 2022, the Company, through one of the Subsidiary OPs, originated a bridge loan for \$13.5 million to a subsidiary of an entity advised by an affiliate of the Manager. 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.

NSP Guaranty

On December 8, 2022 and in connection with a restructuring of NSP, the Company, through 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 accrued dividends on 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, and 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. On February 15, 2023, NSP paid down approximately \$15.0 million of these promissory notes, resulting in an aggregate principal amount of approximately \$49.2 million. On December 8, 2023, NSP paid down the remaining principal balance of \$49.2 million. The NSP Series D preferred stock remains outstanding as of December 31, 2023.

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.

Elysian at Hughes Center

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 (the “Asset Manager”). Effective January 1, 2023, the Company restructured this investment such that it does not meet the requirements for consolidation under ASC 810 – Consolidation and has been deconsolidated herein as of January 1, 2023 and presented as a preferred equity investment. As of December 31, 2022, the Company owned a preferred equity investment and indirect common equity interests in Elysian at Hughes Center, which resulted in the consolidation at year end. However, the common equity interests have been transferred to the Asset Manager in exchange for \$54,000 and a guarantee of 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. The Company’s preferred investments were initially made from December 28, 2021 through July 26, 2022 and totaled \$65.3 million. Following the transfer of the common equity interests, the Company no longer is the primary beneficiary of the Trust and as such does not consolidate it. The Company recognized a gain on deconsolidation of \$1.5 million related to the residual effect of removing the consolidated assets and liabilities from the Consolidated Balance Sheets. The fair value of the preferred equity investment still approximates its par value so no portion of the gain on deconsolidation is related to a remeasurement of the fair value of the preferred equity investment. Management determined the fair value of the preferred equity investment using a market approach and performing a benchmarking analysis to comparable transactions. As of December 31, 2023, \$54.0 million of the Company’s preferred investment in Elysian at Hughes Center had been redeemed, resulting in a remaining principal balance of \$11.4 million.

Series B Preferred Stock Offering

On November 2, 2023, the Company announced the launch of the Series B Preferred Offering. NexPoint Securities, Inc., an affiliate of the Manager, serves as the Company’s dealer manager (the “Dealer Manager”) in connection with the Series B Preferred Offering. The Dealer Manager uses its reasonable best efforts to sell the shares of Series B Preferred Stock offered in the Series B Preferred Offering, and the Company pays the Dealer Manager, subject to the discounts and other special circumstances described or referenced therein, (i) selling commissions of 7.0% of the aggregate gross proceeds from sales of Series B Preferred Stock in the Series B Preferred Offering (“Selling Commissions”) and (ii) a dealer manager fee of 3.0% of the gross proceeds from sales of Series B Preferred Stock in the Series B Preferred Offering (the “Dealer Manager Fee”). The Dealer Manager, subject to federal and state securities laws, will reallow all or any portion of the Selling Commissions and may reallow a portion of the Dealer Manager Fee to other securities dealers that the Dealer Manager may retain who sold the shares of Series B Preferred Stock as is described more fully in the agreements between such dealers and the Dealer Manager. The Company expects that the offering will terminate on the earlier of the date the Company sells all 16,000,000 shares of the Series B Preferred Stock in the offering or March 14, 2025 (which is the third anniversary of the effective date of the Company’s registration statement), which may be extended by the Company’s Board in its sole discretion. The Board may elect to terminate this offering at any time. As of December 31, 2023, the Company has issued 427,218 shares of Series B Preferred Stock for gross proceeds of \$10.5 million and paid the Dealer Manager \$0.6 million Selling Commissions and \$0.3 million Dealer Manager Fees.

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. On September 22, 2023, the issuer exercised its right to extend the final obligation date to purchase any additional Preferred Units to September 29, 2024. As of December 31, 2023, the Company may have the obligation to fund an additional \$3.6 million by September 29, 2024, which the issuer may extend for up to one year 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. Upon the redemption of any Preferred Units and if the parties agree, the remaining amount to be funded by the Company may be increased by the aggregate purchase price of the redeemed Preferred Units. 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 (“MOIC”).

equal to 1.25x for unstabilized PropCos and 1.10x for stabilized PropCos. As of December 31, 2023, the Company has not recorded any contingencies on its Consolidated Balance Sheets as the obligation to fund additional Preferred Units other than under the existing commitment is considered remote.

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 single-family property located in Phoenix, Arizona, of which \$16.9 million was unfunded as of December 31, 2023. 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. The Company was also issued a common interest at the time of its first funding of preferred equity on May 16, 2023. The common interest allows the Company to receive a 10% profit share once aggregate distributions exceed the 20% IRR hurdle as shown below. There was no value ascribed to the common interest as of December 31, 2023. Further, once the Company's preferred equity and accrued interest has been repaid, any additional cash flow and net sale proceeds shall be distributed as follows:

- 0% to the Company and 100% to issuer up to a 20.0% internal rate of return ("IRR")
- 10% to the Company and 90% to issuer thereafter

On February 10, 2023, the Company, through one of the Subsidiary OPs, through a unit purchase agreement, committed to purchase \$30.3 million of the preferred units with respect to a multifamily property development located in Forney, Texas, of which \$3.4 million was unfunded as of December 31, 2023. Further, the Company committed to purchase \$4.3 million of common equity with respect to the same property, of which \$3.3 million was unfunded as of December 31, 2023.

On February 10, 2023, the Company, through one of the Subsidiary OPs, through a unit purchase agreement, committed to purchase \$30.3 million of the preferred units with respect to a multifamily property development located in Richmond, Virginia, of which \$11.1 million was unfunded as of December 31, 2023. Further, the Company committed to purchase \$4.3 million of common equity with respect to the same property, of which \$3.3 million was unfunded as of December 31, 2023.

The table below shows the Company's unfunded commitments by investment type as of December 31, 2023 and December 31, 2022 (in thousands):

Investment Type	December 31, 2023		December 31, 2022	
		Unfunded Commitments		Unfunded Commitments
Preferred Equity.....	\$	34,966	\$	33,704
Common Equity.....		6,600		—
	\$	41,566	\$	33,704

16. Subsequent Events

Dividends Declared

The Board declared a dividend to Series B Preferred stockholders of \$0.1875 on January 2, 2024, paid on February 5, 2024, to Series B Preferred stockholders of record as of January 25, 2025.

The Board declared a dividend to Series B Preferred stockholders of \$0.1875 on January 18, 2024, paid on March 5, 2024, to Series B Preferred stockholders of record as of February 23, 2024.

The Board declared a dividend to Series B Preferred stockholders of \$0.1875 on February 21, to be paid on April 5, 2024, to Series B Preferred stockholders of record as of March 25, 2024.

The Board declared the first regular quarterly dividend of 2024 to common stockholders of \$0.50 per share on February 26, 2024, to be paid on March 28, 2024, to common stockholders of record on March 15, 2024.

The Board declared a dividend to Series A Preferred stockholders of \$0.53125 per share on February 26, 2024, to be paid on April 25, 2024, to Series A Preferred stockholders of record on April 15, 2024.

Series B Preferred

As of February 28, 2024, since December 31, 2023, the Company has issued an additional 771,477 shares of Series B Preferred Stock for gross proceeds of \$18.1 million.

Second Amendment and Restatement of Bylaws

On January 3, 2024, the Board approved and adopted a second amendment and restatement of the Company's Bylaws.

SFR Loan

On January 25, 2024, one of the Company's SFR loans was prepaid in its entirety for a total principal of \$508.7 million, of which \$465.7 million of financing was repaid. As a result, the Company recognized prepayment income of \$8.9 million and wrote off the premium on the loan of \$25.4 million. The Company received net cash of \$52.8 million on the paydown.

Long Term Incentive Plan

On January 26, 2024, the Amended & Restated NexPoint Real Estate Finance, Inc. 2020 Long Term Incentive Plan was approved by stockholders and on January 30, 2024, the Company filed a registration statement on Form S-8 registering an additional 2,308,000 shares of common stock, which the Company may issue pursuant to the amended LTIP.

Loan Commitments

On January 26, 2024, the Company, along with related party The Ohio State Life Insurance Company ("OSL"), entered into a Mezzanine Loan and Security Agreement whereby it made a loan in the maximum principal amount of up to \$218.0 million to IQHQ-Alewife Holdings, LLC, which is solely owned by IQHQ, LP. The Company has an ownership interest in the Series D-1 preferred stock in IQHQ, Inc., who is the limited partner in IQHQ, LP; however, the Company has no controlling financial interest nor significant influence in IQHQ, LP. The loan is secured by a first mortgage with a first lien position and other security interests. The Company made the initial advances of \$20.0 million, and subsequent advances of the mezzanine loan may be made by the Company or OSL. The Company's portion of the total commitment is \$208.0 million.

On February 9, 2024, the Company additionally contributed approximately \$8.1 million aggregate principal amount under the Mezzanine Loan and Security Agreement.

On March 7, 2024, the Company additionally contributed approximately \$15.2 million aggregate principal amount under the Mezzanine Loan and Security Agreement.

Mortgage Backed Security Dispositions

On February 1, 2024, the Company, through one of the Subsidiary OPs, sold approximately \$10.1 million aggregate principal amount of the Class G2 tranche of the AMSR 2020-SFR4 G2 at a price equal to 96.4% of par value.

CMBS Acquisitions

On February 22, 2024, the Company, through one of the Subsidiary OPs, purchased approximately \$30.9 million aggregate principal amount of the Class C tranche of the FREMF 2024-K515 CMBS at a price equal to 85.6% of par value, representing 100% of the Class C tranche. The investment pays a fixed coupon of 5.9% with an all-in unlevered yield of 9.75%. On February 23, 2024, the Company through one of the Subsidiary OPs, entered into a repurchase agreement and borrowed approximately \$17.2 million. The loan bears interest at a rate of 2.0% over SOFR.

On February 29, 2024, the Company, through one of the Subsidiary OPs, purchased approximately \$49.2 million aggregate principal amount of the Class A, E1, and E2 tranches of the VINEB 2024 SFR1 CMBS at a blended price equal to 90.2% of par value. The investment has a blended unlevered yield of 6.9%. On March 1, 2024, the Company through one of the Subsidiary OPs, entered into a repurchase agreement and borrowed approximately \$35.8 million. The loans bear interest at a rate of 1.0%, 1.6%, and 1.6% over SOFR, respectively.

Connections at Buffalo Pointe Contribution

On March 1, 2024, the Company additionally contributed approximately \$0.7 million aggregate principal amount under the Buffalo Pointe Contribution Agreement.

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