Risk Factors Comparison 2024-03-01 to 2023-03-02 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

• Events giving rise to increases in our current expected credit loss reserve, including the impact of the current economic environment, have had an adverse effect on our business and results of operations and could in the future have a material adverse effect on our business, financial condition and results of operations. • Our lending and investment activities subject us to the general political, economic, capital markets, **societal,** competitive and other conditions ~~, including with respect to the long-term macroeconomic effects of the COVID- 19 pandemic and other events~~ that markedly impact financial markets **, such as reduced demand for office properties as a result of remote working arrangements that allow work from remote locations other than an employer' s office premises** . • Adverse legislative or regulatory developments, including with respect to tax laws, securities laws and the laws governing financial and lending institutions, could increase our cost of doing business and / or reduce our operating flexibility and the price of our common stock. • Acts of God, such as hurricanes, earthquakes and other natural disasters, including climate change- related risks, acts of war and / or terrorism, pandemics or outbreaks of infectious disease, and other events that can markedly impact financial markets, may cause unanticipated and uninsured performance declines and / or losses to us or the owners and operators of the real estate securing our investments. • The economic impact of escalating global trade tensions, including those related to the conflict between Russia and Ukraine, and the ensuing adoption or expansion of economic sanctions or trade restrictions, could adversely affect the real estate securing our investments. • Deterioration in the performance of properties securing our investments may cause deterioration in the performance of our investments, instances of default or foreclosure on such properties and, potentially, principal losses to us. • Adverse developments in the availability of desirable investment opportunities whether they are due to competition, regulation or otherwise, could adversely affect our results of operations. • Difficulty or delays in redeploying the proceeds from repayments of our existing loans and investments may cause our financial performance and returns to stockholders to suffer. • Increased competition from entities engaged in mortgage lending and / or investing in our target assets may limit our ability to originate or acquire desirable loans and investments, and could also affect the yields on these assets and have a material adverse effect on our business, financial condition and results of operations. • If we do not maintain our qualification as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability. RISK FACTORS Risks Related to Our Lending and Investment Activities Our loans and investments expose us to risks associated with debt- oriented real estate investments generally. We seek to invest primarily in debt investments in or relating to commercial real estate assets. ~~Any deterioration~~ **Deterioration** of real estate fundamentals generally, and in the United States in particular, **has** ~~could negatively impact our performance, increase~~ **increased** the default risk applicable to borrowers, ~~and / or make~~ **made** it relatively more difficult for us to generate attractive risk- adjusted returns **and continues to negatively impact our performance** . Changes in general economic conditions ~~will~~ **have** ~~affect~~ **affected** the creditworthiness of borrowers and ~~/ or~~ the value of underlying real estate collateral relating to our investments **. Such changes have included,** and may **in the future** include **,** economic and / or market fluctuations **, reduced demand for office properties as a result of increases in remote working arrangements** , changes in environmental, zoning and other laws, casualty or condemnation losses, regulatory limitations on rents, evictions and / or foreclosures, decreases in property values, changes in the appeal of properties to tenants, changes in supply and demand of real estate products, fluctuations in real estate fundamentals, the financial resources of borrower entities, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, terrorism, acts of war, outbreaks of pandemic or contagious diseases, changes in government regulations, political and legislative uncertainty, changes in monetary policy, 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, changes in consumer spending, negative developments in the economy that depress travel activity **, escalating global trade tensions, the conflict between Russia and Ukraine, deteriorating conditions in the Middle East** , adverse changes in demand and / or real estate values generally and other factors that are beyond our control. In addition, our investments may be exposed to new or increased risks and liabilities associated with global climate change, such as increased frequency or intensity of adverse weather and natural disasters, which could negatively impact our and our borrowers' businesses and the value of the properties securing our investments. We cannot predict the degree to which economic conditions generally, and the conditions for real estate debt investing in particular, will improve or decline. Any **future** 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. We operate in a competitive market for investment opportunities and competition may limit our ability to originate or acquire our target investments and could also affect the pricing of these investments. A number of entities compete with us to make the types of loans and investments we seek to originate or acquire. Our profitability depends, in large part, on our ability to originate or acquire target investments on attractive terms. We compete with a variety of institutional lenders and investors, including other REITs, specialty finance companies, public and private funds, commercial and investment banks, commercial finance and insurance companies and other financial institutions. Some of our competitors have raised, and may in the future 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 rule compliance or maintenance of an exclusion from registration 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 loans and investments, offer more attractive pricing or other terms and establish more relationships than we. Furthermore, competition for originations of and investments in our target investments may lead to the yields of such assets decreasing, which may further limit our ability to generate satisfactory returns. As a result of this competition, desirable loans and investments in our target investments may be limited in the future and we may not be able to take advantage of attractive lending and investment opportunities from time to time. 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. 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. There can be no assurance that any current relationships with such parties will continue (whether on currently applicable terms or otherwise) or that we will be able to establish relationships with other such persons in the future if desired and on terms favorable to us. 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 and may limit our ability to pay distributions to our stockholders. Our primary interest rate exposures relate to the yield on our loans and other investments and the financing cost of our debt. Changes in interest rates and credit spreads may affect our net interest income from loans and other investments, which is the difference between the interest and related income we earn on our interest- earning investments and the interest and related expense we incur in financing these investments. Interest rate and credit spread fluctuations resulting in our interest and related expense exceeding interest and related income would result in operating losses for us. Changes in the level of interest rates and credit spreads also may affect our ability to make loans or investments, the value of our loans and investments and our ability to realize gains from the disposition of assets. Increases in interest rates and credit spreads may also negatively affect demand for loans and could result in higher borrower default rates. Our operating results depend, in part, on differences between the income earned on our investments, net of credit losses, and our financing costs. The yields we earn on our floating- rate assets and our borrowing costs tend to move in the same direction in response to changes in short- term 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 tenor 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, and any such change may limit our ability to pay distributions to our stockholders. 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. A prolonged economic slowdown, a lengthy or severe recession or declining real estate values could impair our investments and harm our operations. We believe the risks associated with our business will be more severe during periods of economic slowdown or recession if these periods are accompanied by declining real estate values. Declining real estate values will likely reduce the level of new mortgage and other real estate- related loan originations since borrowers often use appreciation in the value of their existing properties to support the purchase of or investment in additional properties. Borrowers may also be less able to pay principal and interest on our loan investments if the value of real estate weakens. Further, declining real estate values significantly increase the likelihood that we will incur losses on our loan investments in the event of default because the value of the collateral underlying a loan investment may be insufficient to cover our cost on the loan investment. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect our ability to invest in and finance our loan investments, which would materially and adversely affect our results of operations, financial condition, liquidity and business and our ability to pay dividends to stockholders. Market disruptions in a single country could cause a worsening of conditions on a regional and even global level, and economic problems in a single country are increasingly affecting other markets and economies. A continuation of this trend could result in problems in one country adversely affecting regional and even global economic conditions and markets. For example, Russia' s invasion of Ukraine has disrupted energy prices and the movement of goods in Europe resulting in rising energy costs and inflation more generally. The occurrence of similar crises in the future could cause increased volatility in the economies and financial markets of countries throughout a region, or even globally. Additionally, global trade disruption, significant introductions of trade barriers and bilateral trade frictions, including due to war or other hostilities, together with any future downturns in the global economy resulting therefrom, could adversely affect our performance. ~~The long- term macroeconomic effects of the COVID- 19 pandemic and any future pandemic or epidemic could have an adverse impact on our financial performance and results of operations. Outbreaks of contagious disease, including COVID- 19, or other adverse public health developments could have a material adverse effect on our business, financial condition and results of operations. While many of the direct impacts of the COVID- 19 pandemic have eased, the longer- term macroeconomic effects on global supply chains, inflation, labor shortages and wage increases continue to impact many industries, including the collateral underlying certain of our loan investments. Moreover, with the potential for new strains of existing viruses to emerge, or other pandemics or epidemics, governments and businesses may re- impose aggressive measures to help slow its spread in the future. Long- term macroeconomic effects from a pandemic or epidemic, including from supply and labor shortages, workforce reductions in response to challenging economic conditions, or shifts in demand for real estate may have an adverse impact on our portfolio which includes loans collateralized by office, hotel, and other asset classes that are particularly negatively impacted by such supply and labor issues. The impact of such long- term effects may disproportionally affect certain asset classes and geographic areas. For example, many businesses increasingly permit employees to work from home and make use of flexible work schedules, open workplaces, videoconferences and teleconferences, which could have a~~

~~longer- term impact on the demand for both office space and hotel rooms for business travel, which could adversely affect our investments in assets secured by office or hotel properties. While we believe the principal amount of our loans is generally adequately protected by underlying property value, there can be no assurance that we will realize the entire principal amount of certain investments. For more information on the concentration of credit risk in our loan portfolio property type and geographic region, Note 3 – Loans Held- for- Investment, Net of Allowance for Credit Losses to our consolidated financial statements included in this Annual Report on Form 10- K. The full extent of the impact and effects of COVID- 19, and any future pandemics or epidemics, will depend on future developments, including, among other factors, how rapidly variants develop, availability, acceptance and effectiveness of vaccines along with related travel advisories, quarantines and restrictions, recovery time of disrupted supply chains and industries, the impact of labor market interruptions, the impact of government interventions and uncertainty with respect to the duration of the economic disruption. COVID- 19, or any future pandemics or epidemics, and resulting impacts on the financial, economic and capital markets environment, and future developments in these and other areas present uncertainty and risk with respect to our performance, results of operations and ability to pay distributions.~~ Most commercial real estate loans are nonrecourse loans and the assets securing these loans may not be sufficient to protect us from a partial or complete loss if a borrower defaults on a loan, which could materially and adversely affect us. Except for customary nonrecourse carve- outs for certain " bad acts " and environmental liability, most commercial real estate loans are nonrecourse obligations of the borrower, meaning that there is no recourse against the assets of the borrower other than the underlying collateral. In the event of any default under a commercial real estate loan, we bear the risk of loss to the extent of any deficiency between the value of the collateral and the principal of and accrued interest on the loan, which could have a material adverse effect on our results of operations and financial condition. Even if a commercial real estate loan is recourse to the borrower (or if a nonrecourse carve- out to the borrower applies), in many cases, the borrower' s assets are limited primarily to its interest in the related mortgaged property. Further, although a commercial real estate loan may provide for limited recourse to a principal or affiliate of a borrower, there is no assurance that any recovery from such principal or affiliate will be made or that such principal' s or affiliate' s assets would be sufficient to pay any otherwise recoverable claim. In the event of the bankruptcy of a borrower, the loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court) and the lien securing the loan will be subject to the avoidance powers of the bankruptcy trustee or debtor- in- possession to the extent the lien is unenforceable under state law. Our portfolio of investments may be concentrated by geography, property type or sponsor, which could subject us to increased risk of loss. The investment guidelines adopted by our board of directors do not require us to observe specific diversification criteria. ~~Our~~ **The properties securing our** investments may at times be concentrated in certain property types or geographies that may be subject to higher risk of ~~default~~ **loss.** ~~or~~ **For** ~~foreclosure~~ **example** , ~~or~~ **our concentration of investments** secured by **office** properties ~~concentrated in~~ **are subject to** a ~~limited number~~ **higher risk** of ~~geographic~~ **loss as a result of increased hybrid work schedules, which allow employees to work from remote** locations **other than their employer' s office premises** . 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 **, social** , climate- related or other condition, such as the increased frequency or intensity of adverse weather and natural disasters associated with global climate change, 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. Real estate valuation is inherently subjective and uncertain **, and is subject to change, especially during periods of volatility** . The valuation of real estate, and therefore the valuation of any collateral underlying our loans, 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. **Appraisals we obtain from third- party appraisers may be overstated or market values may decline, which could result in inadequate collateral for loans we make.** In addition, where we invest in loans that involve renovations, restorations or construction, initial valuations will assume completion of the **business plan or** project. As a result, the valuations of the real estate assets against which we will make or acquire loans 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, macroeconomic and local economic uncertainty, disrupted supply chains effecting the timing of delivery and cost of materials, inflationary pressures, low transaction flow or restricted debt availability **. Regardless of whether an appraisal is accurate at the time it is completed, all valuations are subject to change, especially during periods of market volatility or reduced demand for real estate, which may make it difficult to ensure loans are collateralized as expected across the life of the loan. See " — Risks Related to Our Lending and Investment Activities — Loans on properties in transition may involve a greater risk of loss than conventional mortgage loans. " The valuation of assets or loans we hold may not reflect the price at which the asset or loan is ultimately sold in the market, and the difference between that valuation and the ultimate sales price could be material. Valuation methodologies are subject to change from time to time** . The lack of liquidity of our investments may adversely affect our business, including our ability to value, finance and sell our investments. The illiquidity of some or all of our investments, and investments we intend to make, may make it difficult for us to sell such investment if the need or desire arises. Investments such as senior commercial mortgages, B- notes, mezzanine and other loans (including participations) and preferred equity, in particular, are relatively illiquid due to their short life, limited potential for financing and greater difficulty of recovery in the event of a borrower' s default. We are also required to hold certain risk retention interests in certain of our securitization transactions. In addition, certain of our investments may become less liquid as a result of periods of delinquencies, defaults or turbulent market conditions, including due to current market conditions and exacerbated market volatility, which may make it more difficult for us to dispose of such assets at advantageous times or in a timely manner. Consequently, even if we identify a buyer for certain of our investments, there is no assurance that we would be able to sell such investments in a timely manner if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may be forced to sell our investments at a price that is significantly less than the value at which we previously attributed to such investments. Further, we may face other restrictions on our ability to liquidate an investment to the extent that we have 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 or other conditions may be ~~relatively~~ limited, which could adversely affect our results of operations and financial condition. The due diligence process that we undertake with regard to investment opportunities may not reveal all facts that may affect an investment and if we incorrectly evaluate the risks of our investments, we may experience losses. Before making investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances relevant to each potential investment. When conducting due diligence, we may be required to evaluate important and complex issues, including, but not limited to, those related to business, financial, tax, accounting, environmental and legal and regulatory and macroeconomic trends, as well as environmental, social and governance, or ESG, matters. 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. **The due diligence investigation with respect to any investment opportunity may not reveal or highlight all relevant facts (including fraud) or risks that may be necessary or helpful in evaluating such investment opportunity, and we may not identify or foresee future developments that could have a material adverse effect on an investment. In addition,** ~~Selecting~~ **selecting** and evaluating material due diligence matters, including ESG factors, is subjective by nature, and there is no guarantee that the criteria utilized or judgment exercised by us or a third- party specialist (if any) will reflect the beliefs, values, internal policies or preferred practices of any particular investor or align with the beliefs or values or preferred practices of other commercial real estate debt investors or with market trends. The materiality of sustainability risks and impacts on an individual potential investment or portfolio as a whole depends on many factors, including the relevant industry, location, asset class and investment strategy. Relying on the resources available to us, we evaluate our potential investments based on criteria we deem appropriate for the relevant investment. Our loss estimates may not prove accurate, as actual results may vary from estimates. If we underestimate the asset- level losses, we may ~~experience~~ **be required to recognize an impairment and / or realize** losses with respect to such investment. Moreover, our investment analyses and decisions may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to us at the time of making an investment decision may be limited, and we may not have access to detailed information regarding such investment. Further, some matters covered by our diligence, such as ESG, are continuously evolving from an assessment, regulatory and compliance standpoint, and we may not accurately or fully anticipate such evolution ~~. There has also been recent regulatory focus on the marketing of socially conscious investment strategies and the methodology used to evaluate ESG, which has resulted in fines and penalties related to insufficient assessment processes around certain investments marketed as focusing on ESG. Therefore, we cannot assure you that we will have knowledge of all circumstances that may adversely affect such investment~~. The timing of loan investment repayments is difficult to predict and may adversely affect our financial performance and the value of certain of our investments. Generally, our borrowers may repay their loans prior to their stated maturities. In periods of declining interest rates and / or credit spreads, or as the business plans for the underlying collateralizing properties reach completion, prepayment rates on loans generally increase. If general interest rates or credit spreads decline at the same time, the proceeds of such prepayments received during such periods may not be reinvested for some period of time or may be reinvested by us in assets with lower yields than the assets that were prepaid. In periods of increasing rates and / or credit spreads, prepayment rates on our loan investments will generally decrease, which could impact our liquidity or increase our exposure to loan non- performance. Prepayment rates on loans may be affected by a number of factors, including, but not limited to, the then- current level of interest rates and credit spreads, the availability of mortgage credit and investment capital, the status of the business plan for the underlying collateralizing property, the relative economic vitality of the area in which the related properties are located, the servicing of the loans, possible changes in tax laws, other opportunities for investment and other economic, social, geographic, demographic and legal 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. If prepayment rates exceed our expectations, we may have greater difficulty in redeploying the proceeds into new investment opportunities, which may significantly increase our cash balance and exacerbate the risks related to our cash management strategy. For further discussion of the risks related to capital deployment, see " **—** ~~Risk Factors-~~ Risks Related to Our Lending and Investment Activities ~~-~~ **—** Difficulty or delays in redeploying the proceeds from repayments of our existing loans and investments may cause our financial performance and returns to stockholders to suffer. " Our existing loan investments often contain call protection provisions that require a certain minimum amount of interest due to us regardless of when the loan is repaid. These include prepayment fees expressed as a percentage of the unpaid principal balance, or the amount of foregone net interest income due us from the date of repayment through a date that is frequently twelve or eighteen months after the origination date. Loan investments that are outstanding beyond the end of the call protection or yield maintenance period can be repaid with no prepayment fees or penalties. The absence of call protection provisions may expose us to the risk of early repayment of loans, and the inability to redeploy capital accretively. Difficulty or delays in redeploying the proceeds from repayments of our existing loans and investments may cause our financial performance and returns to stockholders to suffer. As our loans and investments are repaid, we **may** ~~will have to~~ redeploy the proceeds we receive into new loans and investments **(which can include future fundings associated with our existing loan investments)** , repay borrowings under our credit facilities, pay dividends to our stockholders or repurchase outstanding shares of our common stock. It is possible that we will fail to identify reinvestment options that would provide returns or a risk profile that is comparable to the asset that was repaid. If we fail to redeploy, or experience any delays in redeploying, the proceeds we receive from repayment of a loan in equivalent or better alternatives, our financial performance and returns to stockholders could suffer. **In light of our investment strategy and the need to be able to invest capital quickly to capitalize on potential investment opportunities, we may from time to time**

maintain cash pending deployment into investments, which may at times be significant. Such cash may be held in an account of ours for the benefit of stockholders or may be invested in money market accounts or other similar temporary investments. While the duration of such holding period is expected to be relatively short, in the event we are unable to find suitable investments, such cash positions may be maintained for longer periods. It is not anticipated that the temporary investment of such cash into money market accounts or other similar temporary investments pending deployment into investments will generate significant interest, and such low interest payments on the temporarily invested cash may adversely affect our financial performance and returns to investors. We may be subject to lender liability claims, and if we are held liable under such claims, we could be subject to losses. **A** ~~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 you that such claims will not arise or that we will not be subject to significant liability if a claim of this type did arise. Liability relating to environmental matters may impact the value of our investments and the properties underlying our investments. 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 an owner of a property underlying one of our debt 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 asset held by us and our ability to make distributions to our stockholders. To the extent we acquire any property underlying our investments, the presence of hazardous substances on such property may adversely affect our ability to sell the property 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. The properties underlying our investments may be subject to other unknown liabilities that could adversely affect the value of these properties and, as a result, our investments.