

Edgar Filing: Ares Commercial Real Estate Corp - Form 10-Q

Ares Commercial Real Estate Corp  
Form 10-Q  
May 01, 2019

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

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FORM 10-Q

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

For the quarterly period ended March 31, 2019

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 No. 001-35517

ARES COMMERCIAL REAL ESTATE CORPORATION

(Exact name of Registrant as specified in its charter)

Maryland 45-3148087

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

245 Park Avenue, 42nd Floor, New York, NY 10167

(Address of principal executive offices) (Zip Code)

(212) 750-7300

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

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Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

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

Class	Outstanding at April 26, 2019
Common stock, \$0.01 par value	28,868,735

ARES COMMERCIAL REAL ESTATE CORPORATION

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## PART I — FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

## ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	As of	
	March 31, 2019	December 31, 2018
	(unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents	\$12,814	\$11,089
Restricted cash	379	379
Loans held for investment (\$557,000 and \$289,576 related to consolidated VIEs, respectively)	1,548,158	1,524,873
Real estate owned, net	36,814	—
Other assets (\$1,708 and \$843 of interest receivable related to consolidated VIEs, respectively; \$51,582 of other receivables related to consolidated VIEs as of December 31, 2018)	20,275	66,983
Total assets	\$1,618,440	\$1,603,324
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Secured funding agreements	\$621,549	\$777,974
Secured term loan	108,537	108,345
Collateralized loan obligation securitization debt (consolidated VIE)	442,202	270,737
Due to affiliate	2,259	3,163
Dividends payable	9,520	8,914
Other liabilities (\$882 and \$541 of interest payable related to consolidated VIEs, respectively)	9,271	8,604
Total liabilities	1,193,338	1,177,737
Commitments and contingencies (Note 6)		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$0.01 per share, 450,000,000 shares authorized at March 31, 2019 and December 31, 2018 and 28,849,070 and 28,755,665 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	283	283
Additional paid-in capital	422,231	421,739
Accumulated earnings	2,588	3,565
Total stockholders' equity	425,102	425,587
Total liabilities and stockholders' equity	\$1,618,440	\$1,603,324

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	For the three months ended March 31,	
	2019	2018
	(unaudited)	(unaudited)
Revenue:		
Interest income from loans held for investment	\$27,986	\$ 27,436
Interest expense	(15,740 )	(14,299 )
Net interest margin	12,246	13,137
Operating revenue from real estate owned	1,911	—
Total revenue	14,157	13,137
Expenses:		
Management and incentive fees to affiliate	1,574	1,558
Professional fees	478	482
General and administrative expenses	1,120	774
General and administrative expenses reimbursed to affiliate	659	924
Operating expenses from real estate owned	1,633	—
Depreciation of real estate owned	54	—
Total expenses	5,518	3,738
Income before income taxes	8,639	9,399
Income tax expense, including excise tax	96	81
Net income attributable to common stockholders	\$8,543	\$ 9,318
Earnings per common share:		
Basic and diluted earnings per common share	\$0.30	\$ 0.33
Weighted average number of common shares outstanding:		
Basic weighted average shares of common stock outstanding	28,561,827	28,495,833
Diluted weighted average shares of common stock outstanding	28,780,980	28,598,916
Dividends declared per share of common stock	\$0.33	\$ 0.28

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share and per share data)

(unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Earnings (Deficit)	Total Stockholders' Equity
	Shares	Amount			
Balance at December 31, 2017	28,598,916	\$ 283	\$ 420,637	\$ (1,750)	) \$ 419,170
Stock-based compensation	—	—	234	—	234
Net income	—	—	—	9,318	9,318
Dividends declared	—	—	—	(8,008)	) (8,008)
Balance at March 31, 2018	28,598,916	\$ 283	\$ 420,871	\$ (440)	) \$ 420,714
Stock-based compensation	99,684	—	215	—	215
Net income	—	—	—	9,303	9,303
Dividends declared	—	—	—	(8,036)	) (8,036)
Balance at June 30, 2018	28,698,600	\$ 283	\$ 421,086	\$ 827	) \$ 422,196
Stock-based compensation	—	—	329	—	329
Net income	—	—	—	9,956	9,956
Dividends declared	—	—	—	(8,323)	) (8,323)
Balance at September 30, 2018	28,698,600	\$ 283	\$ 421,415	\$ 2,460	) \$ 424,158
Stock-based compensation	57,065	—	324	—	324
Net income	—	—	—	10,019	10,019
Dividends declared	—	—	—	(8,914)	) (8,914)
Balance at December 31, 2018	28,755,665	\$ 283	\$ 421,739	\$ 3,565	) \$ 425,587
Stock-based compensation	93,405	—	492	—	492
Net income	—	—	—	8,543	8,543
Dividends declared	—	—	—	(9,520)	) (9,520)
Balance at March 31, 2019	28,849,070	\$ 283	\$ 422,231	\$ 2,588	) \$ 425,102

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	For the three months ended March 31,	
	2019	2018
	(unaudited)	(unaudited)
Operating activities:		
Net income	\$8,543	\$ 9,318
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of deferred financing costs	1,665	1,487
Accretion of deferred loan origination fees and costs	(1,266 )	(1,854 )
Stock-based compensation	492	234
Depreciation of real estate owned	54	—
Changes in operating assets and liabilities:		
Other assets	(1,694 )	194
Due to affiliate	(904 )	(97 )
Other liabilities	(101 )	413
Net cash provided by (used in) operating activities	6,789	9,695
Investing activities:		
Issuance of and fundings on loans held for investment	(120,305)	(77,260 )
Principal repayment of loans held for investment	109,894	79,933
Receipt of origination fees	1,426	1,040
Net cash provided by (used in) investing activities	(8,985 )	3,713
Financing activities:		
Proceeds from secured funding agreements	107,019	54,672
Repayments of secured funding agreements	(263,444)	(83,178 )
Payment of secured funding costs	(3,413 )	(322 )
Proceeds from issuance of debt of consolidated VIEs	172,673	—
Dividends paid	(8,914 )	(7,722 )
Net cash provided by (used in) financing activities	3,921	(36,550 )
Change in cash, cash equivalents and restricted cash	1,725	(23,142 )
Cash, cash equivalents and restricted cash, beginning of period	11,468	28,722
Cash, cash equivalents and restricted cash, end of period	\$13,193	\$ 5,580

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2019

(in thousands, except share and per share data, percentages and as otherwise indicated)  
(unaudited)

1. ORGANIZATION

Ares Commercial Real Estate Corporation (together with its consolidated subsidiaries, the “Company” or “ACRE”) is a specialty finance company primarily engaged in originating and investing in commercial real estate loans and related investments. Through Ares Commercial Real Estate Management LLC (“ACREM” or the Company’s “Manager”), a Securities and Exchange Commission (“SEC”) registered investment adviser and a subsidiary of Ares Management Corporation (NYSE: ARES) (“Ares Management” or “Ares”), a publicly traded, leading global alternative asset manager, it has investment professionals strategically located across the United States and Europe who directly source new loan opportunities for the Company with owners, operators and sponsors of commercial real estate (“CRE”) properties. The Company was formed and commenced operations in late 2011. The Company is a Maryland corporation and completed its initial public offering (the “IPO”) in May 2012. The Company is externally managed by its Manager, pursuant to the terms of a management agreement (the “Management Agreement”).

The Company is primarily focused on directly originating and managing a diversified portfolio of CRE debt-related investments for the Company’s own account. The Company’s target investments include senior mortgage loans, subordinated debt, preferred equity, mezzanine loans and other CRE investments, including commercial mortgage backed securities. These investments are generally held for investment and are secured, directly or indirectly, by office, multifamily, retail, industrial, lodging, senior-living, self storage, student housing, residential and other commercial real estate properties, or by ownership interests therein.

The Company has elected and qualified to be taxed as a real estate investment trust (“REIT”) for U.S. federal income tax purposes under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with its taxable year ended December 31, 2012. The Company generally will not be subject to U.S. federal income taxes on its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, to the extent that it annually distributes all of its REIT taxable income to stockholders and complies with various other requirements as a REIT.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the related management’s discussion and analysis of financial condition and results of operations included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC.

Refer to the Company’s Annual Report on Form 10-K for a description of the Company’s recurring accounting policies. The Company has included disclosure below regarding basis of presentation and other accounting policies that (i) are required to be disclosed quarterly or (ii) the Company views as critical as of the date of this report.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with United States generally accepted accounting principles (“GAAP”) and include the accounts of the Company, the consolidated variable interest entities (“VIEs”) that the Company controls and of which the Company is



the primary beneficiary, and the Company's wholly-owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the Company's results of operations and financial condition as of and for the periods presented. All intercompany balances and transactions have been eliminated.

Interim financial statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the year ending December 31, 2019.

## 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. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers are deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity investments, servicing fees, and other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company applies judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital structure; and the reasons why the interests are held by the Company.

For VIEs of which the Company is determined to be the primary beneficiary, all of the underlying assets, liabilities, equity, revenue and expenses of the structures are consolidated into the Company's consolidated financial statements.

The Company performs an ongoing reassessment of: (1) whether any entities previously evaluated under the majority voting interest framework have become VIEs, based on certain events, and therefore are subject to the VIE consolidation framework, and (2) whether changes in the facts and circumstances regarding its involvement with a VIE cause the Company's consolidation conclusion regarding the VIE to change. See Note 13 included in these consolidated financial statements for further discussion of the Company's VIEs.

## Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include funds on deposit with financial institutions, including demand deposits with financial institutions. Cash and short term investments with an original maturity of three months or less when acquired are considered cash and cash equivalents for the purpose of the consolidated balance sheets and statements of cash flows.

Restricted cash includes deposits required under certain Secured Funding Agreements (each individually defined in Note 5 included in these consolidated financial statements).

The following table provides a reconciliation of cash, cash equivalents and restricted cash in the consolidated balance sheets to the total amount shown in the consolidated statements of cash flows (\$ in thousands):

	As of	
	March	March
	31,	31,
	2019	2018
Cash and cash equivalents	\$12,814	\$5,201
Restricted cash	379	379
Total cash, cash equivalents and restricted cash shown in the Company's consolidated statements of cash flows	\$13,193	\$5,580

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## Loans Held for Investment

The Company originates CRE debt and related instruments generally to be held for investment. Loans that are held for investment are carried at cost, net of unamortized loan fees and origination costs, unless the loans are deemed impaired. Impairment occurs when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, the Company will record an allowance to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate.

Each loan classified as held for investment is evaluated for impairment on a quarterly basis. Loans are generally collateralized by real estate. The extent of any credit deterioration associated with the performance and/or value of the underlying collateral property and the financial and operating capability of the borrower could impact the expected amounts received. The Company monitors performance of its loans held for investment portfolio under the following methodology: (1) borrower review, which analyzes the borrower's ability to execute on its original business plan, reviews its financial condition, assesses pending litigation and considers its general level of responsiveness and cooperation; (2) economic review, which considers underlying collateral (i.e. leasing performance, unit sales and cash flow of the collateral and its ability to cover debt service, as well as the residual loan balance at maturity); (3) property review, which considers current environmental risks, changes in insurance costs or coverage, current site visibility, capital expenditures and market perception; and (4) market review, which analyzes the collateral from a supply and demand perspective of similar property types, as well as from a capital markets perspective. Such impairment analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including periodic financial data such as property occupancy, tenant profile, rental rates, operating expenses, and the borrower's exit plan, among other factors.

In addition, the Company evaluates the entire portfolio to determine whether the portfolio has any impairment that requires a valuation allowance on the remainder of the loan portfolio. For the three months ended March 31, 2019 and 2018, the Company did not recognize any impairment charges with respect to its loans held for investment.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected in full. Accrued and unpaid interest is generally reversed against interest income in the period the loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding the borrower's ability to make pending principal and interest payments. Non-accrual loans are restored to accrual status when past due principal and interest are paid and, in management's judgment, are likely to remain current. The Company may make exceptions to placing a loan on non-accrual status if the loan has sufficient collateral value and is in the process of collection.

Preferred equity investments, which are subordinate to any loans but senior to common equity, are accounted for as loans held for investment and are carried at cost, net of unamortized loan fees and origination costs, unless the loans are deemed impaired, and are included within loans held for investment in the Company's consolidated balance sheets. The Company accretes or amortizes any discounts or premiums over the life of the related loan held for investment utilizing the effective interest method.

## Real Estate Owned

Real estate assets are carried at their estimated fair value at acquisition and are presented net of accumulated depreciation and impairment charges. The Company allocates the purchase price of acquired real estate assets based on the fair value of the acquired land, building, furniture, fixtures and equipment.

Real estate assets are depreciated using the straight-line method over estimated useful lives of up to 40 years for buildings and improvements and up to 15 years for furniture, fixtures and equipment. Renovations and/or replacements that improve or extend the life of the real estate asset are capitalized and depreciated over their estimated useful lives. The cost of ordinary repairs and maintenance are expensed as incurred.

Real estate assets are evaluated for impairment on a quarterly basis. Factors that the Company may consider in its impairment analysis include, among others: (1) significant underperformance relative to historical or anticipated operating results; (2) significant negative industry or economic trends; (3) costs necessary to extend the life or improve the real estate asset; (4) significant increase in competition; and (5) ability to hold and dispose of the real estate asset in the ordinary course of business. A real estate asset is considered impaired when the sum of estimated future undiscounted cash flows to be generated by the real estate asset over the estimated remaining holding period is less than the carrying amount of such real estate asset. An impairment charge is recorded equal to the excess of the carrying value of the real estate asset over the fair value. When determining the fair value of a real estate asset, the Company makes certain assumptions including, but not limited to,

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consideration of projected operating cash flows, comparable selling prices and projected cash flows from the eventual disposition of the real estate asset based upon the Company's estimate of a capitalization rate and discount rate.

Real estate assets are classified as held for sale when the Company commits to a plan to sell the asset, when the asset is being marketed for sale at a reasonable price and the sale of the asset is probable and the transfer of the asset is expected to qualify for recognition as a completed sale within one year. Real estate assets that are held for sale are carried at the lower of the asset's carrying amount or its fair value less costs to sell.

#### Debt Issuance Costs

Debt issuance costs under the Company's indebtedness are capitalized and amortized over the term of the respective debt instrument. Unamortized debt issuance costs are expensed when the associated debt is repaid prior to maturity. Debt issuance costs related to debt securitizations are capitalized and amortized over the term of the underlying loans using the effective interest method. When an underlying loan is prepaid in a debt securitization and the outstanding principal balance of the securitization debt is reduced, the related unamortized debt issuance costs are charged to expense based on a pro rata share of the debt issuance costs being allocated to the specific loans that were prepaid. Amortization of debt issuance costs is included within interest expense in the Company's consolidated statements of operations while the unamortized balance on (i) Secured Funding Agreements (each individually defined in Note 5 included in these consolidated financial statements) is included within other assets and (ii) the Secured Term Loan (defined in Note 5 included in these consolidated financial statements) and debt securitizations are both included as a reduction to the carrying amount of the liability, in the Company's consolidated balance sheets.

The original issue discount ("OID") on amounts drawn under the Company's Secured Term Loan represents a discount to the face amount of the drawn debt obligations. The OID is amortized over the term of the Secured Term Loan using the effective interest method and is included within interest expense in the Company's consolidated statements of operations while the unamortized balance is included as a reduction to the carrying amount of the Secured Term Loan in the Company's consolidated balance sheets.

#### Revenue Recognition

Interest income from loans held for investment is accrued based on the outstanding principal amount and the contractual terms of each loan. For loans held for investment, origination fees, contractual exit fees and direct loan origination costs are also recognized in interest income from loans held for investment over the initial loan term as a yield adjustment using the effective interest method.

Operating revenue from real estate owned represents revenue associated with the operations of a hotel property classified as real estate owned. Revenue from the operation of the hotel property are recognized when guestrooms are occupied, services have been rendered or fees have been earned. Revenues are recorded net of any discounts and sales and other taxes collected from customers. Revenues consist of room sales, food and beverage sales and other hotel revenues.

#### Net Interest Margin and Interest Expense

Net interest margin in the Company's consolidated statements of operations serves to measure the performance of the Company's loans held for investment as compared to its use of debt leverage. The Company includes interest income from its loans held for investment and interest expense related to its Secured Funding Agreements, securitizations debt and the Secured Term Loan (individually defined in Note 5 included in these consolidated financial statements) in net interest margin. For the three months ended March 31, 2019 and 2018, interest expense is comprised of the following (\$ in thousands):

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	For the three months ended March 31,	
	2019	2018
Secured funding agreements and securitizations debt	\$ 13,484	\$ 12,301
Secured term loan	2,256	1,998
Interest expense	\$ 15,740	\$ 14,299

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### Comprehensive Income

For the three months ended March 31, 2019 and 2018, comprehensive income equaled net income; therefore, a separate consolidated statement of comprehensive income is not included in the accompanying consolidated financial statements.

### Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard will replace the incurred loss impairment methodology pursuant to GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU No. 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, with early adoption permitted after December 15, 2018, including interim periods within that reporting period. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

### SEC Disclosure Update and Simplification

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. The Company adopted the new presentation for its consolidated statement of stockholders' equity in the first quarter of 2019.

### 3. LOANS HELD FOR INVESTMENT

As of March 31, 2019, the Company’s portfolio included 45 loans held for investment, excluding 79 loans that were repaid, sold or converted to real estate owned since inception. The aggregate originated commitment under these loans at closing was approximately \$1.9 billion and outstanding principal was \$1.6 billion as of March 31, 2019. During the three months ended March 31, 2019, the Company funded approximately \$121.2 million of outstanding principal, received repayments of \$58.3 million of outstanding principal and converted one loan with outstanding principal of \$38.6 million to real estate owned as described in more detail in the tables below. As of March 31, 2019, 92.2% of the Company’s loans have London Interbank Offered Rate (“LIBOR”) floors, with a weighted average floor of 1.48%, calculated based on loans with LIBOR floors. References to LIBOR or “L” are to 30-day LIBOR (unless otherwise specifically stated).

The Company’s investments in loans held for investment are accounted for at amortized cost. The following tables summarize the Company’s loans held for investment as of March 31, 2019 and December 31, 2018 (\$ in thousands):

	As of March 31, 2019			
	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Unleveraged Effective Yield (2)	Weighted Average Remaining Life (Years)
Senior mortgage loans	\$ 1,500,209	\$ 1,510,103	6.9 %	1.6



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Subordinated debt and preferred equity investments	47,949	48,929	15.2	%	3.7
Total loans held for investment portfolio	\$ 1,548,158	\$ 1,559,032	7.2	%	1.7

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	As of December 31, 2018				
	Carrying Amount (1)	Outstanding Principal (1)	Weighted Average Unleveraged Effective Yield (2)	Weighted Average Remaining Life (Years)	
Senior mortgage loans	\$1,489,708	\$1,498,530	7.0	%	1.7
Subordinated debt and preferred equity investments	35,165	36,213	14.9	%	4.3
Total loans held for investment portfolio	\$1,524,873	\$1,534,743	7.1	%	1.8

- (1) The difference between the Carrying Amount and the Outstanding Principal amount of the loans held for investment consists of unamortized purchase discount, deferred loan fees and loan origination costs. Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premiums or discounts) and assumes no dispositions, early prepayments or defaults. The total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of March 31, 2019 and December 31, 2018 as weighted by the outstanding principal balance of each loan.

A more detailed listing of the Company's loans held for investment portfolio based on information available as of March 31, 2019 is as follows (\$ in millions, except percentages):

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Loan Type	Location	Outstanding Principal (1)	Carrying Amount (1)	Interest Rate	Unleveraged Effective Yield (2)	Maturity Date (3)	Payment Terms (4)
Senior Mortgage Loans:							
Multifamily	FL	\$89.7	\$89.6	L+4.75%	7.8%	Sep 2019	I/O
Office	TX	68.4	68.1	L+3.60%	6.6%	July 2020	I/O
Hotel	Diversified	68.0	67.4	L+3.60%	6.6%	Sep 2021	I/O
Hotel	OR/WA	65.9	65.4	L+3.45%	6.5%	May 2021	I/O
Office	IL	64.4	64.0	L+3.75%	6.8%	Dec 2020	I/O
Office	IL	63.8	63.7	L+3.99%	6.9%	Aug 2019	I/O
Multifamily	UT	63.6	63.3	L+3.25%	6.0%	Dec 2020	I/O
Office	NJ	56.1	55.8	L+4.65%	7.7%	July 2020	I/O
Office	IL	54.1	53.8	L+3.95%	6.8%	June 2021	I/O
Industrial	MN	52.0	51.7	L+3.15%	6.1%	Dec 2020	I/O
Mixed-use	CA	49.0	48.7	L+4.00%	6.9%	Apr 2021	I/O
Multifamily	FL	45.4	45.3	L+4.75%	7.8%	Sep 2019	I/O
Multifamily	TX	42.7	42.5	L+3.30%	6.1%	Dec 2020	I/O
Student Housing	CA	41.8	41.6	L+3.95%	7.0%	July 2020	I/O
Multifamily	FL	41.4	41.1	L+2.60%	5.6%	Jan 2022	I/O
Student Housing	TX	41.0	40.7	L+4.75%	7.8%	Jan 2021	I/O
Mixed-use	FL	40.7	39.8	L+4.25%	7.7%	Feb 2021	I/O
Hotel	CA	40.0	39.8	L+4.12%	7.0%	Jan 2021	I/O
Multifamily	SC	38.9	38.7	L+3.36%	6.3%	May 2021	I/O
Multifamily	IL	37.5	37.2	L+3.50%	6.7%	Nov 2020	I/O
Hotel	MI	35.2	35.2	L+4.15%	6.6%	July 2019	I/O
Hotel	MN	31.5	31.3	L+3.55%	6.4%	Aug 2021	I/O
Multifamily	NY	30.1	30.0	L+3.20%	6.1%	Dec 2020	I/O
Student Housing	NC	30.0	29.8	L+3.15%	6.1%	Feb 2022	I/O
Hotel	IL	29.6	29.4	L+4.40%	7.4%	May 2021	I/O
Multifamily	PA	29.4	29.1	L+3.00%	6.0%	Dec 2021	I/O
Office	CO	27.6	27.3	L+4.15%	7.1%	June 2021	I/O
Multifamily	TX	27.5	27.4	L+3.20%	6.2%	Oct 2020	I/O
Multifamily	CA	26.8	26.7	L+3.85%	6.8%	July 2020	I/O
Student Housing	AL	24.1	24.0	L+4.45%	7.5%	Feb 2020	I/O
Student Housing	TX	24.0	23.8	L+4.10%	7.1%	Jan 2021	I/O
Multifamily	CA	20.0	19.9	L+3.30%	6.2%	Feb 2021	I/O
Self Storage	FL	19.5	19.3	L+3.50%	6.5%	Mar 2022	I/O
Multifamily	FL	19.2	19.1	L+4.00%	6.9%	Nov 2020	I/O
Office	FL	18.4	18.3	L+4.30%	7.4%	Apr 2020	I/O
Residential Condominium	FL	17.5	17.4	L+8.00%	11.9%	Apr 2020	I/O
Office	CA	17.5	17.3	L+3.40%	6.5%	Nov 2021	I/O
Residential	CA	9.8	9.6	12.00%	14.9%	Feb 2020	I/O
Office	NC	8.0	7.9	L+4.00%	7.0%	Nov 2022	I/O
Office	NC	—	(0.8)	L+4.25%	—	Mar 2021	I/O
Subordinated Debt and Preferred Equity Investments:							
Office	NJ	17.0	16.4	12.00%	12.8%	Jan 2026	I/O (5)

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Mixed-use Residential Condominium	IL	11.2	11.0	L+12.25%	15.7%	Nov 2021	I/O
Residential Condominium	NY	11.1	11.0	L+14.00%	17.4%	May 2021	I/O
Residential Condominium	HI	6.9	6.9	14.00%	18.8%	Oct 2019	(6)I/O
Office	CA	2.7	2.7	L+8.25%	10.9%	Nov 2021	I/O
Total/Weighted Average		\$1,559.0	\$1,548.2		7.2%		

The difference between the Carrying Amount and the Outstanding Principal amount of the loans held for investment consists of unamortized purchase discount, deferred loan fees and loan origination costs. For the loans (1) held for investment that represent co-investments with other investment vehicles managed by Ares Management (see Note 11 included in these consolidated financial statements for additional information on co-investments), only the portion of Carrying Amount and Outstanding Principal held by the Company is reflected.

Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premiums or discounts) and assumes no dispositions, early prepayments or defaults. Unleveraged Effective Yield for each loan is (2) calculated based on LIBOR as of March 31, 2019 or the LIBOR floor, as applicable. The total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of March 31, 2019 as weighted by the outstanding principal balance of each loan.

Certain loans are subject to contractual extension options that generally vary between one and two 12-month extensions and may be subject to performance based or other conditions as stipulated in the loan agreement. Actual (3) maturities may differ from contractual maturities stated herein as certain borrowers may have the right to prepay with or without paying a prepayment penalty. The Company may also extend contractual maturities and amend other terms of the loans in connection with loan modifications.

(4) I/O = interest only, P/I = principal and interest.

In February 2021, amortization will begin on the subordinated New Jersey loan, which had an outstanding (5) principal balance of \$17.0 million as of March 31, 2019. The remainder of the loans in the Company's portfolio are non-amortizing through their primary terms.

(6) In March 2019, the Company and the borrower entered into an extension agreement, which extended the maturity date on the subordinated Hawaii loan to October 2019.

The Company has made, and may continue to make, modifications to loans, including loans that are in default. Loan terms that may be modified include interest rates, required prepayments, asset release prices, maturity dates, covenants, principal amounts and other loan terms. The terms and conditions of each modification vary based on individual circumstances and will be determined on a case by case basis.

For the three months ended March 31, 2019, the activity in the Company's loan portfolio was as follows (\$ in thousands):

Balance at December 31, 2018	\$1,524,873
Initial funding	86,461
Origination fees and discounts, net of costs	(2,271 )
Additional funding	34,777
Amortizing payments	—
Loan payoffs	(58,312 )
Loan converted to real estate owned (see Note 4)	(38,636 )
Origination fee accretion	1,266
Balance at March 31, 2019	\$1,548,158

As of March 31, 2019, all loans were paying in accordance with their contractual terms. No impairment charges have been recognized during the three months ended March 31, 2019 and 2018.

#### 4. REAL ESTATE OWNED

On March 8, 2019, the Company acquired legal title to a hotel property located in New York through a deed in lieu of foreclosure. Prior to March 8, 2019, the hotel property collateralized a \$38.6 million senior mortgage loan held by the Company that was in maturity default due to the failure of the borrower to repay the outstanding principal balance of the loan by the December 2018 maturity date. In conjunction with the deed in lieu of foreclosure, the Company derecognized the \$38.6 million senior mortgage loan and recognized the hotel property as real estate owned. As the Company does not expect to complete a sale of the hotel property within the next twelve months, the hotel property is considered held for use, and is carried at its estimated fair value at acquisition and is presented net of accumulated depreciation and impairment charges. The Company did not recognize any gain or loss on the derecognition of the senior mortgage loan as the fair value of the hotel property of \$36.9 million and the net assets held at the hotel property of \$1.7 million at acquisition approximated the \$38.6 million carrying value of the senior mortgage loan. The assets and liabilities of the hotel property are included within other assets and other liabilities, respectively, in the Company's consolidated balance sheets and include items such as cash, restricted cash, trade receivables and payables and advance deposits.



The following table summarizes the Company's real estate owned as of March 31, 2019 (\$ in thousands):

	March 31, 2019
Land	\$ 10,200
Buildings and improvements	24,268
Furniture, fixtures and equipment	2,400
	36,868
Less: Accumulated depreciation	(54 )
Real estate owned, net	\$ 36,814

The Company did not have any real estate owned as of December 31, 2018.

As of March 31, 2019, no impairment charges have been recognized for real estate owned.

For the three months ended March 31, 2019, the Company incurred depreciation expense of \$54 thousand. Depreciation expense is included within depreciation of real estate owned in the Company's consolidated statements of operations.

## 5. DEBT

### Financing Agreements

The Company borrows funds, as applicable in a given period, under the Wells Fargo Facility, the Citibank Facility, the BAML Facility, the CNB Facility, the MetLife Facility and the U.S. Bank Facility (individually defined below and collectively, the "Secured Funding Agreements") and the Secured Term Loan (as defined below). The Company refers to the Secured Funding Agreements and the Secured Term Loan as the "Financing Agreements." The outstanding balance of the Financing Agreements in the table below are presented gross of debt issuance costs. As of March 31, 2019 and December 31, 2018, the outstanding balances and total commitments under the Financing Agreements consisted of the following (\$ in thousands):

	March 31, 2019		December 31, 2018	
	Outstanding	Total	Outstanding	Total
	Balance	Commitment	Balance	Commitment
Wells Fargo Facility	\$ 174,071	\$ 500,000	\$ 274,071	\$ 500,000
Citibank Facility	180,128	325,000	184,003	325,000
BAML Facility	36,280	125,000	36,280	125,000
CNB Facility	—	50,000	—	50,000
MetLife Facility	136,983	180,000	135,145	180,000
U.S. Bank Facility	94,087	185,989	148,475	185,989
Secured Term Loan	110,000	110,000	110,000	110,000
Total	\$ 731,549	\$ 1,475,989	\$ 887,974	\$ 1,475,989

Some of the Company's Financing Agreements are collateralized by (i) assignments of specific loans, preferred equity or a pool of loans held for investment or loans held for sale owned by the Company, (ii) interests in the subordinated portion of the Company's securitization debt, or (iii) interests in wholly-owned entity subsidiaries that hold the Company's loans held for investment. The Company is the borrower or guarantor under each of the Financing

Agreements. Generally, the Company partially offsets interest rate risk by matching the interest index of loans held for investment with the Secured Funding Agreements used to fund them. The Company's Financing Agreements contain various affirmative and negative covenants, including negative pledges, and provisions regarding events of default that are normal and customary for similar financing arrangements.

Wells Fargo Facility

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The Company is party to a master repurchase funding facility with Wells Fargo Bank, National Association (“Wells Fargo”) (the “Wells Fargo Facility”), which allows the Company to borrow up to \$500.0 million. Under the Wells Fargo Facility, the Company is permitted to sell, and later repurchase, certain qualifying senior commercial mortgage loans, A-Notes, pari-passu participations in commercial mortgage loans and mezzanine loans under certain circumstances, subject to available collateral approved by Wells Fargo in its sole discretion. The initial maturity date of the Wells Fargo Facility is December 14, 2020, subject to three 12-month extensions, each of which may be exercised at the Company’s option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if all three were exercised, would extend the maturity date of the Wells Fargo Facility to December 14, 2023. Since December 14, 2018, advances under the Wells Fargo Facility accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a pricing margin range of 1.50% to 2.25%. Prior to and including December 13, 2018, advances under the Wells Fargo Facility accrued interest at a per annum rate equal to the sum of one-month LIBOR plus a pricing margin range of 1.75% to 2.35%. The Company incurs a non-utilization fee of 25 basis points per annum on the average daily available balance of the Wells Fargo Facility to the extent less than 75% of the Wells Fargo Facility is utilized. For the three months ended March 31, 2019, the Company incurred a non-utilization fee of \$133 thousand. For the three months ended March 31, 2018, the Company did not incur a non-utilization fee. The non-utilization fee is included within interest expense in the Company’s consolidated statements of operations.

#### Citibank Facility

The Company is party to a \$325.0 million master repurchase facility with Citibank, N.A. (“Citibank”) (the “Citibank Facility”). Under the Citibank Facility, the Company is permitted to sell and later repurchase certain qualifying senior commercial mortgage loans and A-Notes approved by Citibank in its sole discretion. The initial maturity date of the Citibank Facility is December 13, 2021, subject to two 12-month extensions, each of which may be exercised at the Company’s option assuming no existing defaults under the Citibank Facility and applicable extension fees being paid, which, if both were exercised, would extend the maturity date of the Citibank Facility to December 13, 2023. Since December 13, 2018, advances under the Citibank Facility accrue interest at a per annum rate equal to the sum of one-month LIBOR plus an indicative pricing margin range of 1.50% to 2.25%, subject to certain exceptions. Prior to and including December 12, 2018, advances under the Citibank Facility accrued interest at a per annum rate equal to the sum of one-month LIBOR plus an indicative pricing margin range of 2.25% to 2.50%, subject to certain exceptions. Since December 13, 2018, the Company incurs a non-utilization fee of 25 basis points per annum on the average daily available balance of the Citibank Facility to the extent less than 75% of the Citibank Facility is utilized. Prior to and including December 12, 2018, the Company incurred a non-utilization fee of 25 basis points per annum on the average daily available balance of the Citibank Facility. For the three months ended March 31, 2019 and 2018, the Company incurred a non-utilization fee of \$88 thousand and \$51 thousand, respectively. The non-utilization fee is included within interest expense in the Company’s consolidated statements of operations.

#### BAML Facility

The Company is party to a \$125.0 million Bridge Loan Warehousing Credit and Security Agreement with Bank of America, N.A. (“Bank of America”) (the “BAML Facility”). Under the BAML Facility, the Company may obtain advances secured by eligible commercial mortgage loans collateralized by multifamily properties. Bank of America may approve the loans on which advances are made under the BAML Facility in its sole discretion. The Company may request individual loans under the facility up to May 23, 2019. Individual advances under the BAML Facility generally have a two-year maturity, subject to one 12-month extension at the Company’s option upon the satisfaction of certain conditions and applicable extension fees being paid. The final maturity date of individual loans under the BAML Facility is May 23, 2022. Advances under the BAML Facility accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.00%, subject to certain exceptions. The Company incurs a non-utilization fee of 12.5 basis points per annum on the average daily available balance of the BAML Facility to the extent less than 50% of the BAML Facility is utilized. For the three months ended March 31, 2019 and 2018, the

Company incurred a non-utilization fee of \$28 thousand and \$11 thousand, respectively. The non-utilization fee is included within interest expense in the Company's consolidated statements of operations.

#### CNB Facility

The Company is party to a \$50.0 million secured revolving funding facility with City National Bank (the "CNB Facility"). The Company is permitted to borrow funds under the CNB Facility to finance investments and for other working capital and general corporate needs. In March 2019, the Company exercised a 12-month extension option on the CNB Facility to extend the maturity date to March 10, 2020. Advances under the CNB Facility accrue interest at a per annum rate equal to the sum of, at the Company's option, either (a) LIBOR for a one, two, three, six or, if available to all lenders, 12-month interest period plus 3.00% or (b) a base rate (which is the highest of a prime rate, the federal funds rate plus 0.50%, or the sum of one-month LIBOR plus 1.00%) plus 1.25%; provided that in no event shall the interest rate be less than 3.00%. Unless at least 75% of the CNB Facility is used on average, unused commitments under the CNB Facility accrue non-utilization fees at the rate of

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0.375% per annum. For the three months ended March 31, 2019 and 2018, the Company incurred a non-utilization fee of \$45 thousand and \$46 thousand, respectively. The non-utilization fee is included within interest expense in the Company's consolidated statements of operations.

#### MetLife Facility

The Company and certain of its subsidiaries are party to a \$180.0 million revolving master repurchase facility with Metropolitan Life Insurance Company ("MetLife") (the "MetLife Facility"), pursuant to which the Company may sell, and later repurchase, commercial mortgage loans meeting defined eligibility criteria which are approved by MetLife in its sole discretion. The initial maturity date of the MetLife Facility is August 12, 2020, subject to two 12-month extensions, each of which may be exercised at the Company's option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if both were exercised, would extend the maturity date of the MetLife Facility to August 12, 2022. Advances under the MetLife Facility accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.30%. Effective in February 2018, the Company began incurring a non-utilization fee of 25 basis points per annum on the average daily available balance of the MetLife Facility to the extent less than 65% of the MetLife Facility is utilized. For the three months ended March 31, 2019, the Company did not incur a non-utilization fee. For the three months ended March 31, 2018, the Company incurred a non-utilization fee of \$6 thousand. The non-utilization fee is included within interest expense in the Company's consolidated statements of operations.

#### U.S. Bank Facility

The Company and certain of its subsidiaries are party to a \$186.0 million master repurchase and securities contract with U.S. Bank National Association ("U.S. Bank") (the "U.S. Bank Facility"). Pursuant to the U.S. Bank Facility, the Company is permitted to sell, and later repurchase, eligible commercial mortgage loans collateralized by retail, office, mixed-use, multifamily, industrial, hospitality, student housing, manufactured housing or self storage properties. U.S. Bank may approve the mortgage loans that are subject to the U.S. Bank Facility in its sole discretion. The initial maturity date of the U.S. Bank Facility is July 31, 2020, subject to two 12-month extensions, each of which may be exercised at the Company's option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if both were exercised, would extend the maturity date of the U.S. Bank Facility to July 31, 2022. Advances under the U.S. Bank Facility generally accrue interest at a per annum rate equal to the sum of one-month LIBOR plus a spread of 2.25%, unless otherwise agreed between U.S. Bank and the Company, depending upon the mortgage loan sold to U.S. Bank in the applicable transaction. The Company incurs a non-utilization fee of 25 basis points per annum on the average daily available balance of the U.S. Bank Facility to the extent less than 50% of the U.S. Bank Facility is utilized. For the three months ended March 31, 2019, the Company incurred a non-utilization fee of \$10 thousand. For the three months ended March 31, 2018, the Company did not incur a non-utilization fee. The non-utilization fee is included within interest expense in the Company's consolidated statements of operations.

#### Secured Term Loan

The Company and certain of its subsidiaries are party to a \$110.0 million Credit and Guaranty Agreement with the lenders referred to therein and Cortland Capital Market Services LLC, as administrative agent and collateral agent for the lenders (the "Secured Term Loan"). The initial maturity date of the Secured Term Loan is December 22, 2020, subject to one 12-month extension, which may be exercised at the Company's option, provided there are no existing events of default under the Secured Term Loan, which, if exercised, would extend the maturity date of the Secured Term Loan to December 22, 2021. During the extension period, the spread on advances under the Secured Term Loan increases every three months by 0.125%, 0.375% and 0.750% per annum, respectively, beginning after the third-month of the extension period. Advances under the Secured Term Loan accrue interest at a per annum rate equal to the sum of, at the Company's option, one, two, three or six-month LIBOR plus a spread of 5.00%. The total original

issue discount on the Secured Term Loan draws was \$2.6 million, which represents a discount to the debt cost to be amortized into interest expense using the effective interest method over the term of the Secured Term Loan. For the three months ended March 31, 2019 and 2018, the estimated per annum effective interest rate of the Secured Term Loan, which is equal to LIBOR plus the spread plus the accretion of the original issue discount and associated costs, was 8.2% and 7.3%, respectively.

## 6. COMMITMENTS AND CONTINGENCIES

As of March 31, 2019 and December 31, 2018, the Company had the following commitments to fund various senior mortgage loans, subordinated debt investments, as well as preferred equity investments accounted for as loans held for investment (\$ in thousands):

	As of	
	March 31, 2019	December 31, 2018
Total commitments	\$1,813,233	\$1,677,615
Less: funded commitments	(1,559,032 )	(1,534,743 )
Total unfunded commitments	\$254,201	\$142,872

The Company from time to time may be a party to litigation relating to claims arising in the normal course of business. As of March 31, 2019, the Company is not aware of any legal claims that could materially impact its business, financial condition or results of operations.

## 7. STOCKHOLDERS' EQUITY

### Common Stock

There were no shares issued in public or private offerings for the three months ended March 31, 2019. See "Equity Incentive Plan" below for shares issued under the plan.

### Equity Incentive Plan

On April 23, 2012, the Company adopted an equity incentive plan. In April 2018, the Company's board of directors authorized, and in June 2018, the Company's stockholders approved, an amended and restated equity incentive plan that increased the total amount of shares of common stock the Company may grant thereunder to 1,390,000 shares (the "Amended and Restated 2012 Equity Incentive Plan"). Pursuant to the Amended and Restated 2012 Equity Incentive Plan, the Company may grant awards consisting of restricted shares of the Company's common stock, restricted stock units and/or other equity-based awards to the Company's outside directors, employees of the Manager, officers, ACREM and other eligible awardees under the plan. Any restricted shares of the Company's common stock and restricted stock units will be accounted for under FASB ASC Topic 718, Compensation—Stock Compensation, resulting in stock-based compensation expense equal to the grant date fair value of the underlying restricted shares of common stock or restricted stock units.

Restricted stock grants generally vest ratably over a one to four year period from the vesting start date. The grantee receives additional compensation for each outstanding restricted stock grant, classified as dividends paid, equal to the per-share dividends received by common stockholders.



The following table details the restricted stock grants awarded as of March 31, 2019:

Grant Date	Vesting Start Date	Shares Granted
May 1, 2012	July 1, 2012	35,135
June 18, 2012	July 1, 2012	7,027
July 9, 2012	October 1, 2012	25,000
June 26, 2013	July 1, 2013	22,526
November 25, 2013	November 25, 2016	30,381
January 31, 2014	August 31, 2015	48,273
February 26, 2014	February 26, 2014	12,030
February 27, 2014	August 27, 2014	22,354
June 24, 2014	June 24, 2014	17,658
June 24, 2015	July 1, 2015	25,555
April 25, 2016	July 1, 2016	10,000
June 27, 2016	July 1, 2016	24,680
April 25, 2017	April 25, 2018	81,710
June 7, 2017	July 1, 2017	18,224
October 17, 2017	January 2, 2018	7,278
December 15, 2017	January 2, 2018	8,948
May 14, 2018	July 2, 2018	31,766
June 26, 2018	July 1, 2019	67,918
December 14, 2018	March 31, 2019	57,065
March 7, 2019	April 1, 2020	102,300
Total		655,828

The following tables summarize the (i) non-vested shares of restricted stock and (ii) vesting schedule of shares of restricted stock for the Company's directors and officers and employees of the Manager as of March 31, 2019:

Schedule of Non-Vested Share and Share Equivalents

	Restricted Stock Grants—Directors	Restricted Stock Grants—Officers and Employees of the Manager	Total
Balance at December 31, 2018	22,554	179,456	202,010
Granted	—	102,300	102,300
Vested	(8,358)	(10,764)	(19,122)
Forfeited	(4,034)	(4,861)	(8,895)
Balance at March 31, 2019	10,162	266,131	276,293





Future Anticipated Vesting Schedule

Restricted Stock Grants—Directors	Restricted Stock Grants—Officers and Employees of the Manager	Total
2019 7,660	51,539	59,199
2020 1,668	97,794	99,462
2021 834	70,552	71,386
2022 —	46,246	46,246
2023 —	—	—
Total 10,162	266,131	276,293

8. EARNINGS PER SHARE

The following information sets forth the computations of basic and diluted earnings per common share for the three months ended March 31, 2019 and 2018 (\$ in thousands, except share and per share data):

	For the three months ended March 31,	
	2019	2018
Net income attributable to common stockholders	\$8,543	\$ 9,318
Divided by:		
Basic weighted average shares of common stock outstanding:	28,561,827	27,495,833
Weighted average non-vested restricted stock	219,153	103,083
Diluted weighted average shares of common stock outstanding:	28,780,980	27,598,916
Basic and diluted earnings per common share	\$0.30	\$ 0.33

9. INCOME TAX

The Company wholly-owns ACRC Lender W TRS LLC, which is a taxable REIT subsidiary (“TRS”) formed in order to issue and hold certain loans intended for sale. The Company also wholly-owns ACRC 2017-FL3 TRS LLC, which is a TRS formed in order to hold a portion of the CLO Securitization (as defined below) to the extent it generates excess inclusion income. Additionally, the Company wholly-owns ACRC WM Tenant LLC, which is a TRS formed in order to operate the hotel property classified as real estate owned acquired on March 8, 2019.

The income tax provision for the Company and the TRSs consisted of the following for the three months ended March 31, 2019 and 2018 (\$ in thousands):

	For the three months ended March 31, 20192018	
Current	\$6	\$ 6
Deferred	—	—
Excise tax	90	75
Total income tax expense, including excise tax	\$96	\$ 81

For the three months ended March 31, 2019 and 2018, the Company incurred an expense of \$90 thousand and \$75 thousand, respectively, for U.S. federal excise tax. Excise tax represents a 4% tax on the sum of a portion of the Company's ordinary income and net capital gains not distributed during the calendar year (including any distribution declared in the fourth quarter and paid following January) plus any prior year shortfall. If it is determined that an excise tax liability exists for the current year, the Company will accrue excise tax on estimated excess taxable income as such taxable income is earned. The quarterly expense is calculated in accordance with applicable tax regulations.

The TRSs recognize interest and penalties related to unrecognized tax benefits within income tax expense in the Company's consolidated statements of operations. Accrued interest and penalties, if any, are included within other liabilities in the Company's consolidated balance sheets.

As of March 31, 2019, tax years 2015 through 2018 remain subject to examination by taxing authorities. The Company does not have any unrecognized tax benefits and the Company does not expect that to change in the next 12 months.

## 10. FAIR VALUE

The Company follows FASB ASC Topic 820-10, Fair Value Measurement ("ASC 820-10"), which expands the application of fair value accounting. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure requirements for fair value measurements. ASC 820-10 determines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. ASC 820-10 specifies a hierarchy of valuation techniques based on the inputs used in measuring fair value.

In accordance with ASC 820-10, the inputs used to measure fair value are summarized in the three broad levels listed below:

Level 1-Quoted prices in active markets for identical assets or liabilities.

Level 2-Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3-Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the

period), unobservable inputs may be used.

GAAP requires disclosure of fair value information about financial and nonfinancial assets and liabilities, whether or not recognized in the financial statements, for which it is practical to estimate the value. In cases where quoted market prices are not available, fair values are based upon the application of discount rates to estimated future cash flows using market yields, or other valuation methodologies. Any changes to the valuation methodology will be reviewed by the Company's management to ensure the changes are appropriate. The methods used may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the Company anticipates that the valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial and nonfinancial assets and liabilities could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of the measurement date, which may fall within periods of market dislocation, during which price transparency may be reduced.

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As of March 31, 2019 and December 31, 2018, the Company did not have any financial and nonfinancial assets or liabilities required to be recorded at fair value on a recurring basis.

#### Nonrecurring Fair Value Measurements

The Company is required to record real estate owned, a nonfinancial asset, at fair value on a nonrecurring basis in accordance with GAAP. Real estate owned consists of a hotel property that was acquired by the Company on March 8, 2019 through a deed in lieu of foreclosure. See Note 4 included in these consolidated financial statements for more information on real estate owned. Real estate owned is recorded at fair value at acquisition and is evaluated for impairment on a quarterly basis. Real estate owned is considered impaired when the sum of estimated future undiscounted cash flows to be generated by the real estate owned over the estimated remaining holding period is less than the carrying amount of such real estate owned. An impairment charge is recorded equal to the excess of the carrying value of the real estate owned over the fair value. The fair value of the hotel property at acquisition was estimated using a third-party appraisal, which utilized standard industry valuation techniques such as the income and market approach. When determining the fair value of a hotel, certain assumptions are made including, but not limited to: (1) projected operating cash flows, including factors such as booking pace, growth rates, occupancy, daily room rates, hotel specific operating costs and future capital expenditures; and (2) projected cash flows from the eventual disposition of the hotel based upon the Company's estimation of a hotel specific capitalization rate, hotel specific discount rates and comparable selling prices in the market.

The following table summarizes the levels in the fair value hierarchy into which the Company's nonfinancial assets that are recorded at fair value on a nonrecurring basis were categorized (\$ in thousands):

	Net Carrying Value	Fair Value	Level 1	Level 2	Level 3
Real estate owned	\$ 36,814	\$ 36,868	—	—	\$ 36,868

As of December 31, 2018, the Company did not have any nonfinancial assets required to be recorded at fair value on a nonrecurring basis. In addition, as of March 31, 2019 and December 31, 2018, the Company did not have any financial assets or liabilities or nonfinancial liabilities required to be recorded at fair value on a nonrecurring basis.

#### Financial Assets and Liabilities Not Measured at Fair Value

As of March 31, 2019 and December 31, 2018, the carrying values and fair values of the Company's financial assets and liabilities recorded at cost are as follows (\$ in thousands):

	Level in Fair Value Hierarchy	As of March 31, 2019		December 31, 2018	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Loans held for investment	3	\$ 1,548,158	\$ 1,559,032	\$ 1,524,873	\$ 1,534,743
Financial liabilities:					
Secured funding agreements	2	\$ 621,549	\$ 621,549	\$ 777,974	\$ 777,974
Secured term loan	2	\$ 108,537	\$ 110,000	\$ 108,345	\$ 110,000
Collateralized loan obligation securitization debt (consolidated VIE)	3	\$ 442,202	\$ 445,600	\$ 270,737	\$ 272,927

The carrying values of cash and cash equivalents, restricted cash, interest receivable, due to affiliate liability and accrued expenses, which are all categorized as Level 2 within the fair value hierarchy, approximate their fair values due to their short-term nature.

Loans held for investment are recorded at cost, net of unamortized loan fees and origination costs and net of an allowance for loan losses. The Company may record fair value adjustments on a nonrecurring basis when it has determined that it is necessary to record a specific reserve against a loan and the Company measures such specific reserve using the fair value of the loan's collateral. To determine the fair value of the collateral, the Company may employ different approaches depending

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on the type of collateral. The Financing Agreements and collateralized loan obligation (“CLO”) securitization debt are recorded at outstanding principal, which is the Company’s best estimate of the fair value.

## 11. RELATED PARTY TRANSACTIONS

### Management Agreement

The Company is party to a Management Agreement under which ACREM, subject to the supervision and oversight of the Company’s board of directors, is responsible for, among other duties, (a) performing all of the Company’s day-to-day functions, (b) determining the Company’s investment strategy and guidelines in conjunction with the Company’s board of directors, (c) sourcing, analyzing and executing investments, asset sales and financing, and (d) performing portfolio management duties. In addition, ACREM has an Investment Committee that oversees compliance with the Company’s investment strategy and guidelines, loans held for investment portfolio holdings and financing strategy.

In exchange for its services, ACREM is entitled to receive a base management fee, an incentive fee and expense reimbursements. In addition, ACREM and its personnel may receive grants of equity-based awards pursuant to the Company’s Amended and Restated 2012 Equity Incentive Plan and a termination fee, if applicable.

The base management fee is equal to 1.5% of the Company’s stockholders’ equity per annum, which is calculated and payable quarterly in arrears in cash. For purposes of calculating the base management fee, stockholders’ equity means: (a) the sum of (i) the net proceeds from all issuances of the Company’s equity securities since inception (allocated on a pro-rata daily basis for such issuances during the fiscal quarter of any such issuance), plus (ii) the Company’s retained earnings at the end of the most recently completed fiscal quarter determined in accordance with GAAP (without taking into account any non-cash equity compensation expense incurred in current or prior periods); less (b) (x) any amount that the Company has paid to repurchase the Company’s common stock since inception, (y) any unrealized gains and losses and other non-cash items that have impacted stockholders’ equity as reported in the Company’s consolidated financial statements prepared in accordance with GAAP, and (z) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case after discussions between ACREM and the Company’s independent directors and approval by a majority of the Company’s independent directors. As a result, the Company’s stockholders’ equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders’ equity shown in the Company’s consolidated financial statements.

The incentive fee is an amount, not less than zero, equal to the difference between: (a) the product of (i) 20% and (ii) the difference between (A) the Company’s Core Earnings (as defined below) for the previous 12-month period, and (B) the product of (1) the weighted average of the issue price per share of the Company’s common stock of all of the Company’s public offerings of common stock multiplied by the weighted average number of all shares of common stock outstanding including any restricted shares of the Company’s common stock, restricted stock units or any shares of the Company’s common stock not yet issued, but underlying other awards granted under the Company’s Amended and Restated 2012 Equity Incentive Plan (see Note 7 included in these consolidated financial statements) in the previous 12-month period, and (2) 8%; and (b) the sum of any incentive fees earned by ACREM with respect to the first three fiscal quarters of such previous 12-month period; provided, however, that no incentive fee is payable with respect to any fiscal quarter unless cumulative Core Earnings for the 12 most recently completed fiscal quarters is greater than zero. “Core Earnings” is a non-GAAP measure and is defined as GAAP net income (loss) computed in accordance with GAAP, excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization (to the extent that any of the Company’s target investments are structured as debt and the Company forecloses on any properties underlying such debt), any unrealized gains, losses or other non-cash items recorded in net income (loss) for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income (loss), and one-time events pursuant to changes in GAAP and certain non-cash charges after

discussions between ACREM and the Company's independent directors and after approval by a majority of the Company's independent directors. For the three months ended March 31, 2019 and 2018, no incentive fees were incurred.

The Company reimburses ACREM at cost for operating expenses that ACREM incurs on the Company's behalf, including expenses relating to legal, financial, accounting, servicing, due diligence and other services.

The Company will not reimburse ACREM for the salaries and other compensation of its personnel, except for the allocable share of the salaries and other compensation of the Company's (a) Chief Financial Officer, based on the percentage of his time spent on the Company's affairs and (b) other corporate finance, tax, accounting, internal audit, legal, risk management, operations, compliance and other non-investment professional personnel of ACREM or its affiliates who spend all or a portion of their time managing the Company's affairs based on the percentage of their time spent on the Company's affairs. The Company is also required to pay its pro-rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of ACREM and its affiliates that are required for the Company's operations. The

term of the Management Agreement ends on May 1, 2020, with automatic one-year renewal terms thereafter. Except under limited circumstances, upon a termination of the Management Agreement, the Company will pay ACREM a termination fee equal to three times the average annual base management fee and incentive fee received by ACREM during the 24-month period immediately preceding the most recently completed fiscal quarter prior to the date of termination, each as described above.

Certain of the Company's subsidiaries, along with the Company's lenders under certain of the Company's Secured Funding Agreements, as well as under the CLO transaction have entered into various servicing agreements with ACREM's subsidiary servicer, Ares Commercial Real Estate Servicer LLC ("ACRES"). The Company's Manager will specially service, as needed, certain of the Company's investments. Effective May 1, 2012, ACRES agreed that no servicing fees pursuant to these servicing agreements would be charged to the Company or its subsidiaries by ACRES or the Manager for so long as the Management Agreement remains in effect, but that ACRES will continue to receive reimbursement for overhead related to servicing and operational activities pursuant to the terms of the Management Agreement.

The following table summarizes the related party costs incurred by the Company for the three months ended March 31, 2019 and 2018 and amounts payable to the Company's Manager as of March 31, 2019 and December 31, 2018 (\$ in thousands):

	Incurred For the three months ended March 31,		Payable As of	
	2019	2018	March 31, 2019	December 31, 2018
Affiliate Payments				
Management fees	\$1,574	\$1,558	\$1,574	\$ 1,576
Incentive fees	—	—	—	540
General and administrative expenses	659	924	659	996