

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **June 30, 2023**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number **001-32921**

**NexPoint Diversified Real Estate Trust**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or other Jurisdiction of  
Incorporation or Organization)

80-0139099  
(I.R.S. Employer  
Identification No.)

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

75201  
(Zip Code)

(214) 276-6300

(Telephone Number, Including Area Code)

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

| Title of each class  | Trading Symbol | Name of each exchange on which registered |
|--|----------------|---|
| Common Shares, par value \$0.001 per share   | NXDT           | New York Stock Exchange                   |
| 5.50% Series A Cumulative Preferred Shares, par value \$0.001 per share (\$25.00 liquidation preference per share) | NXDT-PA        | 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of August 14, 2023, the registrant had 37,186,395.75 common shares, par value \$0.001 per share, outstanding.

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**NEXPOINT DIVERSIFIED REAL ESTATE TRUST**

**Form 10-Q**  
**Quarter Ended June 30, 2023**

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### Cautionary Statement Regarding Forward-Looking Statements

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

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

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

- Unfavorable changes in economic conditions and their effects on the real estate industry generally and our operations and financial condition, including inflation, rising interest rates, tightening monetary policy or recession, which may limit our ability to access funding and generate returns for shareholders;
- Our loans and investments expose us to risks similar to and associated with real estate investments generally;
- Commercial real estate-related investments that are secured, directly or indirectly, by real property are subject to delinquency, foreclosure and loss, which could result in losses to us;
- Risks associated with the ownership of real estate, including dependence on tenants and compliance with laws and regulations related to ownership of real property;
- Risks associated with our investment in diverse issuers, industries and investment forms and classes, both in real estate and in non-real estate sectors, including common equity, preferred equity securities, options or other derivatives, short sale contracts, secured loans of securities, reverse repurchase agreements, structured finance securities, below investment grade senior loans, bonds, convertible instruments, joint ventures, and emerging markets;
- Fluctuations in interest rate and credit spreads, could reduce our ability to generate income on our loans and other investments, which could lead to a significant decrease in our results of operations, cash flows and the market value of our investments;
- The use of leverage to finance our investments;
- Risks associated with our loans and investments in debt instruments including, senior loans, mezzanine loans, collateralized loan obligations ("CLOs"), and structured finance securities;
- Our loans and investments are concentrated in terms of type of interest, geography, asset types, industry and sponsors and may continue to be so in the future;
- We have a substantial amount of indebtedness which may limit our financial and operating activities and may adversely affect our ability to incur additional debt to fund future needs;

- We have limited operating history as a standalone company and may not be able to operate our business successfully, find suitable investments, or generate sufficient revenue to make or sustain distributions to our shareholders;
- We may not replicate the historical results achieved by other entities managed or sponsored by affiliates of NexPoint Advisors, L.P. (“NexPoint” or our “Sponsor”), members of the NexPoint Real Estate Advisors X, L.P. (our “Adviser”) management team or their affiliates.
- We are dependent upon our Adviser and its affiliates to conduct our day-to-day operations; thus, adverse changes in their financial health or our relationship with them could cause our operations to suffer;
- Our Adviser and its affiliates face conflicts of interest, including significant conflicts created by our Adviser’s compensation arrangements with us, including compensation which may be required to be paid to our Adviser if our advisory agreement is terminated, which could result in decisions that are not in the best interests of our shareholders;
- We pay substantial fees and expenses to our Adviser and its affiliates, which payments increase the risk that you will not earn a profit on your investment;
- If we fail to qualify as a real estate investment trust (a “REIT”) for U.S. federal income tax purposes, cash available for distributions to be paid to our shareholders could decrease materially, which would limit our ability to make distributions to our shareholders; and
- Any other risks included under Part I, Item 1A, “Risk Factors,” of our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 31, 2023.

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

**NEXPOINT DIVERSIFIED REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and par value amounts)

|   | <u>June 30, 2023</u><br>(Unaudited) | <u>December 31, 2022</u> |
|---|-------------------------------------|--------------------------|
| <b>ASSETS</b>   |                                     |                          |
| Consolidated Real Estate Investments  |                                     |                          |
| Land  | \$ 47,708                           | \$ 47,708                |
| Buildings and improvements  | 181,886                             | 174,469                  |
| Intangible lease assets   | 10,979                              | 10,979                   |
| Construction in progress  | 39,654                              | 39,731                   |
| Furniture, fixtures, and equipment  | 362                                 | 354                      |
| Total Gross Consolidated Real Estate Investments  | 280,589                             | 273,241                  |
| Accumulated depreciation and amortization   | (14,023)                            | (7,158)                  |
| Total Net Consolidated Real Estate Investments  | 266,566                             | 266,083                  |
| Investments, at fair value (\$552,667 and \$576,419 with related parties, respectively) | 712,657                             | 754,910                  |
| Equity method investments (\$7,306 and \$7,272 with related parties, respectively)      | 69,590                              | 70,656                   |
| Life insurance policies, at fair value  | 60,619                              | 67,711                   |
| Cash and cash equivalents   | 10,590                              | 13,360                   |
| Restricted cash   | 34,201                              | 35,289                   |
| Accounts receivable, net  | 1,698                               | 1,903                    |
| Prepaid and other assets  | 7,507                               | 6,441                    |
| Accrued interest and dividends  | 8,131                               | 4,302                    |
| Deferred tax asset, net   | 1,983                               | 2,247                    |
| <b>TOTAL ASSETS</b>   | <b>\$ 1,173,542</b>                 | <b>\$ 1,222,902</b>      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                                     |                          |
| Liabilities:  |                                     |                          |
| Mortgages payable, net  | \$ 143,421                          | \$ 144,414               |
| Notes payable, net (\$20,000 and \$0 with related party, respectively)                  | 37,902                              | 24,250                   |
| Prime brokerage borrowing   | 2,118                               | 2,624                    |
| Accounts payable and other accrued liabilities  | 8,483                               | 13,865                   |
| Income tax payable  | —                                   | 10,720                   |
| Accrued real estate taxes payable   | 2,262                               | 254                      |
| Accrued interest payable  | 1,286                               | 1,115                    |
| Security deposit liability  | 414                                 | 416                      |
| Prepaid rents   | 931                                 | 1,273                    |
| Intangible lease liabilities, net   | 5,284                               | 6,027                    |
| Due to affiliates   | 112                                 | 112                      |
| <b>Total Liabilities</b>  | <b>\$ 202,213</b>                   | <b>\$ 205,070</b>        |
| Shareholders' Equity:   |                                     |                          |

|   |                     |                     |
|---|---------------------|---------------------|
| Preferred shares, \$0.001 par value: 4,800,000 shares authorized; 3,359,593 shares issued and outstanding | 3                   | 3                   |
| Common shares, \$0.001 par value: unlimited shares authorized; 37,171,807 shares issued and outstanding   | 37                  | 37                  |
| Additional paid-in capital  | 1,000,281           | 999,845             |
| Accumulated earnings (loss)   | (28,992)            | 17,947              |
| <b>Total Shareholders' Equity</b>   | <u>971,329</u>      | <u>1,017,832</u>    |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>   | <u>\$ 1,173,542</u> | <u>\$ 1,222,902</u> |

See Notes to Consolidated Financial Statements

**NEXPOINT DIVERSIFIED REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME (LOSS)**  
(in thousands, except per share amounts)  
(Unaudited)

|   | <b>For the Three<br/>Months Ended<br/>June 30,</b> | <b>For the Six Months<br/>Ended June 30,</b> |
|---|--|--|
|   | <b>2023</b>  | <b>2023</b>                                  |
| <b>Revenues</b>   |  |  |
| Rental income   | \$ 5,417   | \$ 10,137                                    |
| Interest income (\$692 and \$1,317 with related parties, respectively)  | 1,751  | 3,769  |
| Dividend income (\$6,438 and \$12,864 with related parties, respectively)   | 6,690  | 14,809                                       |
| Other income  | 22   | 31   |
| Total revenues  | <u>13,880</u>                                      | <u>28,746</u>                                |
| <b>Expenses</b>   |  |  |
| Property operating expenses   | 2,520  | 4,026  |
| Property management fees  | 191  | 362  |
| Real estate taxes and insurance   | 1,340  | 2,697  |
| Advisory and administrative fees  | 1,660  | 5,238  |
| Property general and administrative expenses  | 1,025  | 1,768  |
| Corporate general and administrative expenses   | 2,252  | 3,748  |
| Conversion expenses   | 1,281  | 1,444  |
| Depreciation and amortization   | 3,584  | 7,108  |
| Total expenses  | <u>13,853</u>                                      | <u>26,391</u>                                |
| <b>Operating income</b>   | 27   | 2,355  |
| Interest expense  | (3,762)  | (7,224)                                      |
| Equity in income (losses) of unconsolidated equity method ventures (\$209 and \$421 with related parties, respectively) | 422  | 346  |
| Change in unrealized gains (losses) (\$1,303) and \$(17,311) with related parties, respectively)                        | (9,332)  | (27,972)                                     |
| Realized gains (losses)   | (914)  | 221  |
| <b>Net loss before income taxes</b>   | (13,559)   | (32,274)                                     |
| Income tax expense  | (308)  | (1,114)                                      |
| <b>Net loss</b>   | (13,867)   | (33,388)                                     |
| <b>Net loss attributable to preferred shareholders</b>  | (1,155)  | (2,310)                                      |
| <b>Net loss attributable to common shareholders</b>   | <u>\$ (15,022)</u>                                 | <u>\$ (35,698)</u>                           |
| <b>Weighted average common shares outstanding - basic</b>   | 37,172   | 37,172                                       |
| <b>Weighted average common shares outstanding - diluted</b>   | 37,172   | 37,172                                       |
| <b>Loss per share - basic</b>   | <u>\$ (0.40)</u>                                   | <u>\$ (0.96)</u>                             |
| <b>Loss per share - diluted</b>   | <u>\$ (0.40)</u>                                   | <u>\$ (0.96)</u>                             |

See Notes to Consolidated Financial Statements



**NEXPOINT DIVERSIFIED REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (Predecessor Basis)**  
(in thousands)  
(Unaudited)

|   | <b>For the Three<br/>Months Ended<br/>June 30,</b> | <b>For the Six Months<br/>Ended June 30,</b> |
|---|--|--|
|   | <b>2022</b>  | <b>2022</b>                                  |
| <b>Investment income:</b>                                     |  |  |
| <b>Income:</b>  |  |  |
| Dividends from unaffiliated issuers                           | \$ 52,647  | \$ 60,178                                    |
| Dividends from affiliated issuers                             | 8,778  | 15,025                                       |
| Interest from unaffiliated issuers                            | 196  | 991  |
| Interest from affiliated issuers                              | 2,859  | 3,002  |
| Total income  | <u>64,480</u>                                      | <u>79,196</u>                                |
| <b>Expenses:</b>  |  |  |
| Investment advisory   | 3,224  | 6,279  |
| Income tax expense  | 2,000  | 2,000  |
| Legal fees  | 463  | 987  |
| Interest expense and commitment fees                          | 373  | 696  |
| Conversion expense  | 108  | 471  |
| Accounting services fees                                      | 171  | 334  |
| Insurance   | 139  | 185  |
| Reports to shareholders                                       | 68   | 136  |
| Trustees fees   | 41   | 109  |
| Audit and tax preparation fees                                | 39   | 77   |
| Transfer agent fees   | 42   | 72   |
| Pricing fees  | 42   | 68   |
| Registration fees   | 29   | 56   |
| Other   | 130  | 322  |
| Total operating expenses                                      | <u>6,869</u>                                       | <u>11,792</u>                                |
| Net investment income   | <u>57,611</u>                                      | <u>67,404</u>                                |
| Preferred dividend expenses                                   | <u>(1,155)</u>                                     | <u>(2,310)</u>                               |
| <b>Net realized and unrealized gain (loss) on investments</b> |  |  |
| <b>Realized gain on:</b>                                      |  |  |
| Investments from unaffiliated issuers                         | 1,302  | 28,893                                       |
| Securities sold short   | 253  | 253  |
| <b>Net change in unrealized gain on:</b>                      |  |  |
| Investments from unaffiliated issuers                         | (29,064)   | (43,752)                                     |
| Investments from affiliated issuers                           | 39,764   | 76,346                                       |
| Securities sold short   | <u>(153)</u>                                       | <u>—</u>                                     |

|  |           |            |
|--|-----------|------------|
| Net realized and unrealized gain on investments        | 12,102    | 61,740     |
| Total increase in net assets resulting from operations | \$ 68,557 | \$ 126,834 |

See Notes to Consolidated Financial Statements

**NEXPOINT DIVERSIFIED REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(in thousands, except share and per share amounts)  
(Unaudited)

| Three Months Ended<br>June 30, 2023                            | Preferred Shares    |             | Common Shares       |              | Additional<br>Paid-in<br>Capital | Accumulated<br>Earnings (Loss) | Total             |
|--|---------------------|-------------|---------------------|--------------|----------------------------------|--------------------------------|-------------------|
|  | Number of<br>Shares | Amount      | Number of<br>Shares | Amount       |                                  |                                |                   |
| <b>Balances, March 31,<br/>2023</b>                            | 3,359,593           | \$ 3        | 37,171,807          | \$ 37        | \$ 999,845                       | \$ (8,304)                     | \$ 991,581        |
| Vesting of stock-based<br>compensation                         | —                   | —           | —                   | —            | 436                              | —                              | 436               |
| Net loss attributable to<br>common shareholders                | —                   | —           | —                   | —            | —                                | (15,022)                       | (15,022)          |
| Net loss attributable to<br>preferred shareholders             | —                   | —           | —                   | —            | —                                | 1,155                          | 1,155             |
| Common share<br>dividends declared<br>(\$0.15 per share)       | —                   | —           | —                   | —            | —                                | (5,666)                        | (5,666)           |
| Preferred share<br>dividends declared<br>(\$0.34375 per share) | —                   | —           | —                   | —            | —                                | (1,155)                        | (1,155)           |
| <b>Balances, June 30, 2023</b>                                 | <u>3,359,593</u>    | <u>\$ 3</u> | <u>37,171,807</u>   | <u>\$ 37</u> | <u>\$ 1,000,281</u>              | <u>\$ (28,992)</u>             | <u>\$ 971,329</u> |

| Six Months Ended June 30, 2023                           | Preferred Shares |             | Common Shares     |              | Additional Paid-in Capital | Accumulated Earnings (Loss) | Total             |
|--|------------------|-------------|-------------------|--------------|----------------------------|-----------------------------|-------------------|
|  | Number of Shares | Amount      | Number of Shares  | Amount       |                            |                             |                   |
| <b>Balances, December 31, 2022</b>                       | 3,359,593        | \$ 3        | 37,171,807        | \$ 37        | \$ 999,845                 | \$ 17,947                   | \$ 1,017,832      |
| Vesting of stock-based compensation                      | —                | —           | —                 | —            | 436                        | —                           | 436               |
| Net loss attributable to common shareholders             | —                | —           | —                 | —            | —                          | (35,698)                    | (35,698)          |
| Net loss attributable to preferred shareholders          | —                | —           | —                 | —            | —                          | 2,310                       | 2,310             |
| Common share dividends declared (\$0.30 per share)       | —                | —           | —                 | —            | —                          | (11,241)                    | (11,241)          |
| Preferred share dividends declared (\$0.68750 per share) | —                | —           | —                 | —            | —                          | (2,310)                     | (2,310)           |
| <b>Balances, June 30, 2023</b>                           | <b>3,359,593</b> | <b>\$ 3</b> | <b>37,171,807</b> | <b>\$ 37</b> | <b>\$ 1,000,281</b>        | <b>\$ (28,992)</b>          | <b>\$ 971,329</b> |

See Notes to Consolidated Financial Statements

**NEXPOINT DIVERSIFIED REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (Predecessor Basis)**  
(in thousands, except share amounts)  
(Unaudited)

|  | <b>For the Three<br/>Months Ended<br/>June 30,</b> | <b>For the Six Months<br/>Ended June 30,</b> |
|--|--|--|
|  | <b>2022</b>  | <b>2022</b>                                  |
| <b>Increase (decrease) in net assets operations:</b>   |  |  |
| Net investment income  | \$ 57,611  | \$ 67,404                                    |
| Preferred dividend expenses  | (1,155)  | (2,310)                                      |
| Accumulated net realized gain (loss) on investments, securities sold short, written options, futures contracts, and foreign currency transactions                                | 1,555  | 29,146                                       |
| Net change in unrealized appreciation on investments, securities sold short, written options contracts and translation of assets and liabilities denominated in foreign currency | 10,546   | 32,594                                       |
| Net increase from operations   | <u>68,557</u>                                      | <u>126,834</u>                               |
| <b>Distributions declared to common shareholders:</b>  |  |  |
| Distribution   | (5,573)  | (11,139)                                     |
| Total distributions declared to common shareholders:   | (5,573)  | (11,139)                                     |
| Increase in net assets from operations and distributions   | <u>62,984</u>                                      | <u>115,695</u>                               |
| <b>Share transactions:</b>   |  |  |
| Value of distributions reinvested  | 741  | 1,425  |
| Proceeds from sale of shares   | —  | 1,288  |
| Net increase from shares transactions  | 741  | 2,713  |
| Total increase in net assets   | <u>63,725</u>                                      | <u>118,408</u>                               |
| <b>Net assets</b>  |  |  |
| Beginning of period  | 965,891  | 911,208                                      |
| End of period  | <u>\$ 1,029,616</u>                                | <u>\$ 1,029,616</u>                          |
| <b>Change in Common Shares</b>   |  |  |
| Issued for distribution reinvested   | 46   | 92   |
| Net increase in common shares  | <u>46</u>  | <u>92</u>                                    |

See Notes to Consolidated Financial Statements

**NEXPOINT DIVERSIFIED REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(in thousands)**  
**(Unaudited)**

|  | <b>For the Six Months<br/>Ended June 30,<br/>2023</b> |
|--|---|
| <b>Cash flows from operating activities</b>  |   |
| Net loss   | \$ (33,388)   |
| Adjustments to reconcile net loss to net cash used in operating activities:                            |   |
| Depreciation and amortization  | 7,108   |
| Amortization of intangible lease assets and liabilities  | (581)   |
| Amortization of deferred financing costs   | 244   |
| Paid-in-kind interest  | (1,961)   |
| Realized (gain) loss   | (221)   |
| Net change in unrealized (gain) loss on investments held at fair value (\$17,311 with related parties) | 27,972  |
| Equity in income (losses) of unconsolidated ventures (\$421 with related parties)                      | (346)   |
| Distributions of earnings from unconsolidated ventures (\$386 with related parties)                    | 1,412   |
| Vesting of stock-based compensation  | 436   |
| Cash paid for life settlement premiums   | (2,532)   |
| Changes in operating assets and liabilities, net of effects of acquisitions:                           |   |
| Deferred tax asset   | 264   |
| Income tax payable   | (10,720)  |
| Real estate taxes payable  | 2,008   |
| Operating assets   | (5,064)   |
| Operating liabilities  | (5,480)   |
| Net cash used in operating activities:   | (20,849)  |
| <b>Cash flows from investing activities</b>  |   |
| Proceeds from sale of investments  | 25,084  |
| Purchases of investments   | (2,102)   |
| Additions to consolidated real estate investments  | (7,348)   |
| Proceeds from life settlement policy maturities  | 2,999   |
| Net cash provided by investing activities  | 18,633  |
| <b>Cash flows from financing activities</b>  |   |
| Proceeds received from notes payable   | 20,000  |
| Mortgage payments  | (1,182)   |
| Prime brokerage borrowing  | 9,922   |
| Credit facilities payments   | (6,000)   |
| Prime brokerage payments   | (10,428)  |
| Deferred financing costs paid  | (403)   |
| Dividends paid to preferred shareholders   | (2,310)   |
| Dividends paid to common shareholders  | (11,241)  |
| Net cash used in financing activities:   | (1,642)   |
| Net decrease in cash, cash equivalents and restricted cash   | (3,858)   |

|  |    |        |
|--|----|--------|
| Cash, cash equivalents and restricted cash, beginning of period (Note 3) | \$ | 48,649 |
| Cash, cash equivalents and restricted cash, end of period                | \$ | 44,791 |

**Supplemental Disclosure of Cash Flow Information**

|                 |    |        |
|-----------------|----|--------|
| Interest paid   | \$ | 7,053  |
| Income tax paid | \$ | 13,700 |

**Supplemental Disclosure of Noncash Activities**

|   |    |   |
|---|----|---|
| Change in capitalized construction costs included in accounts payable and other accrued liabilities | \$ | — |
|---|----|---|

See Notes to Consolidated Financial Statements

**NEXPOINT DIVERSIFIED REAL ESTATE TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (Predecessor Basis)**  
**(in thousands)**  
**(Unaudited)**

|  | <b>For the Six Months<br/>Ended June 30,<br/>2022</b> |
|--|---|
| <b>Cash flows from operating activities:</b>   |   |
| Net increase in net assets resulting from operations   | \$ 126,834  |
| <b>Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:</b> |   |
| Purchases of investment securities from unaffiliated issuers   | (350,369)   |
| Purchases of investment securities from affiliated issuers   | (105,674)   |
| Proceeds from the disposition of investment securities from unaffiliated issuers   | 428,007   |
| Proceeds from the disposition of investment securities from affiliated issuers   | 2,135   |
| Purchases of securities sold short   | (177)   |
| Amortization (accretion) of premiums   | (171)   |
| Net realized (gain) loss on investments from unaffiliated issuers  | (28,893)  |
| Net realized (gain) loss on securities sold short  | (253)   |
| Net change in unrealized depreciation on unaffiliated investments  | 43,752  |
| Net change in unrealized appreciation on investments in affiliated investments   | (76,346)  |
| <b>Changes in operating assets and liabilities</b>   |   |
| Dividends and interest receivable  | 741   |
| Due from custodian   | 192   |
| Prepaid expenses and other assets  | (1,583)   |
| Reclaim receivable   | 1,250   |
| Foreign tax reclaim receivable   | (1,274)   |
| Due to broker  | (1,695)   |
| Payable for administrative fees  | (11)  |
| Payable for investment advisory fees   | 49  |
| Due to custodian   | (110)   |
| Payable for interest expense and commitment fees   | 82  |
| Accrued expenses and other liabilities   | (150)   |
| Net cash provided by operating activities  | <u>36,336</u>   |
| <b>Cash flows from financing activities:</b>   |   |
| Payments on notes payable  | (26,500)  |
| Distributions paid in cash   | (9,714)   |
| Proceeds from shares sold  | 1,288   |
| Proceeds from dividend reinvestment  | (44)  |
| Net cash used in financing activities  | <u>(34,970)</u>                                       |
| Net increase in cash   | 1,366   |
| <b>Cash, cash equivalents and restricted cash:</b>   |   |
| Beginning of period  | <u>2,678</u>  |



|  |    |       |
|--|----|-------|
| End of period  | \$ | 4,044 |
| <b>Supplemental disclosure of cash flow information</b>              |    |       |
| Reinvestment of distributions  | \$ | 1,425 |
| Cash paid during the period for interest expense and commitment fees | \$ | 614   |

See Notes to Consolidated Financial Statements

**NEXPOINT DIVERSIFIED REAL ESTATE TRUST AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Description of Business**

NexPoint Diversified Real Estate Trust (the "Company", "we", "us", or "our") was formed in Delaware and has elected to be taxed as a real estate investment trust (a "REIT"). Substantially all of the Company's business is conducted through NexPoint Diversified Real Estate Trust Operating Partnership, L.P. (the "OP"), the Company's operating partnership. The Company conducts its business (the "Portfolio") through the OP and its wholly owned taxable REIT subsidiaries ("TRSs"). The Company's wholly owned subsidiary, NexPoint Diversified Real Estate Trust OP GP, LLC (the "OP GP"), is the sole general partner of the OP. As of June 30, 2023, there were 2,000 partnership units of the OP (the "OP Units") outstanding, of which 100.0% were owned by the Company.

On July 1, 2022 (the "Deregistration Date"), the Securities and Exchange Commission (the "SEC") issued an order pursuant to Section 8(f) of the Investment Company Act of 1940 (the "Investment Company Act") declaring that the Company has ceased to be an investment company under the Investment Company Act (the "Deregistration Order"). The issuance of the Deregistration Order enabled the Company to proceed with full implementation of its new business mandate to operate as a diversified REIT that focuses primarily on investing in various commercial real estate property types and across the capital structure, including but not limited to equity, mortgage debt, mezzanine debt and preferred equity (the "Business Change").

The Company is externally managed by NexPoint Real Estate Advisors X, L.P. (the "Adviser"), through an agreement dated July 1, 2022, amended on October 25, 2022 and April 11, 2023, (the "Advisory Agreement"), by and among the Company and the Adviser for an initial three-year term that will expire on July 1, 2025 and successive one-year terms thereafter unless earlier terminated. The Adviser manages the day-to-day operations of the Company and provides investment management services. The Company had no employees as of June 30, 2023. All of the Company's investment decisions are made by the Adviser, subject to general oversight by the Adviser's investment committee and our board of trustees (the "Board"). The Adviser is wholly owned by NexPoint Advisors, L.P. (the "Sponsor" or "NexPoint").

As a diversified REIT, the Company's primary investment objective is to provide both current income and capital appreciation. The Company seeks to achieve this objective through the Business Change. Target underlying property types primarily include, but are not limited to, single-family rentals, multifamily, self-storage, life science, office, industrial, hospitality, net lease and retail. The Company may, to a limited extent, hold, acquire or transact in certain non-real estate securities.

**2. Summary of Significant Accounting Policies**

Readers of this Quarterly Report on Form 10-Q ("Quarterly Report") should refer to the audited financial statements and notes to consolidated financial statements of the Company for the year ended December 31, 2022, which are included in our [2022 Annual Report on Form 10-K \("2022 Annual Report"\)](#), filed with the United States Securities and Exchange Commission (SEC) and also available on our website ([nxdn.nexpoint.com](http://nxdn.nexpoint.com)), since we have omitted from this Quarterly Report certain footnote disclosures which would substantially duplicate those contained in such audited financial statements. You should also refer to Note 2, Summary of Significant Accounting Policies, in the notes to consolidated financial statements in our [2022 Annual Report](#) for further discussion of our significant accounting policies and estimates. Information contained on, or accessible through, our website is not incorporated by reference into and does not constitute a part of this Quarterly Report or any other report or documents we file or furnish with the SEC.

*Considerations Related to Tightening Monetary Policy*

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

### *Financial Statement Preparation*

The accompanying consolidated financial statements have been prepared in accordance with the rules applicable to quarterly reports on Form 10-Q and include all information and footnotes required for interim financial statement presentation, but do not include all disclosures required under accounting principles generally accepted in the United States (U.S.), or General Accepted Accounting Principles (GAAP), for annual financial statements. In our opinion, all adjustments (consisting of normal recurring adjustments, except as otherwise noted) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions about future events, such as weakening global macroeconomic conditions and stress in the banking system, including less available and more expensive debt capital. These estimates and the underlying assumptions affect the reported amounts of assets, liabilities, revenues and expenses. Such estimates include the value of goodwill, intangibles and other long-lived assets, real estate assets, accounts receivable, contract assets, operating lease assets, investments in unconsolidated subsidiaries and assumptions used in the calculation of income taxes, retirement and other post-employment benefits, among others. These estimates and assumptions are based on our best judgment. We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors, including consideration of the current economic environment, and adjust such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in these estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

### *Income Taxes*

As a REIT for U.S. federal income tax purposes, the Company may deduct earnings distributed to stockholders against the income generated by our REIT operations. The Company continues to be subject to income taxes on the income of its taxable REIT subsidiaries. Our consolidated net loss before income taxes was \$13.6 million for the three months ended June 30, 2023 and \$32.3 million for the six months ended June 30, 2023. Our provision for income taxes was \$0.3 million for the three months ended June 30, 2023 and \$1.1 million for the six months ended June 30, 2023.

The Company's tax provision for interim periods is determined using an estimate of its annual current and deferred effective tax rates, adjusted for discrete items. Our effective tax rates for the three and six months ended June 30, 2023 were (2.27)% and (3.45)%, respectively. Our effective tax rate differs from the U.S. federal statutory corporate tax rate of 21.0% primarily due to our REIT operations generally not being subject to federal income taxes.

### **3. Business Change**

As discussed in Note 1 and Note 2, on the Deregistration Date, the SEC issued an order pursuant to Section 8(f) of the Investment Company Act declaring that the Company has ceased to be an investment company under the Investment Company Act. The issuance of the Deregistration Order enabled the Company to proceed with full implementation of the Business Change. Upon the Deregistration Order, the Company discontinued the use of guidance in FASB ASC 946. To effectuate this change, the fair values of the Company's investments became the July 1, 2022 cost basis. The change also required the consolidation of several investments that were previously not required to be consolidated under FASB ASC 946.

### **4. Investments in Real Estate Subsidiaries**

The Company conducts its operations through the OP, which owns several real estate properties through single asset limited liability companies that are special purpose entities ("SPEs"). The Company consolidates the SPEs that it controls as well as any VIEs where it is the primary beneficiary. All of the properties the SPEs own are consolidated in the Company's consolidated financial statements. The assets of each entity can only be used to settle obligations of that particular entity, and the creditors of each entity have no recourse to the assets of other entities or the Company.

As of June 30, 2023, the Company, through the OP, owned four properties through SPEs. The following table represents the Company's ownership in each property by virtue of its 100% ownership of the SPEs that directly own the title to each property as of June 30, 2023:

| Property Name               | Location         | Year Acquired | Effective Ownership            |       |
|-----------------------------|------------------|---------------|--------------------------------|-------|
|                             |                  |               | Percentage at<br>June 30, 2023 |       |
| White Rock Center           | Dallas, Texas    | 2013          |                                | 100 % |
| 5916 W Loop 289             | Lubbock, Texas   | 2013          |                                | 100 % |
| Cityplace Tower             | Dallas, Texas    | 2018          |                                | 100 % |
| NexPoint Dominion Land, LLC | (1) Plano, Texas | 2022          |                                | 100 % |

(1) NexPoint Dominion Land, LLC owns 100% of 21.5 acres of undeveloped land in Plano, Texas.

## 5. Consolidated Real Estate Investments

As of June 30, 2023, the major components of the Company's investments in real estate held by SPEs the Company consolidates, which are included in "Consolidated Real Estate Investments" on the Consolidated balance sheet, were as follows (in thousands):

| Operating Properties                      | Land             | Buildings and Improvements | Intangible Lease Assets | Intangible Lease Liabilities | Construction in Progress | Furniture, Fixtures, and Equipment | Totals            |
|---|------------------|----------------------------|-------------------------|------------------------------|--------------------------|------------------------------------|-------------------|
| White Rock Center                         | \$ 1,315         | \$ 10,314                  | \$ 1,921                | \$ (101)                     | \$ —                     | \$ 5                               | \$ 13,454         |
| 5916 W Loop 289                           | 1,081            | 2,939                      | —                       | —                            | —                        | —                                  | 4,020             |
| Cityplace Tower                           | 18,812           | 168,633                    | 9,058                   | (6,669)                      | 39,654                   | 357                                | 229,845           |
| NexPoint Dominion Land, LLC               | 26,500           | —                          | —                       | —                            | —                        | —                                  | 26,500            |
|   | 47,708           | 181,886                    | 10,979                  | (6,770)                      | 39,654                   | 362                                | 273,819           |
| Accumulated depreciation and amortization | —                | (8,478)                    | (5,335)                 | 1,486                        | —                        | (210)                              | (12,537)          |
| <b>Total Operating Properties</b>         | <b>\$ 47,708</b> | <b>\$ 173,408</b>          | <b>\$ 5,644</b>         | <b>\$ (5,284)</b>            | <b>\$ 39,654</b>         | <b>\$ 152</b>                      | <b>\$ 261,282</b> |

As of December 31, 2022, the major components of the Company's investments in real estate held by SPEs the Company consolidates, which are included in "Consolidated Real Estate Investments" on the Consolidated balance sheet, were as follows (in thousands):

| <b>Operating Properties</b>               | <b>Land</b>      | <b>Buildings and Improvements</b> | <b>Intangible Lease Assets</b> | <b>Intangible Lease Liabilities</b> | <b>Construction in Progress</b> | <b>Furniture, Fixtures, and Equipment</b> | <b>Totals</b>     |
|---|------------------|-----------------------------------|--------------------------------|-------------------------------------|---------------------------------|---|-------------------|
| White Rock Center                         | \$ 1,315         | \$ 10,314                         | \$ 1,921                       | \$ (101)                            | \$ —                            | \$ 5                                      | \$ 13,454         |
| 5916 W Loop 289                           | 1,081            | 2,939                             | —                              | —                                   | —                               | —   | 4,020             |
| Cityplace Tower                           | 18,812           | 161,216                           | 9,058                          | (6,669)                             | 39,731                          | 349                                       | 222,497           |
| NexPoint Dominion Land, LLC               | 26,500           | —                                 | —                              | —                                   | —                               | —   | 26,500            |
|   | 47,708           | 174,469                           | 10,979                         | (6,770)                             | 39,731                          | 354                                       | 266,471           |
| Accumulated depreciation and amortization | —                | (4,114)                           | (2,863)                        | 743                                 | —                               | (181)                                     | (6,415)           |
| <b>Total Operating Properties</b>         | <b>\$ 47,708</b> | <b>\$ 170,355</b>                 | <b>\$ 8,116</b>                | <b>\$ (6,027)</b>                   | <b>\$ 39,731</b>                | <b>\$ 173</b>                             | <b>\$ 260,056</b> |

Depreciation expense was \$2.3 million and \$4.4 million for the three and six months ended June 30, 2023, respectively. Amortization expense related to the Company's intangible lease assets was \$1.2 million and \$2.5 million for the Company's intangible lease liabilities for the three and six months ended June 30, 2023, respectively. Amortization expense related to the Company's intangible lease liabilities was \$0.4 million and \$0.7 million for the three and six months ended June 30, 2023, respectively. The net amount amortized as an increase to rental revenue for capitalized above and below-market lease intangibles was \$0.4 million and \$0.7 million for the three and six months ended June 30, 2023, respectively.

#### Acquisitions

There were no acquisitions by the Company for the six months ended June 30, 2023.

## 6. Debt

#### Cityplace Debt

The Company has debt on its office and hospitality real estate property pursuant a Loan Agreement, originally dated August 15, 2018 and subsequently amended (the "Loan Agreement"). The debt is limited recourse to the Company and encumbers the property. The debt had an original maturity of September 8, 2022, and the Company deferred the maturity date with the lender to May 8, 2023, with the possibility to extend for an additional four months to September 8, 2023 provided certain metrics are met. On May 8, 2023, the lender agreed to defer the maturity of the Cityplace debt by four months to September 8, 2023. Also on May 8, 2023, the parties to the Loan Agreement agreed to convert the index upon which the interest rate is based to the one-month secured overnight financing rate ("SOFR") effective as of the first interest period beginning on or after May 8, 2023. The debt restructuring per the terms of the Eleventh Omnibus Amendment Agreement is considered a debt modification. The purpose of the deferral was to allow for continued discussions around refinancing the debt. Management recognizes that finding an alternative source of funding is necessary to repay the debt by the maturity date. Management is evaluating multiple options to fund the repayment of the \$143.5 million principal balance outstanding as of June 30, 2023, including refinancing the debt, securing additional equity or debt financing, selling a portion of the portfolio, or any combination thereof. Management believes that there is sufficient time before the maturity date and that the Company has sufficient access to capital to ensure the Company is able to meet its obligations as they become due. Due to the short term nature of the debt, the fair value of the debt is approximately the outstanding balance. The below table contains summary information related to the mortgages payable (dollars in thousands):

|                               | <b>Outstanding principal<br/>as of<br/>June 30, 2023</b> | <b>Interest Rate</b> | <b>Maturity Date</b> |
|-------------------------------|--|----------------------|----------------------|
| Note A-1                      | \$ 101,955   | 7.50 %               | 9/8/2023             |
| Note A-2                      | 22,303   | 11.50 %              | 9/8/2023             |
| Note B-1                      | 12,835   | 7.50 %               | 9/8/2023             |
| Note B-2                      | 3,186  | 11.50 %              | 9/8/2023             |
| Mezzanine Note 1              | 2,807  | 11.50 %              | 9/8/2023             |
| Mezzanine Note 2              | 401  | 11.50 %              | 9/8/2023             |
| Mortgages payable             | 143,487  |                      |                      |
| Deferred financing costs, net | (66)   |                      |                      |
| <b>Mortgages payable, net</b> | <b>\$ 143,421</b>  |                      |                      |

The weighted average interest rate of the Company's debt related to its Cityplace investment was 8.3% as of June 30, 2023.

The Loan Agreement contain customary events of default, including defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the documents evidencing the loan, defaults in payments under any other security instrument covering any part of the property, whether junior or senior to the loan, and bankruptcy or other insolvency events. As of June 30, 2023, the Company believes it is in compliance with all covenants.

#### *Notes Payable*

On August 9, 2022, the Company borrowed approximately \$13.3 million from the seller, Gabriel Legacy, LLC to finance its acquisition of 21.5 acres of land in Plano, Texas held through NexPoint Dominion Land, LLC, a wholly owned subsidiary of the OP. Due to the short term nature of the note, the fair value of the note is approximately the outstanding balance. The note bears interest at an annual rate equal to the WSJ Prime Rate and matures on August 8, 2025.

#### *Credit Facility*

On January 8, 2021, the Company entered into a \$30.0 million credit facility (the "Credit Facility") with Raymond James Bank, N.A. and drew the full balance. The Credit Facility, as amended, matures on November 6, 2023 and as of June 30, 2023, bore interest at the one-month SOFR plus 4.25%. During the six months ended June 30, 2023, the Company paid down \$6.0 million on the Credit Facility. As of June 30, 2023, the Credit Facility had an outstanding balance of \$5.0 million. Due to the short term nature of the debt, the fair value of the debt is approximately the outstanding balance. Management believes that the Company has sufficient access to capital to ensure the Company is able to meet its obligations as they become due.

#### *Revolving Credit Facility*

On May 22, 2023, the Company entered into a \$20.0 million revolving credit facility (the "NexBank Revolver") with NexBank, in the initial principal balance of \$20.0 million, with the option for the Company to receive additional disbursements thereunder up to a maximum of \$50.0 million. As of June 30, 2023, the NexBank Revolver bears interest at one-month SOFR plus 3.50% and matures on May 20, 2024, with the option to extend the maturity by one year, twice. As of June 30, 2023, the NexBank Revolver had an outstanding balance of \$20.0 million.

#### *Deferred Financing Costs*

The Company defers costs incurred in obtaining financing and amortizes the costs over the terms of the related loans using the straight-line method, which approximates the effective interest method. Deferred financing costs, net of amortization, are recorded as a reduction from the related debt on the Company's consolidated balance sheet. Upon repayment of or in conjunction with a material change in the terms of the underlying debt agreement, any unamortized costs are charged to loss on extinguishment of debt and modification costs.

### Prime Brokerage Borrowing

Effective July 2, 2022, the Company entered a prime brokerage account with Jefferies to hold securities owned by the Company. The Company from time to time borrows against the value of these securities. As of June 30, 2023, the Company had a margin balance of approximately \$2.1 million outstanding with Jefferies bearing interest at the Overnight Bank Funding Rate plus 0.50%. Securities with a fair value of approximately \$10.2 million are pledged as collateral against this margin balance. This arrangement has no stated maturity date. Due to the floating interest rate nature of the debt, the fair value of the debt is approximately the outstanding balance.

### Schedule of Debt Maturities

The aggregate scheduled maturities, including amortizing principal payments, of total debt for the next five calendar years subsequent to June 30, 2023 are as follows (in thousands):

|              | Mortgages Payable | Notes Payable    | Total             |
|--------------|-------------------|------------------|-------------------|
| 2023         | \$ 143,487        | \$ 5,000         | \$ 148,487        |
| 2024         | —                 | 20,000           | 20,000            |
| 2025         | —                 | 13,250           | 13,250            |
| 2026         | —                 | —                | —                 |
| 2027         | —                 | —                | —                 |
| Thereafter   | —                 | —                | —                 |
| <b>Total</b> | <b>\$ 143,487</b> | <b>\$ 38,250</b> | <b>\$ 181,737</b> |

### 7. Variable Interest Entities

As of June 30, 2023, the Company has accounted for the following investments as unconsolidated VIEs:

| Entities   | Instrument   | Asset Type           | Percentage Ownership<br>as of June 30, 2023 | Relationship as of June 30, 2023 |
|--|--------------|----------------------|---|----------------------------------|
| <i>Unconsolidated Entities:</i>                          |              |                      |   |                                  |
| NexPoint Real Estate Finance Operating Partnership, L.P. | LP interest  | Mortgage             | 16.0 %                                      | VIE                              |
| VineBrook Homes Operating Partnership, L.P.              | LP interest  | Single-family rental | 11.1 %                                      | VIE                              |
| NexPoint SFR Operating Partnership, L.P.                 | LP interest  | Single-family rental | 30.8 %                                      | VIE                              |
| NexPoint Storage Partners Operating Company, LLC         | LLC interest | Self-storage         | 29.7 %                                      | VIE                              |
| NexPoint Storage Partners, Inc.                          | Common stock | Self-storage         | 53.0 %                                      | VIE                              |
| Perilune Aero Equity Holdings One, LLC                   | LLC interest | Aircraft             | 16.4 %                                      | VIE                              |
| SFR WLIF III, LLC  | LLC interest | Single-family rental | 20.0 %                                      | VIE                              |
| IQHQ Holdings, LP  | LP interest  | Life science         | 1.1 %                                       | VIE                              |

### Consolidated VIEs

The Company did not have any consolidated VIEs for the period ended June 30, 2023.

## 8. Equity Method Investments

Below is a summary of the Company's equity method investments as of June 30, 2023 (dollars in thousands):

| Investee Name                          | Instrument   | Asset Type           | NXDT<br>Percentage<br>Ownership |     | Investment<br>Basis | Share of<br>Investee's Net<br>Assets (1) | Basis<br>Difference (2) | Share of<br>Earnings<br>(Loss) |
|--|--------------|----------------------|---------------------------------|-----|---------------------|--|-------------------------|--------------------------------|
| Sandstone Pasadena Apartments, LLC     | LLC interest | Multifamily          | 50.0 %                          |     | \$ 12,169           | \$ (9,590)                               | \$ 21,759               | \$ (14)                        |
| AM Uptown Hotel, LLC                   | LLC interest | Hospitality          | 60.0 %                          | (3) | 26,216              | 21,334                                   | 4,882                   | 245                            |
| SFR WLIF III, LLC                      | LLC interest | Single-family rental | 20.0 %                          |     | 7,306               | 7,466                                    | (160)                   | 386                            |
| Las Vegas Land Owner, LLC              | LLC interest | Land                 | 77.0 %                          | (4) | 12,312              | 12,312                                   | —                       | —                              |
| Perilune Aero Equity Holdings One, LLC | LLC interest | Aircraft             | 16.4 %                          |     | 11,587              | 9,990                                    | 1,597                   | 721                            |
| Claymore Holdings, LLC                 | LLC interest | N/A                  | 50.0 %                          | (5) | —                   | (6)                                      | —                       | —                              |
| Allenby, LLC                           | LLC interest | N/A                  | 50.0 %                          | (5) | —                   | (6)                                      | —                       | —                              |
|  |              |                      |                                 |     | <u>\$ 69,590</u>    | <u>\$ 41,512</u>                         | <u>\$ 28,078</u>        | <u>\$ 1,338</u>                |



Below is a summary of the Company's equity method investments as of December 31, 2022 (dollars in thousands):

| Investee Name                          | Instrument   | Asset Type           | NXDT Percentage Ownership |     | Investment Basis | Share of Investee's Net Assets (1) | Basis Difference (2) | Share of Earnings (Loss) |               |
|--|--------------|----------------------|---------------------------|-----|------------------|------------------------------------|----------------------|--------------------------|---------------|
| Sandstone Pasadena Apartments, LLC     | LLC interest | Multifamily          | 50.0 %                    |     | \$ 13,013        | \$ —                               | \$ 13,013            | \$ (217)                 |               |
| AM Uptown Hotel, LLC                   | LLC interest | Hospitality          | 60.0 %                    | (3) | 27,136           | 21,334                             | 5,802                | (227)                    |               |
| SFR WLIF III, LLC                      | LLC interest | Single-family rental | 20.0 %                    |     | 7,272            | 7,466                              | (194)                | 280                      |               |
| Las Vegas Land Owner, LLC              | LLC interest | Land                 | 77.0 %                    | (4) | 12,312           | 12,312                             | —                    | —                        |               |
| Perilune Aero Equity Holdings One, LLC | LLC interest | Aircraft             | 16.4 %                    |     | 10,923           | 8,751                              | 2,172                | 665                      |               |
| Claymore Holdings, LLC                 | LLC interest | N/A                  | 50.0 %                    | (5) | —                | (6)                                | —                    | —                        |               |
| Allenby, LLC                           | LLC interest | N/A                  | 50.0 %                    | (5) | —                | (6)                                | —                    | —                        |               |
|  |              |                      |                           |     | <u>\$ 70,656</u> | <u>\$ 49,863</u>                   | <u>\$—</u>           | <u>\$ 20,793</u>         | <u>\$ 501</u> |

Below is a summary of the Company's investments as of June 30, 2023 that qualify for equity method accounting for which the Company has elected to account for using the fair value option. Amounts are included in "investments, at fair value" on the consolidated balance sheet.

| Investee Name  | Instrument   | Asset Type           | NXDT Percentage Ownership |     | Fair Value        |
|--|--------------|----------------------|---------------------------|-----|-------------------|
| NexPoint Real Estate Finance Operating Partnership, L.P. | LP interest  | Mortgage             | 16.0 %                    | (7) | \$ 75,909 (6)     |
| NexPoint Real Estate Finance, Inc.                       | Common stock | Mortgage             | 12.2 %                    | (7) | 32,739 (6)        |
| VineBrook Homes Operating Partnership, L.P.              | LP interest  | Single-family rental | 11.1 %                    | (7) | 167,305 (6)       |
| NexPoint Storage Partners, Inc.                          | Common stock | Self-storage         | 53.0 %                    | (3) | 105,006 (6)       |
| NexPoint Storage Partners Operating Company, LLC         | LLC interest | Self-storage         | 29.7 %                    |     | 57,220 (6)        |
| NexPoint SFR Operating Partnership, L.P.                 | LP interest  | Single-family rental | 30.8 %                    |     | 49,720 (6)        |
| NexPoint Hospitality Trust                               | Common stock | Hospitality          | 45.4 %                    |     | 16,964 (6)        |
| LLV Holdco, LLC  | LLC interest | Land                 | 26.8 %                    |     | 3,373 (6)         |
|  |              |                      |                           |     | <u>\$ 508,236</u> |

(1) Represents the Company's percentage share of net assets of the investee per the investee's books and records.

(2) Represents the difference between the basis at which the investments in unconsolidated ventures are carried by the Company and the Company's proportionate share of the equity method investee's net assets. To the extent

that the Company's cost basis is different from the basis reflected at the joint venture level, the basis difference is generally amortized over the lives of the related assets and liabilities, and such amortization is included in the Company's share of equity in earnings of the joint venture.

- (3) The Company owns greater than 50% of the outstanding common equity but is not deemed by the Company to be the primary beneficiary (for a VIE) or have a controlling financial interest of the investee and as such, accounts for the investee using the equity method.
- (4) The Company owns 100% of Las Vegas Land Owner, LLC which owns 77% of a joint venture that owns an 8.5 acre tract of land (the "Tivoli North Property") as described below. Through the TIC (as defined below), the Company shares control and as such accounts for this investment using the equity method.
- (5) The Company has a 50% non-controlling interest in Claymore Holdings, LLC ("Claymore") and Allenby, LLC, ("Allenby"). The Company has determined it is not the primary beneficiary and does not consolidate these entities.
- (6) The Company has elected the fair value option with respect to these investments. The basis in these investments is their June 30, 2023 fair value.
- (7) The Company owns less than 20% of the investee but has significant influence due to members of the management team serving on the board of the investee or its parent and as such, accounts for the investee using the equity method.

#### *Sandstone*

On May 29, 2015, the Company, via a wholly owned subsidiary, invested \$12 million in Sandstone Pasadena Apartments, LLC ("Sandstone"), which beneficially owns a 696-unit multifamily property (the "Ashmore") located in Pasadena, Texas. This contribution by the Company gave it an initial ownership percentage of 83.3%. Sandstone and the Ashmore are managed by Knightvest 2015, LLC (the "Sandstone Manager"). The LLC agreement of Sandstone vests the Sandstone Manager with the exclusive right, power, authority and discretion in conducting the business of Sandstone, subject to certain exceptions. Since the Company does not have a controlling financial interest, it does not consolidate Sandstone and therefore uses the equity method of accounting. Per the Sandstone organizational documents, the Company was entitled to a return on unreturned equity of 10%, which compounded annually. There was a capital event in 2018 which led to a full return of the Company's and the other member's equity in Sandstone. This triggered a change in the distribution-sharing percentage, which is now effectively 50% for the Company. The Sandstone Manager determines the monthly distributions at their discretion. As of June 30, 2023, the Company still maintains 50% ownership of Sandstone.

#### *Marriott Uptown*

On June 8, 2018, the Company, through a subsidiary, initially invested amounts in exchange for which it received an approximately 85% interest in AM Uptown Hotel, LLC, ("AM Uptown") which beneficially owns a 255-key upscale hotel (the "Marriott Uptown") located in Dallas, Texas. AM Uptown appointed Alamo Manhattan Properties, LLC ("Alamo Manhattan") as the manager to manage and operate the Marriott Uptown. The management, control and direction of AM Uptown and its operations, business and affairs is vested exclusively in Alamo Manhattan, which has the right, power, and authority, acting solely by itself to carry out all the purposes of AM Uptown. The Company does not participate in the management, control, or direction of AM Uptown's operations, business, or affairs and has no substantive kickout rights over Alamo Manhattan. Since the Company does not have a controlling financial interest, it does not consolidate AM Uptown and therefore uses the equity method of accounting. As of June 30, 2023, the Company maintains 60% ownership interest of AM Uptown due to previous capital events that triggered a change in the distribution-sharing percentage and ownership percentage.

#### *SFR WLIF III*

On July 11, 2019, the Company initially invested amounts in exchange for which it received an approximately 20% interest in SFR WLIF III, LLC, an SPE designed to hold an investment in debt issued to VineBrook Homes Operating Partnership, L.P. (the "VB OP"), an entity that manages single family rental properties, whose parent is advised by an affiliate of the Adviser. The loan to the VB OP bears interest at 1-month SOFR plus 155 basis points, matures on December 1, 2025, and has an outstanding principal balance of \$238.5 million. SFR WLIF III, LLC is managed, directly or indirectly, by an affiliate of the Adviser. As the Company is not the primary beneficiary in this entity, it is accounted for as an equity method investment.

*Tivoli*

On March 30, 2022, the Company invested in Las Vegas Land Owner, LLC ("Tivoli"), a joint venture that owns the Tivoli North Property, comprised of an 8.5-acre tract of land, upon which site Tivoli plans to develop a 300-unit multifamily apartment community directly adjacent to Tivoli Village, a high-end mixed-use center in Las Vegas, Clark County, Nevada. On August 8, 2022 the joint venture was restructured to a tenants-in-common arrangement (the "TIC"). Post restructure, the Company owns 100% of Tivoli, and Tivoli owns 77% of the underlying land investment. Members of the TIC must unanimously agree on certain major decisions regarding the underlying investment giving the Company shared control, and as such, the Company accounts for the TIC investment using the equity method.

*Perilune*

The Company is a 16.4% member of Perilune Aero Equity Holdings One, LLC ("Perilune"). Perilune is a pooled investment vehicle created to finance, acquire, lease and/or sell two aircraft through subordinated or other lending arrangements and/or direct or indirect equity investments. Due to the timing of the receipt of financial statements from Perilune, the Company applies up to a 90 day lag reporting for this investment. In instances where the timing of the receipt of financial statements exceeds the 90 day window, earnings for the period are estimated. Since Perilune is a partnership-like LLC, and the Company holds more than an insignificant ownership percentage but is not the primary beneficiary, the investment is accounted for using the equity method.

*Claymore and Allenby*

The Company owns noncontrolling interests in two LLCs, Claymore and Allenby, created to hold litigation claims. The probability, timing, and potential amount of recovery, if any, are unknown as of June 30, 2023. Since the Company does not have controlling financial interests in these entities, they are accounted for as equity method investments.

*NexPoint Real Estate Finance Operating Partnership, L.P.*

In February 2020, the Company contributed assets to certain subsidiaries of the then-newly formed NexPoint Real Estate Finance Operating Partnership, L.P. (the "NREF OP"), the operating partnership of a publicly traded mortgage REIT, in exchange for equity in those subsidiaries. The equity in the subsidiaries owned by the Company, including additional equity received upon receipt of liquidating distributions from other vehicles that contributed to the NREF OP, was subsequently contributed to the Company's wholly owned subsidiary NexPoint Real Estate Opportunities, LLC ("NREO") and redeemed for limited partnership units in the NREF OP. The NREF OP is the operating partnership of NexPoint Real Estate Finance, Inc. ("NREF"), a public mortgage REIT managed by an affiliate of the Adviser. The Company, through NREO, owns approximately 16.0% of the common units of limited partnership of the NREF OP ("NREF OP Units"), and is not considered the primary beneficiary.

*NexPoint Real Estate Finance, Inc.*

On December 23, 2022, the Company, through NREO, redeemed 2,100,000 NREF OP Units for 2,100,000 shares of common stock of NREF. The Company, through NREO owns approximately 12.2%, of NREF's common stock. The Company owns less than 20% of the investee and does not have a controlling financial interest but has significant influence due to members of the management team serving on the board of the investee, and as such, the investment qualifies to be accounted for using the equity method. However, management has elected to account for the investment using the fair value option.

*VineBrook Homes Operating Partnership, L.P.*

On November 1, 2018, the Company through NREO contributed \$70.7 million to the VB OP in exchange for limited partnership units. The VB OP is the operating partnership of VineBrook Homes Trust, Inc. ("VineBrook"), a private single-family rental REIT managed by an affiliate of the Adviser. The Company owns less than 20% of the investee but has significant influence due to members of the management team serving on the board of VineBrook and as such, the investment qualifies to be accounted for using the equity method. However, management has elected to account for the investment using the fair value option. The Company, through NREO, owns approximately 11.1% of the common units of the VB OP as of June 30, 2023 and is not considered the primary beneficiary.

*NexPoint Storage Partners, Inc.*

In November 2020, the Company's preferred stock investment in Jernigan Capital, Inc. was converted into common shares of NexPoint Storage Partners, Inc. ("NSP") as part of a transaction where affiliates of the Adviser took Jernigan Capital, Inc. private. NSP is a privately owned self-storage REIT. As of June 30, 2023, the Company owns 53.0% of the outstanding common stock of NSP. The Company has determined that it is not the primary beneficiary of NSP. The investment qualifies to be accounted for using the equity method. However, management has elected to account for the investment using the fair value option.

*NexPoint Storage Partners Operating Company, LLC.*

On December 8, 2022, the Company, through NREO, contributed all of its interests in the joint ventures (the "SAFStor Ventures") with SAFStor NREA GP – I, LLC, SAFStor NREA GP – II, LLC and NREA GP – III, LLC to NexPoint Storage Partners Operating Company, LLC (the "NSP OC") in exchange for 47,064 newly created Class B Units of the NSP OC. The NSP OC is the operating company of NSP. As of June 30, 2023, the Company owns approximately 29.7% of the outstanding combined classes of common units of the NSP OC (the "NSP OC Common Units") and is not the primary beneficiary, and as such, the investment qualifies to be accounted for using the equity method. However, management has elected to account for the investment using the fair value option.

*NexPoint SFR Operating Partnership, L.P.*

On June 8, 2022, the Company, directly or through one or more subsidiaries, contributed \$25.0 million to the newly formed NexPoint SFR Operating Partnership, L.P. (the "SFR OP") in exchange for common units of the SFR OP (the "SFR OP Units"). Additionally, on June 8, 2022, the Company, directly or through one or more subsidiaries, loaned \$25.0 million to the SFR OP in exchange for \$25.0 million of 7.50% convertible notes of the SFR OP (the "SFR OP Convertible Notes") that are interest only during the term and mature on June 30, 2027. The SFR OP is a subsidiary of NexPoint Homes Trust, Inc. ("NXHT"), a single-family rental REIT managed by an affiliate of the Adviser. Subsequent to June 8, 2022 and through December 31, 2022, the Company, directly or through one or more subsidiaries, contributed approximately an additional \$27.5 million to the SFR OP in exchange for SFR OP Units. Subsequent to June 8, 2022 and through December 31, 2022, the Company, directly or through one or more subsidiaries, contributed approximately an additional \$1.0 million to the SFR OP in exchange for SFR OP Units through distribution reinvestments. Additionally, subsequent to June 8, 2022 and through December 31, 2022, the Company, directly or through one or more subsidiaries, loaned an additional \$5.0 million to the SFR OP in exchange for \$5.0 million of SFR OP Convertible Notes. On April 18, 2023, the SFR OP paid down approximately \$8.5 million of the SFR OP Convertible Notes. Subsequent to January 1, 2023 and through June 30, 2023, the Company received 27,261 SFR OP Units in lieu of cash dividends. On June 30, 2023, the SFR OP Units were reclassified into Class A, Class B and Class C Common Units, with the SFR OP Units held by the Company being reclassified as Class B Common Units. As a result of the reclassification, the Company has 50% of the voting power of the SFR OP Units, including with respect to the election of directors to the board of directors of the SFR OP. As of June 30, 2023, the Company, owns approximately 30.8% of the outstanding units of SFR OP and does not have a controlling financial interest. The investment qualifies to be accounted for using the equity method. However, management has elected to account for the investment using the fair value option.

*NexPoint Hospitality Trust*

As of June 30, 2023, the Company owns 45.4% of the outstanding common stock of NexPoint Hospitality Trust ("NHT") and does not have a controlling financial interest. The investment qualifies to be accounted for using the equity method. However, management has elected to account for the investment using the fair value option. NHT is a publicly traded hospitality REIT that owns 10 properties located throughout the United States. NHT is managed by an affiliate of the Adviser. NHT is listed on the TSX Venture Exchange under the ticker NHT.U.

*LLV Holdco, LLC*

As of June 30, 2023, the Company owns approximately 26.8% of the series A and B equity units of LLV Holdco, LLC ("LLV") and does not have a controlling financial interest. The investment qualifies to be accounted for using the equity method. However, management has elected to account for the investment using the fair value option. Additionally, the Company owns \$12.4 million par of LLV's senior revolving loan maturing December 31, 2023 and paying interest at a fixed rate of 5% per annum. LLV specializes in managing real estate assets, which are ultimately sold to both residential

and commercial developers. LLV owns approximately 300 gross acres of undeveloped land, of which 115 acres are developable near Lake Las Vegas in Henderson, Nevada.

#### Significant Equity Method Investments

The table below presents the unaudited summary balance sheets for the Company's significant equity method investments as of June 30, 2023 (dollars in thousands). NREF, NSP and VineBrook do not prepare standalone financials for their operating companies as all operations and investments are owned through their operating companies and are consolidated by the corporate entities. As such, only the financial information for NREF, NSP and VineBrook are presented below.

|  | NREF                | VineBrook           | NSP                 |
|--|---------------------|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |                     |
| Investments  | \$ 7,523,160        | \$ 2,500            | \$ —                |
| Real estate assets   | 58,613              | 3,489,153           | 1,217,297           |
| Cash and cash equivalents                                    | 19,657              | 62,747              | 22,208              |
| Other assets   | 1,805               | 122,298             | 210,082             |
| <b>TOTAL ASSETS</b>  | <b>\$ 7,603,235</b> | <b>\$ 3,676,698</b> | <b>\$ 1,449,587</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                  |                     |                     |                     |
| Liabilities:   |                     |                     |                     |
| Debt   | \$ 1,248,549        | \$ 2,592,311        | \$ 904,248          |
| Other liabilities  | 5,888,498           | 125,732             | 417,138             |
| <b>Total Liabilities</b>                                     | <b>7,137,047</b>    | <b>2,718,043</b>    | <b>1,321,386</b>    |
| Redeemable noncontrolling interests in the operating company | 94,545              | 466,920             | 205,114             |
| Noncontrolling interests in consolidated VIEs                | —                   | 12,705              | 3,970               |
| Total Shareholders' Equity                                   | 371,643             | 479,030             | (80,883)            |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>            | <b>\$ 7,603,235</b> | <b>\$ 3,676,698</b> | <b>\$ 1,449,587</b> |

The table below presents the unaudited summary statement of operations for the six months ended June 30, 2023 for the Company's significant equity method investments (dollars in thousands).

|  | NREF             | VineBrook           | NSP                |
|--|------------------|---------------------|--------------------|
| <b>Revenues</b>                          |                  |                     |                    |
| Rental income                            | \$ 2,035         | \$ 171,911          | \$ 54,418          |
| Net interest income                      | 8,154            | —                   | 2,032              |
| Other income                             | —                | 2,837               | 3,076              |
| <b>Total revenues</b>                    | <b>10,189</b>    | <b>174,748</b>      | <b>59,526</b>      |
| <b>Expenses</b>                          |                  |                     |                    |
| Total expenses                           | 10,618           | 243,805             | 67,903             |
| Gain (loss) on sales of real estate      | —                | (30,454)            | (8,276)            |
| Other income (expense)                   | 18,284           | (41,910)            | (62,515)           |
| Unrealized gain (loss) on derivatives    | —                | 25,852              | —                  |
| <b>Total comprehensive income (loss)</b> | <b>\$ 17,855</b> | <b>\$ (115,569)</b> | <b>\$ (79,168)</b> |

## 9. Fair Value of Derivatives and Financial Instruments

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The table below summarizes the inputs used to value the Company's assets carried at fair value on a recurring basis as of June 30, 2023 (in thousands):

|                     | Cost Basis        | Fair Value       |                  |                   | Total             |
|---------------------|-------------------|------------------|------------------|-------------------|-------------------|
|                     |                   | Level 1          | Level 2          | Level 3           |                   |
| <b>Assets</b>       |                   |                  |                  |                   |                   |
| Bond                | \$ 17             | \$ —             | \$ 25            | \$ —              | \$ 25             |
| CLO                 | 34,958            | —                | 563              | 4,853             | 5,416             |
| Common stock        | 314,498           | 43,968           | —                | 221,863           | 265,831           |
| Convertible notes   | 46,260            | —                | —                | 43,731            | 43,731            |
| Life settlement     | 64,267            | —                | —                | 60,619            | 60,619            |
| LLC interest        | 66,492            | —                | —                | 60,593            | 60,593            |
| LP interest         | 323,054           | —                | 75,909           | 217,024           | 292,933           |
| Rights and warrants | 3,937             | —                | 3,558            | —                 | 3,558             |
| Senior loan         | 40,399            | —                | 55               | 40,515            | 40,570            |
|                     | <u>\$ 893,882</u> | <u>\$ 43,968</u> | <u>\$ 80,110</u> | <u>\$ 649,198</u> | <u>\$ 773,276</u> |

The table below summarizes the inputs used to value the Company's assets carried at fair value on a recurring basis as of December 31, 2022 (in thousands):

|                     | Cost Basis        | Fair Value       |                  |                   | Total             |
|---------------------|-------------------|------------------|------------------|-------------------|-------------------|
|                     |                   | Level 1          | Level 2          | Level 3           |                   |
| <b>Assets</b>       |                   |                  |                  |                   |                   |
| Bond                | \$ 17             | \$ —             | \$ 20            | \$ —              | \$ 20             |
| CLO                 | 34,958            | —                | 563              | 6,412             | 6,975             |
| Common stock        | 325,275           | 53,872           | —                | 234,667           | 288,539           |
| Convertible notes   | 54,802            | —                | —                | 50,828            | 50,828            |
| Life settlement     | 64,267            | —                | —                | 67,711            | 67,711            |
| LLC interest        | 66,492            | —                | —                | 60,836            | 60,836            |
| LP interest         | 321,026           | —                | 77,370           | 223,141           | 300,511           |
| Rights and warrants | 3,947             | —                | 3,794            | —                 | 3,794             |
| Senior loan         | 43,399            | —                | 66               | 43,341            | 43,407            |
|                     | <u>\$ 914,183</u> | <u>\$ 53,872</u> | <u>\$ 81,813</u> | <u>\$ 686,936</u> | <u>\$ 822,621</u> |

The table be

low sets forth a summary of changes in the Company's Level 3 assets (assets measured at fair value using significant unobservable inputs) for the six months ended June 30, 2023 (in thousands):

|                   | <b>December 31,<br/>2022</b> | <b>Contributions/<br/>Purchases</b> | <b>Paid in-<br/>kind<br/>dividends</b> | <b>Redemptions/<br/>Conversions</b> | <b>Return of<br/>capital</b> | <b>Realized<br/>gain/(loss)</b> | <b>Unrealized<br/>gain/(loss)</b> | <b>June 30, 2023</b> |
|-------------------|------------------------------|-------------------------------------|--|-------------------------------------|------------------------------|---------------------------------|-----------------------------------|----------------------|
| CLO               | \$ 6,412                     | \$ —                                | \$ —                                   | \$ —                                | \$ —                         | \$ —                            | \$ (1,559)                        | \$ 4,853             |
| Common stock      | 234,667                      | —                                   | —                                      | —                                   | —                            | —                               | (12,804)                          | 221,863              |
| Convertible notes | 50,828                       | (8,542)                             | —                                      | —                                   | —                            | —                               | 1,445                             | 43,731               |
| Life settlement   | 67,711                       | 2,532                               | —                                      | (2,999)                             | —                            | (502)                           | (6,123)                           | 60,619               |
| LLC interest      | 60,836                       | —                                   | —                                      | —                                   | —                            | —                               | (243)                             | 60,593               |
| LP interest       | 223,141                      | 2,028                               | —                                      | —                                   | —                            | —                               | (8,145)                           | 217,024              |
| Senior loan       | 43,341                       | —                                   | 1,960                                  | (4,971)                             | —                            | 11                              | 174                               | 40,515               |
| Total             | \$ 686,936                   | \$ (3,982)                          | \$ 1,960                               | \$ (7,970)                          | \$ —                         | \$ (491)                        | \$ (27,255)                       | \$ 649,198           |

The following is a summary of the significant unobservable inputs used in the fair valuation of assets categorized within Level 3 of the fair value hierarchy as of June 30, 2023.

| Category                 | Valuation Technique        | Significant Unobservable Inputs                        | Input Value(s)<br>(Arithmetic Mean) |          |          |            | Fair Value        |
|--------------------------|----------------------------|--|-------------------------------------|----------|----------|------------|-------------------|
| <b>CLO</b>               | Discounted Net Asset Value | Discount   |                                     | 70%      |          |            | \$ 4,853          |
| <b>Common Stock</b>      | Market Approach            | Unadjusted Price/MHz-PoP                               | \$0.09                              | —        | \$0.90   | \$(0.50)   | <b>221,863</b>    |
|                          |                            | NAV / sh multiple                                      | \$1.10x                             | —        | \$1.45x  | \$(1.28)x  |                   |
|                          | Discounted Cash Flow       | Discount Rate  | 7.5%                                | —        | 11.50%   | (9.61)%    |                   |
|                          |                            | Market Rent (per sqft)                                 | \$4.48                              | —        | \$32.55  | \$(14.00)  |                   |
|                          |                            | RevPAR   | \$71.00                             | —        | \$186.00 | \$(104.89) |                   |
|                          |                            | Capitalization Rates                                   | 5.5%                                | —        | 9.875%   | (8.66)%    |                   |
|                          | NAV Approach               | Discount Rate  |                                     | 10.00%   |          |            |                   |
|                          | Multiples Analysis         | Multiple of EBITDA                                     | 3.25x                               | —        | 4.25x    | (3.75)x    |                   |
|                          | Recent Transaction         | Implied Enterprise Value from Transaction Price (\$mm) |                                     | \$841.00 |          |            |                   |
|                          |                            | N/A  | \$25.31                             | —        | \$28.00  | \$(26.655) |                   |
|                          |                            | Offer Price per Share                                  |                                     | 110.00%  |          |            |                   |
| <b>Convertible Notes</b> | Discounted Cash Flow       | Discount Rate  | 7.50%                               | —        | 9.75%    | (8.63)%    | <b>43,731</b>     |
| <b>Life Settlement</b>   | Discounted Cash Flow       | Discount Rate  |                                     | 14%      |          |            | <b>60,619</b>     |
|                          |                            | Life Expectancy (Months)                               | 22                                  | —        | 299      | 71 Months  |                   |
| <b>LLC Interest</b>      | Discounted Cash Flow       | Discount Rate  | 7.50%                               | —        | 30.00%   | (13.88)%   | <b>60,593</b>     |
|                          |                            | Market Rent (per sqft)                                 | \$4.48                              | —        | \$32.55  | \$(14)     |                   |
|                          |                            | Capitalization Rate                                    |                                     | 5.5%     |          |            |                   |
| <b>LP Interest</b>       | Discounted Cash Flow       | Discount Rate  | 6.60%                               | —        | 9.20%    | (7.75)%    | <b>217,024</b>    |
|                          |                            | Capitalization Rate                                    | 3.7%                                | —        | 6.8%     | (5.25)%    |                   |
|                          | Recent Transaction         | Price per Share  |                                     | \$22.95  |          |            |                   |
| <b>Senior Loan</b>       | Discounted Cash Flow       | Discount Rate  | 12.30%                              | —        | 20.00%   | (16.15)%   | <b>40,515</b>     |
| <b>Total</b>             |                            |  |                                     |          |          |            | <b>\$ 649,198</b> |



## 10. Life Settlement Portfolio

The Company owns 100% of the outstanding equity and debt of Specialty Financial Products, Ltd. ("SFP"), an Ireland domiciled private company with limited liability and a Designated Activity Company. SFP was formed for the purpose of and at the proposal of NexAnnuity Asset Management, L.P. ("NexAnnuity"), an affiliate of the Adviser, entering into acquisitions of U.S. life settlement policies approved by NexAnnuity and funded by the issuance of debt securities, or the Structured Note purchased by the Company. SFP utilizes proceeds from maturing life settlement contracts to repay the Structured Note and to further invest in life settlement contracts. As the Company owns the outstanding equity of and Structured Note issued by SFP, the Company consolidates SFP in its entirety. SFP's equity and the Structured Note are eliminated during consolidation and the financial assets held by SFP are measured at fair value.

As of June 30, 2023, the Company's life settlement portfolio consists of the following (dollars in thousands):

| Number of Policies | Face Value (Death Benefit) |            | Acquisition Cost |           | Premium Cost |          | Estimated Fair Value |           |
|--------------------|----------------------------|------------|------------------|-----------|--------------|----------|----------------------|-----------|
|                    | Range                      | Total      | Range            | Total     | Range        | Total    | Range                | Total     |
| Total              | \$1,500 - \$15,000         | \$ 139,951 | \$350 - \$3,895  | \$ 46,222 | \$0 - \$380  | \$ 2,628 | \$27 - \$6,044       | \$ 60,619 |

  

| Remaining Life Expectancy (in years) | Number | Face Value | Fair Value |
|--------------------------------------|--------|------------|------------|
| 0 - 1                                | —      | \$ —       | \$ —       |
| 1 - 2                                | 2      | 5,540      | 4,341      |
| 2 - 3                                | 6      | 32,413     | 18,413     |
| 3 - 4                                | 5      | 35,311     | 19,621     |
| 4 - 5                                | 2      | 9,000      | 3,610      |
| Thereafter                           | 12     | 57,687     | 14,634     |
| Total                                | 27     | \$ 139,951 | \$ 60,619  |

The premiums to be paid for each of the five succeeding calendar years to keep the life settlement contracts in force as of June 30, 2023, assuming no maturities occur in that period, are as follows (dollars in thousands):

| Year | Premiums |
|------|----------|
| 2023 | \$ 2,628 |
| 2024 | 5,554    |
| 2025 | 6,238    |
| 2026 | 7,009    |
| 2027 | 7,672    |

During the six months ended June 30, 2023, the Company did not purchase any policies, had one policy mature with an aggregate net death benefit of \$3.0 million, and paid \$2.5 million in premiums to keep the life settlement contracts in force.

## 11. Shareholders' Equity

### Common Shares

As of June 30, 2023, the Company had 37,171,807 common shares, par value \$0.001 per share, issued and outstanding. No shares were issued during the six months ended June 30, 2023.

During the six months ended June 30, 2023, the Company paid a distribution of \$0.15 per share on its common shares on March 31, 2023 to shareholders of record on March 15, 2023, and June 30, 2023 to shareholders of record on June 15, 2023.

### *Preferred Shares*

On January 8, 2021, the Company issued 3,359,593 5.50% Series A Cumulative Preferred Shares, par value \$0.001 per share, liquidation preference \$25.00 per share ("Series A Preferred Shares") with an aggregate liquidation preference of approximately \$84.0 million. The Series A Preferred Shares were issued as part of the consideration for an exchange offer for a portion of the Company's common shares. The Series A Preferred Shares are callable beginning on December 15, 2023 at a price of \$25 per share. The Company may exercise its call option at the Company's discretion. As a result, these are included in permanent equity.

During the six months ended June 30, 2023, the Company declared distributions on its Series A Preferred Shares in the amount of \$0.34375 per share, which was paid to holders of Series A Preferred Shares on March 31, 2023 to shareholders of record on March 24, 2023 and June 30, 2023 to shareholders of record on June 23, 2023.

Dividends on the Series A Preferred Shares are cumulative from their original issue date at the annual rate of 5.5% of the \$25 per share liquidation preference and are payable quarterly on March 31, June 30, September 30, and December 31 of each year, or in each case on the next succeeding business day.

### *Long Term Incentive Plan*

On January 30, 2023, the Company's shareholders approved a long-term incentive plan (the "2023 LTIP") and the Company subsequently filed a registration statement on Form S-8 registering 2,545,000 common shares, par value \$0.001 per share, which the Company may issue pursuant to the 2023 LTIP. The 2023 LTIP authorizes the compensation committee of the Board to provide equity-based compensation in the form of share options, appreciation rights, restricted shares, restricted share units, performance shares, performance units and certain other awards denominated or payable in, or otherwise based on, the Company's common shares or factors that may influence the value of the Company's common shares, plus cash incentive awards, for the purpose of providing the Company's trustees, officers and other key employees (and those of the Adviser and the Company's subsidiaries), and potentially certain nonemployees who perform employee-type functions, incentives and rewards for performance (the "participants").

*Restricted Share Units.* Under the 2023 LTIP, restricted share units may be granted to the participants and typically vest over a three to five-year period for officers, employees and certain key employees of the Adviser and annually for trustees. The most recent grant of restricted share units to officers, employees and certain key employees of the Adviser will vest over a four-year period. Beginning on the date of grant, restricted share units earn dividends that are payable in cash on the vesting date. On April 4, 2023, pursuant to the 2023 LTIP, the Company granted 37,313 restricted share units to its trustees, on April 4, 2023, the Company granted 566,169 restricted share units to its officers and other employees of

the Adviser. The following table includes the number of restricted share units granted, vested, forfeited and outstanding as of June 30, 2023:

|                             | 2023            |  |
|-----------------------------|-----------------|--|
|                             | Number of Units | Weighted Average Grant Date Fair Value |
| Outstanding January 1, 2023 | —               | \$ —                                   |
| Granted                     | 603,482         | 10.45                                  |
| Vested                      | —               | —                                      |
| Forfeited                   | —               | —                                      |
| Outstanding June 30, 2023   | <u>603,482</u>  | <u>\$ 10.45</u>                        |

The following table contains information regarding the vesting of restricted share units under the 2023 LTIP for the next five calendar years subsequent to June 30, 2023:

|       | Shares Vesting |                |
|-------|----------------|----------------|
|       | April          | Total          |
| 2023  | —              | —              |
| 2024  | 178,855        | 178,855        |
| 2025  | 141,542        | 141,542        |
| 2026  | 141,542        | 141,542        |
| 2027  | 141,542        | 141,542        |
| Total | <u>603,482</u> | <u>603,482</u> |

As of June 30, 2023, the Company had issued no common shares under the 2023 LTIP. For the three and six months ended June 30, 2023, the Company recognized approximately \$0.4 million and \$0.4 million, respectively, of equity-based compensation expense related to grants of restricted share units. As of June 30, 2023, the Company had recognized a liability of approximately \$0.1 million related to dividends earned on restricted share units that are payable in cash upon vesting.

## 12. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to common shareholders by the weighted average number of the Company's common shares outstanding and excludes any unvested restricted share units issued pursuant to the 2023 LTIP.

Diluted earnings (loss) per share is computed by adjusting basic earnings per share for the dilutive effect of the assumed vesting of restricted share units. During periods of net loss, the assumed vesting of restricted share units is anti-dilutive and is not included in the calculation of earnings (loss) per share.

The following table sets forth the computation of basic and diluted earnings (loss) per share (in thousands, except per share and share amounts):

|   | <b>Six Months Ended June 30,</b> | <b>Three Months Ended June</b> |
|---|----------------------------------|--------------------------------|
|   | <b>2023</b>                      | <b>30,</b>                     |
|   | <b>2023</b>                      | <b>2023</b>                    |
| <b>Numerator for loss per share:</b>                |                                  |                                |
| <b>Net loss attributable to common shareholders</b> | \$ (35,698)                      | \$ (15,022)                    |
| <b>Denominator for loss per share:</b>              |                                  |                                |
| Weighted average common shares outstanding          | 37,172                           | 37,172                         |
| Denominator for basic and diluted loss per share    | 37,172                           | 37,172                         |
| Weighted average unvested restricted share units    | 37                               | 38                             |
| Denominator for diluted loss per share              | (1) 37,172                       | 37,172                         |
| <b>Loss per weighted average common share:</b>      |                                  |                                |
| Basic   | \$ (0.96)                        | \$ (0.40)                      |
| Diluted   | \$ (0.96)                        | \$ (0.40)                      |

(1) For the six and three months ended June 30, 2023, excludes approximately 583,587 and 293,406 shares, related to assumed vesting of RSUs as the effect would be anti-dilutive.

### 13. Related Party Transactions

#### *Advisory and Administrative Fees*

Prior to the Deregistration Date, the Company was party to an investment advisory agreement (the "Former Advisory Agreement") with an affiliate of the Adviser (the "Former Adviser") pursuant to which the Former Adviser provided investment advisory services to the Company and certain of its subsidiaries. The Company's contractual fee under the Former Advisory Agreement was an annual fee, payable monthly, in an amount equal to 1.00% an amount (the "Former Managed Assets") equal to the total assets of the Company, including any form of investment leverage, minus all accrued expenses incurred in the normal course of operations, but not excluding any liabilities or obligations attributable to investment leverage obtained through (i) indebtedness of any type (including, without limitation, borrowing through a credit facility or the issuance of debt securities), (ii) the issuance of preferred stock or other preference securities, (iii) the reinvestment of collateral received for securities loaned in accordance with the Company's investment objectives and policies, and/or (iv) any other means. The Former Adviser was permitted to waive a portion of its fees.

Prior to the Deregistration Date, the Company was also party to an administration services agreement (the "Administration Services Agreement") pursuant to which the Former Adviser previously performed administrative functions for us in connection with our operation as a closed-end investment company. For its services, the Former Adviser received an annual fee, payable monthly, in an amount equal to 0.20% of the average weekly value of the Former Managed Assets.

In connection with the Business Change and effective on the Deregistration Date, the Company terminated its investment advisory agreement and its administrative services agreement with the Former Adviser and entered into the Advisory Agreement with the Adviser, a subsidiary of NexPoint. The Company also terminated the investment advisory agreements between NexPoint and its wholly owned subsidiaries, NREO and NexPoint Real Estate Capital, LLC, effective on the Deregistration Date. Pursuant to the Advisory Agreement, subject to the overall supervision of our Board, the Adviser manages the day-to-day operations of the Company, and provides investment management services.

As of June 30, 2023, as consideration for the Adviser's services under the Advisory Agreement, we pay our Adviser an annual fee (the "Advisory Fee") of 1.00% of Managed Assets and an annual fee (the "Administrative Fee" and, together with the Advisory Fee, the "Fees") of 0.20% of the Company's Managed Assets (defined below).

On April 11, 2023, we entered into an amendment to the Advisory Agreement whereby the monthly installment of the Fees shall be paid in cash unless the Adviser elects, in its sole discretion, to receive all or a portion of the monthly installment of the Fees in common shares of the Company, subject to certain restrictions including that in no event shall the common shares issued to the Adviser under the Advisory Agreement exceed five percent of the number of common shares or five percent of the voting power of the Company outstanding prior to the first such issuance (the "Share Cap") and that in no event shall the common shares issued to the Adviser under the Advisory agreement exceed 6,000,000 common shares; provided, however, that the Share Cap will not apply if the Company's shareholders have approved issuances in excess of the Share Cap. At the Company's annual meeting of shareholders, the Company's shareholders did not approve issuances in excess of the Share Cap.

Under the Advisory Agreement, "Managed Assets" means an amount equal to the total assets of the Company, including any form of leverage, minus all accrued expenses incurred in the normal course of operations, but not excluding any liabilities or obligations attributable to leverage obtained through (i) indebtedness of any type (including, without limitation, borrowing to purchase or develop real estate or other investments, borrowing through a credit facility, or the issuance of debt securities), (ii) the issuance of preferred shares or other preference securities, (iii) the reinvestment of collateral received for securities loaned in accordance with the Company's investment objectives and policies, and/or (iv) any other means. In the event the Company holds collateralized mortgage-backed securities ("CMBS") where the Company holds the controlling tranche of the securitization and is required to consolidate under GAAP all assets and liabilities of a specific CMBS trust, the consolidated assets and liabilities of the consolidated trust will be netted to calculate the allowable amount to be included as Managed Assets. In addition, in the event the Company consolidates another entity it does not wholly own as a result of owning a controlling interest in such entity or otherwise, Managed Assets will be calculated without giving effect to such consolidation and instead such entity's assets, leverage, expenses, liabilities and obligations will, on a pro rata basis consistent with the Company's percentage ownership, be considered those of the Company for purposes of calculation of Managed Assets. The Adviser computes Managed Assets as of the end of each fiscal quarter and then computes each installment of the Fees as promptly as possible after the end of the month with respect to which such installment is payable.

#### *Revolving Credit Facility*

On May 22, 2023, the Company entered into the NexBank Revolver pursuant to which the Company in the initial principal amount of \$20.0 million, with the option for the Company to receive additional disbursements thereunder up to a maximum of \$50.0 million, and bears interest at one-month SOFR plus 3.50% and matures on May 20, 2024. The Company drew the \$20.0 million on May 22, 2023. The fair value of the revolving credit facility is equal to its carrying value as the Company has the ability to repay the outstanding principal at par value at any time. As of June 30, 2023, the NexBank Revolver had an outstanding balance of \$20.0 million.

#### *Reimbursement of Expenses; Expense Cap*

The Company is required to pay directly or reimburse the Adviser for all of the documented "operating expenses" (all out-of-pocket expenses of the Adviser in performing services for us, including but not limited to the expenses incurred by the Adviser in connection with any provision by the Adviser of legal, accounting, financial, due diligence, investor relations or other services performed by the Adviser that outside professionals or outside consultants would otherwise perform and our pro rata share of rent, telephone, utilities, office furniture, equipment, machinery or other office, internal and overhead expenses of the Adviser required for our operations) and any and all expenses (other than underwriters' discounts) paid or to be paid by us in connection with an offering of our securities, including, without limitation, our legal, accounting, printing, mailing and filing fees and other documented offering expenses (collectively, "Offering Expenses"), paid or incurred by the Adviser or its affiliates in connection with the services it provides to us pursuant to the Advisory Agreement. Direct payment of operating expenses by us together with reimbursement of operating expenses to the Adviser, plus compensation expenses relating to equity awards granted under a long-term incentive plan and all other corporate general and administrative expenses of the Company, including the Fees payable under the Advisory Agreement, may not exceed 1.5% (the "Expense Cap") of Managed Assets, calculated as of the end of each quarter, for the twelve-month period following the Company's receipt of the Deregistration Order; provided, however, that this limitation will not apply to Offering Expenses, legal, accounting, financial, due diligence and other service fees incurred in connection with extraordinary litigation and mergers and acquisitions or other events outside the ordinary course of our business or any out-of-pocket acquisition or due diligence expenses incurred in connection with the acquisition or disposition of certain real estate-related investments; provided, further, in the event the Company consolidates another entity that it does not wholly own as a result of owning a controlling interest in such entity or otherwise, expenses will be calculated without giving effect to such consolidation and instead such entity's expenses will, on a pro rata basis consistent with the Company's

percentage ownership, be considered those of the Company for purposes of calculation of expenses. On occasion, the Adviser may waive additional fees to the extent assets are invested in certain affiliated investments. The Adviser may, at its discretion and at any time, waive its right to reimbursement for eligible out-of-pocket expenses paid on the Company's behalf. Once waived, these expenses are considered permanently waived and become non-recoupable in the future.

The Advisory Agreement has an initial term of three years that will expire on July 1, 2025, and successive additional one-year terms thereafter unless earlier terminated. We have the right to terminate the Advisory Agreement on 30 days' written notice upon the occurrence of a cause event (as defined in the Advisory Agreement). The Advisory Agreement can be terminated by us or the Adviser without cause upon the expiration of the then-current term with at least 180 days' written notice to the other party prior to the expiration of its term. The Adviser may also terminate the agreement with 30 days' written notice if we have materially breached the agreement and such breach has continued for 30 days before we are given such notice. In addition, the Advisory Agreement will automatically terminate in the event of Advisers Act Assignment (as defined in the Advisory Agreement) unless we provide written consent. A termination fee will be payable to the Adviser by us upon termination of the Advisory Agreement for any reason, including non-renewal, other than a termination by us upon the occurrence of a cause event or due to an Advisers Act Assignment. The termination fee will be equal to three times the Fees earned by the Adviser during the twelve month period immediately preceding the most recently completed calendar quarter prior to the effective termination date; provided, however, if the Advisory Agreement is terminated prior to the one year anniversary of the date of the Advisory Agreement, the Fees earned during such period will be annualized for purposes of calculating the Fees.

For the three and six months ended June 30, 2023, the Company incurred Administrative Fees and Advisory Fees of \$1.7 million and \$5.2 million, which excludes \$1.6 million and \$2.0 million, respectively, in fees that were waived to comply with the Expense Cap. Should the Fees and expenses and any other items subject to the Expense Cap be less than the 1.5% limit for the twelve-month period subsequent to the Deregistration Date, some or all of the deferred expenses could be recouped by the Adviser up to the Expense Cap. No Advisory Fees were recouped by the Adviser as of June 30, 2023.

#### *Guaranties of NexPoint Storage Partners, Inc. Debt*

On September 14, 2022, the Company entered into guaranties (the "BS Guaranties") for the benefit of JPMorgan Chase Bank, National Association ("JPM") and any additional or subsequent lenders from time to time (collectively, "BS Lender") under a loan agreement (the "BS Loan Agreement"), pursuant to which the Company guaranteed certain obligations of the borrowers ("BS Borrower") under the BS Loan Agreement. The Company, through its ownership in NSP, owns an indirect interest in BS Borrower and entered into the BS Guaranties as a condition of BS Lender lending to BS Borrower under the BS Loan Agreement. Pursuant to the BS Guaranties, the Company guaranteed certain carrying obligations, including interest payments, of BS Borrower and certain recourse obligations of BS Borrower pertaining to exculpation or indemnification of BS Lender. The BS Guaranties also provide that the Company may be required to repay principal amounts upon the occurrence of certain events, including certain action or inaction by BS Borrower, but does not provide for a full guarantee of repayment in all circumstances. The BS Loan Agreement provides for a single initial advance of the loan in the amount of \$221.8 million to BS Borrower on the closing date, and provides BS Borrower the right to request additional advances in connection with subsequently acquired properties. Amounts outstanding under the BS Loan Agreement are due and payable on September 9, 2023 which date may, at the option of BS Borrower, be extended for two successive one-year terms upon the satisfaction of certain terms and conditions. Borrowings outstanding under the BS Loan Agreement are secured by mortgages on real property owned by one or more of the borrowers comprising BS Borrower and bear interest at the one-month SOFR, subject to a floor of 0.5%, plus an applicable spread of approximately 4.0% with respect to approximately \$184.9 million of initial principal thereunder and approximately 5.4% with respect to approximately \$36.9 million of initial principal thereunder.

On December 8, 2022 and in connection with a restructuring of NSP, the Company, together with NREF, Highland Income Fund ("HIF") and NexPoint Real Estate Strategies Fund (collectively, the "Co-Guarantors"), as guarantors, entered into a Sponsor Guaranty Agreement in favor of Extra Space Storage, LP ("Extra Space") pursuant to which the Company and the Co-Guarantors guaranteed obligations of NSP with respect to NSP's newly created Series D Preferred Stock and two promissory notes in an aggregate principal amount of approximately \$64.2 million issued to Extra Space. The guaranties by the Company and the Co-Guarantors are capped at \$97.6 million, which cap amount will be reduced as the guaranteed obligations of NSP are paid. Each of the Company and the Co-Guarantors generally guaranteed the foregoing obligations of NSP up to the cap amount on a pro rata basis with respect to its percentage ownership of NSP's common stock. The maximum liability of the Company under the guaranties is approximately \$83.8 million. The Company has not recorded a contingent liability due to NSP being current on all debt and preferred dividend payments and in compliance

with all debt compliance provisions of the Sponsor Guaranty Agreement. As of June 30, 2023, the Company owns approximately 53.0% of the total outstanding shares of common stock of NSP.

Separately, on September 14, 2022, the Company entered into a Guaranty Agreement (Recourse Obligations), dated September 14, 2022 (the "CMBS Guaranty") for the benefit of JPM and any additional or subsequent lenders from time to time (collectively, the "CMBS Lender") under a loan agreement (the "CMBS Loan Agreement"), by and among the borrowers thereunder (collectively, "CMBS Borrower") and the CMBS Lender. The Company, through its ownership in NSP, owns an indirect interest in CMBS Borrower and entered into the CMBS Guaranty as a condition of CMBS Lender lending to CMBS Borrower under the CMBS Loan Agreement. Pursuant to the CMBS Guaranty, the Company guaranteed certain recourse obligations of CMBS Borrower pertaining to exculpation or indemnification of CMBS Lender. The CMBS Guaranty also provides that the Company may be required to repay principal amounts upon the occurrence of certain events, including certain action or inaction by CMBS Borrower, but does not provide for a full guarantee of repayment in all circumstances. The CMBS Loan Agreement provides for a loan of \$356.5 million to CMBS Borrower. Amounts outstanding under the CMBS Loan Agreement are due and payable on September 9, 2024 which date may, at the option of CMBS Borrower, be extended for three successive one-year terms upon the satisfaction of certain terms and conditions. Borrowings outstanding under the CMBS Loan Agreement are secured by mortgages on real property owned by one or more of the borrowers comprising CMBS Borrower and bear interest at one-month SOFR plus a spread of approximately 3.6%, which will increase by 0.1% upon a second extension of the loan maturity and by an additional approximately 0.15% upon a third extension of the loan maturity.

#### *Subsidiary Investment Management Agreement*

SFP is a party to a management agreement (the "SFP IMA") with NexAnnuity pursuant to which NexAnnuity provides investment management services to SFP. Mr. Dondero serves as President of NexAnnuity, which is indirectly owned by a trust of which Mr. Dondero is the primary beneficiary.

In exchange for its services, the SFP IMA provides that NexAnnuity will receive a management fee (the "SFP Management Fee") paid monthly in an amount equal to 1.0% of the average weekly value of an amount equal to the total assets of SFP, including any form of leverage, minus all accrued expenses incurred in the normal course of operations, but not excluding any liabilities or obligations attributable to investment leverage obtained through (i) indebtedness of any type (including, without limitation, borrowing through a credit facility or the issuance of debt securities), (ii) the issuance of preferred stock or other preference securities, (iii) the reinvestment of collateral received for securities loaned in accordance with the investment objective, investment guidelines and policies under the SFP IMA, and/or (iv) any other means, plus any value added tax or any other applicable tax, if any, thereon. NexAnnuity may waive all or a portion of the SFP Management Fee.

#### *Other Related Party Transactions*

The Company has in the past, and may in the future, utilize the services of affiliated parties. The Company holds multiple operating accounts at NexBank an affiliate of the Adviser through common beneficial ownership. The Company's operating properties, other than undeveloped land, are managed by NexVest Realty Advisors, LLC ("NexVest"), an affiliate of the Adviser. For the six months ended June 30, 2023, the Company through its subsidiaries has paid approximately \$0.3 million in property management fees to NexVest. The property management agreement with NexVest for the retail property in Lubbock, Texas is dated January 1, 2014 and had a fixed fee of \$750 per month. Effective January 1, 2023, the property management agreement was amended and the property management fee was increased to \$1,200 per month. The property management agreement with NexVest for Cityplace Tower is dated August 15, 2018, and the management fee is calculated on 3% of gross revenues, with a minimum fee of \$20,000 per month. The property management agreement with NexVest for the White Rock Center is dated June 1, 2013, and the management fee is calculated on 4% of gross receipts, payable monthly.

The Company is a limited guarantor and an indemnitor on one of NHT's loans with an aggregate principal amount of \$77.4 million as of June 30, 2023. The obligations include a customary environmental indemnity and a so-called "bad boy" guarantee, which is generally only applicable if and when the borrower directly, or indirectly through an agreement with an affiliate, joint venture partner or other third party, voluntarily files a bankruptcy or similar liquidation or reorganization action or takes other actions that are fraudulent or improper. The Company has not recorded a contingent liability as NHT is current on all debt payments and in compliance with all debt compliance provisions.

On March 31, 2022, the Company, through an unconsolidated subsidiary, borrowed approximately \$13.5 million from NREF, an entity advised by an affiliate of the Adviser, to finance its acquisition of a 77.0% interest in Tivoli North Property. The bridge note bore interest at an annual rate equal to the WSJ Prime Rate plus 1.5% and had a maturity date of October 1, 2022. The Company refinanced this bridge note with PNC Bank, N.A ("PNC Bank") on August 8, 2022. The new loan had a principal amount of \$13.5 million, matures on August 7, 2023, and bears interest at an annual rate of daily simple SOFR plus 3.5%. Proceeds from the note with PNC Bank were used to repay in full the financing provided by NREF on August 9, 2022.

On December 8, 2022, the Company, through NREO, entered into a Contribution Agreement pursuant to which NREO contributed all of its interests in the SAFStor Ventures with SAFStor NREA GP – I, LLC, SAFStor NREA GP – II, LLC and NREA GP – III, LLC to the NSP OC in exchange for approximately 47,064 newly created Class B Units of the NSP OC, representing 14.8% of the NSP OC Common Units immediately after NREO's acquisition of Class B Units. The NSP OC is the operating company of NSP, of which the Company owns approximately 86,369 shares, or 53.0%, of the outstanding common stock as of June 30, 2023. In connection with the foregoing, the NSP OC acquired all of the other interests in the SAFStor Ventures from affiliates of the Adviser following which they were wholly owned by a subsidiary of the NSP OC. The SAFStor Ventures are invested, through subsidiaries, in various self-storage real estate development projects primarily located on the East Coast of the United States. As of June 30, 2023, the Company owns approximately 47,064 units, or 29.7%, of the outstanding NSP OC Common Units.

On December 23, 2022, the Company, through NREO, redeemed 2,100,000 NREF OP Units for 2,100,000 shares of common stock of NREF. The NREF OP is the operating partnership of NREF, a publicly traded mortgage REIT managed by an affiliate of the Adviser.



*Related Party Investments*

The Company, from time to time, may invest in entities managed by affiliates of the Adviser. For the six months ended and as of June 30, 2023, the Company has the following investments in entities managed or advised by, or directly or indirectly owned by entities managed or advised by, affiliates of the Adviser (in thousands).

| <b>Related Party</b>                                     | <b>Investment</b> | <b>Fair Value</b> | <b>Change in Unrealized Gain/(Loss)</b> | <b>Realized Gain/(Loss)</b> | <b>Equity in income (loss)</b> | <b>Interest and Dividends</b> | <b>Total Income</b> |
|--|-------------------|-------------------|---|-----------------------------|--------------------------------|-------------------------------|---------------------|
| SFR WLIF III, LLC  | LLC Units         | \$ 7,306          | \$ —                                    | \$ —                        | \$ 421                         | \$ —                          | \$ 421              |
| NexPoint Residential Trust, Inc.                         | Common Stock      | 4,075             | 175                                     | —                           | —                              | 75                            | 250                 |
| NexPoint Hospitality Trust                               | Common Stock      | 16,964            | (10,721)                                | —                           | —                              | —                             | (10,721)            |
| NexPoint Hospitality Trust                               | Convertible Notes | 22,531            | 1,052                                   | —                           | —                              | 319                           | 1,371               |
| NexPoint Storage Partners, Inc.                          | Common Stock      | 105,005           | 1,311                                   | —                           | —                              | —                             | 1,311               |
| NexPoint Storage Partners Operating Company, LLC         | LLC Units         | 57,220            | 714                                     | —                           | —                              | —                             | 714                 |
| NexPoint SFR Operating Partnership, L.P.                 | Partnership Units | 49,720            | (4,361)                                 | —                           | —                              | 1,203                         | (3,158)             |
| NexPoint SFR Operating Partnership, L.P.                 | Convertible Notes | 21,200            | 393                                     | —                           | —                              | 998                           | 1,391               |
| Claymore Holdings, LLC                                   | LLC Units         | —                 | —                                       | —                           | —                              | —                             | —                   |
| Allenby, LLC   | LLC Units         | —                 | —                                       | —                           | —                              | —                             | —                   |
| NexPoint Real Estate Finance Operating Partnership, L.P. | Partnership Units | 75,909            | (1,461)                                 | —                           | —                              | 5,843                         | 4,382               |
| NexPoint Real Estate Finance, Inc.                       | Common Stock      | 32,739            | (630)                                   | —                           | —                              | 2,877                         | 2,247               |
| VineBrook Homes Operating Partnership, L.P.              | Partnership Units | 167,305           | (3,784)                                 | —                           | —                              | 2,866                         | (918)               |
| <b>Total</b>   |                   | <b>\$ 559,974</b> | <b>\$ (17,312)</b>                      | <b>\$ —</b>                 | <b>\$ 421</b>                  | <b>\$ 14,181</b>              | <b>\$ (2,710)</b>   |

On June 13, 2023, HIF, a fund managed by an affiliate of the Adviser, loaned \$11 million to the SFR OP in exchange for \$11 million SFR OP Convertible Notes. The SFR OP Convertible Notes bear interest at 7.50%, are interest only during the term of the SFR OP Convertible Note and mature on June 30, 2027. From August 1, 2022 through March 31, 2027, the SFR OP Convertible Notes are convertible into SFR OP Units at the election of the holder at the then-current net asset value, subject to certain required approvals and limitations, including the SFR OP's right to prohibit conversion if, among other things, conversion would negatively impact NXHT's REIT status or cause NXHT to own less than 50.0% of the SFR OP.

#### **14. Commitments and Contingencies**

##### *Commitments*

On December 8, 2022 and in connection with a restructuring of NSP, the Company, together with the Co-Guarantors, as guarantors, entered into a Sponsor Guaranty Agreement in favor of Extra Space pursuant to which the Company and the Co-Guarantors guaranteed obligations of NSP with respect to NSP's newly created Series D Preferred Stock and two promissory notes in an aggregate principal amount of approximately \$64.2 million issued to Extra Space. The guaranties by the Company and the Co-Guarantors are capped at \$97.6 million, which cap amount will be reduced as the guaranteed obligations of NSP are paid. Each of the Company and the Co-Guarantors generally guaranteed the foregoing obligations of NSP up to the cap amount on a pro rata basis with respect to its percentage ownership of NSP's common stock. The maximum liability of the Company under the guaranties is approximately \$83.8 million. The Company has not recorded a contingent liability due to NSP being current on all debt and preferred dividend payments and in compliance with all debt compliance provisions of the Sponsor Guaranty Agreement. As of June 30, 2023, the Company owns approximately 53.0% of the total outstanding shares of common stock of NSP. See Note 13 for additional information.

The Company is a limited guarantor and an indemnitor on one of NHT's loans with an aggregate principal amount of \$77.4 million outstanding, as of June 30, 2023. The obligations include a customary environmental indemnity and a so-called "bad boy" guarantee, which is generally only applicable if and when the borrower directly, or indirectly through an agreement with an affiliate, joint venture partner or other third party, voluntarily files a bankruptcy or similar liquidation or reorganization action or takes other actions that are fraudulent or improper. The Company has not recorded a contingent liability as NHT is current on all debt payments and in compliance with all debt compliance provisions.

##### *Contingencies*

In the normal course of business, the Company is subject to claims, lawsuits, and legal proceedings. While it is not possible to ascertain the ultimate outcome of all such matters, management believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the consolidated balance sheets or consolidated statements of operations and comprehensive income (loss) of the Company. The Company is not involved in any material litigation nor, to management's knowledge, is any material litigation currently threatened against the Company or its properties or subsidiaries.

Environmental liabilities could have a material adverse effect on the Company's business, assets, cash flows or results of operations. As of June 30, 2023, the Company was not aware of any environmental liabilities. There can be no assurance that material environmental liabilities do not exist.

Claymore and Allenby are engaged in ongoing litigation that could result in a possible gain contingency to the Company. The probability, timing, and potential amount of recovery, if any, are unknown.

#### **15. Operating Leases**

##### *Lessor Accounting*

We generate the majority of our revenue by leasing our operating properties to customers under operating lease agreements. The manner in which we recognize these transactions in our financial statements is described in the Income Recognition section of Note 2 to these consolidated financial statements.

The following table summarizes the future minimum lease payments to the Company as the lessor under the operating lease obligations at June 30, 2023 (in thousands). These amounts do not reflect future rental revenues from renewal or replacement of existing leases. Reimbursements of operating expenses and variable rent increases are excluded from the table below.

| <b>Year:</b> | <b>Operating Leases</b> |
|--------------|-------------------------|
| 2023         | \$6,069                 |
| 2024         | 9,440                   |
| 2025         | 9,130                   |
| 2026         | 7,815                   |
| 2027         | 7,001                   |
| Thereafter   | 19,601                  |
| <b>Total</b> | <b>\$59,056</b>         |

The following table lists the tenants where the rental revenue from the tenants during the period presented represented 10% or more of total rental income in the Company's consolidated statements of operations (in thousands):

| <b>Tenant</b>        | <b>For the Six Months Ended June 30,<br/>Rental Income</b> |
|----------------------|--|
| Hudson Advisors, LLC | \$1,424  |

## 16. Subsequent Events

### *Dividends Declared*

On July 24, 2023, the Board approved a quarterly dividend of \$0.15 per common share, payable on September 29, 2023 to shareholders of record on August 15, 2023. The dividend on the Company's common shares consist of a combination of cash and shares, with the cash component of the dividend (other than cash paid in lieu of fractional shares) not to exceed 20% in the aggregate, with the balance being paid in the Company's common shares. Also on July 24, 2023, the Board approved a quarterly dividend of \$0.34375 per Series A Preferred Share, payable on October 2, 2023 to shareholders of record on September 25, 2023.

Through June 30, 2023, the Company has not generated sufficient cash flow from operations, as disclosed on the Consolidated Statement of Cash Flows, to cover the dividend authorized for payment on September 29, 2023. The purpose of paying the dividend partially in shares and partially in cash is to alleviate the cash outflow to the Company. The Company may revert to paying the dividend in cash at some point in the future when cash flow from operations supports such a cash dividend. However, there can be no assurance that cash flow from operations will be able to support a cash dividend in the future.

### *Issuance of Common Shares to Adviser*

On August 1, 2023, the Company issued 14,588.75 common shares to the Adviser as payment of a portion of the monthly Advisory Fees pursuant to the April 11, 2023 amendment to Advisory Agreement.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following is a discussion and analysis of our financial condition and our historical results of operations. The following should be read in conjunction with our financial statements and accompanying notes included herein. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those projected, forecasted, or expected in these forward-looking statements as a result of various factors, including, but not limited to, those discussed below and elsewhere in this quarterly report. See “Cautionary Statement Regarding Forward-Looking Statements” in this report.*

### Overview

As of June 30, 2023, our Portfolio consisted primarily of debt and equity investments in the single-family rental, self-storage, office, hospitality, life science and multifamily sectors. Substantially all of our business is conducted through the OP. The OP GP is the sole general partner of the OP and is owned 100% by the Company. As of June 30, 2023, there were 2,000 OP Units outstanding, of which 100% were owned by us.

On July 1, 2022, or the Deregistration Date, the SEC issued the Deregistration Order pursuant to Section 8(f) of the Investment Company Act declaring that the Company has ceased to be an investment company under the Investment Company Act. The issuance of the Deregistration Order enabled the Company to proceed with full implementation the Business Change. As a result of the Business Change, we have not provided a comparison of our financial statements to prior periods in which we were operating as a registered investment company because it would not be useful to our shareholders.

As a diversified REIT, the Company's primary investment objective is to provide both current income and capital appreciation. The Company seeks to achieve this objective through the Business Change. Target underlying property types primarily include, but are not limited to, single-family rentals, multifamily, self-storage, life science, office, industrial, hospitality, net lease and retail. The Company may, to a limited extent, hold, acquire or transact in certain non-real estate securities. We are externally managed by the Adviser through the Advisory Agreement, by and among the Company and the Adviser. The Advisory Agreement was dated July 1, 2022, and amended on October 25, 2022 and April 11, 2023, for an initial three-year term that will expire on July 1, 2025 and successive one-year terms thereafter unless earlier terminated. The Adviser is wholly owned by our Sponsor.

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our REIT taxable income to our shareholders. As a REIT, we will be subject to federal income tax on our undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (1) 85% of our ordinary income, (2) 95% of our capital gain net income and (3) 100% of our undistributed income from prior years. We believe we qualify for taxation as a REIT under the Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will operate in a manner so as to qualify as a REIT. Taxable income from certain non-REIT activities is managed through one or more TRS entities and are subject to applicable federal, state, and local income and margin taxes.

On October 15, 2021, Marc S. Kirschner, as litigation trustee of a litigation subtrust formed in connection with the bankruptcy proceedings of Highland, a former affiliate of our Sponsor, filed a lawsuit (the “Bankruptcy Trust Lawsuit”) against various persons and entities, including our Sponsor and James Dondero. In addition, on February 8, 2023, UBS Securities and its affiliate (collectively “UBS”) filed a lawsuit in the Supreme Court of the State of New York, County of New York against Mr. Dondero and a number of entities currently or previously affiliated with Mr. Dondero, seeking to collect on \$1.3 billion in judgments UBS obtained against entities that were managed indirectly by Highland (the “UBS Lawsuit”). Neither the Bankruptcy Trust Lawsuit nor the UBS Lawsuit include claims related to our business or our assets. Our Sponsor and Mr. Dondero have informed us they believe the Bankruptcy Trust Lawsuit has no merit and Mr. Dondero has informed us he believes the UBS Lawsuit has no merit; we have been advised that the defendants named in each of the lawsuits intend to vigorously defend against the claims. We do not expect the Bankruptcy Trust Lawsuit or the UBS Lawsuit will have a material effect on our business, results of operations or financial condition.

On February 22, 2023, as previously disclosed, the Board formed an independent special committee to oversee a review of the potential impact to the Company of the UBS Lawsuit and the Bankruptcy Trust Lawsuit. The special committee retained Reichman Jorgensen Lehman Feldberg LLP (“Reichman Jorgensen”) as independent legal counsel to

advise the special committee on the review. Reichman Jorgensen has reported to the special committee that they have substantially completed their review and found no evidence that the Company engaged in any conduct that would expose it to liability from the UBS Lawsuit or the Bankruptcy Trust Lawsuit. On June 13, 2023, the special committee delivered these findings to the Board. Following the review of the special committee, we reaffirm our expectation that neither the Bankruptcy Trust Lawsuit nor the UBS Lawsuit will have a material effect on our business, results of operations or financial condition.

Macroeconomic trends, including increases in inflation and rising interest rates, may adversely impact our business, financial condition and results of operations. Inflation in the United States has recently accelerated and is currently expected to continue at an elevated level in the near-term. Rising inflation could have an adverse impact on our operating expenses and our floating rate mortgages and credit facilities, as these costs could increase at a rate higher than our rental and other revenue. There is no guarantee we will be able to mitigate the impact of rising inflation. The Federal Reserve has raised interest rates to combat inflation and restore price stability. In addition, to the extent our exposure to increases in interest rates on any of our debt is not eliminated through interest rate swaps and interest rate protection agreements, such increases will result in higher debt service costs which will adversely affect our cash flows. We cannot make assurances that our access to capital and other sources of funding will not become constrained, which could adversely affect the availability and terms of future borrowings, renewals or refinancings. Such future constraints could increase our borrowing costs, which would make it more difficult or expensive to obtain additional financing or refinance existing obligations and commitments, which could slow or deter future growth.

## **Components of Our Revenues and Expenses**

### ***Revenues***

*Rental income.* Our rental income is primarily attributable to the rental revenue from our investment in Cityplace Tower, a 42-story, 1.35 million-square-foot, trophy office building acquired in 2018 as well as rental income from two retail properties. Our rental income also includes utility reimbursements, late fees, common area maintenance reimbursements, and other rental fees charged to tenants.

*Interest income.* Interest income includes interest earned from our debt investments.

*Dividend income.* Dividend income includes dividends from our equity investments.

*Other income.* Other income includes ancillary income earned from tenants such as non-refundable fees, parking fees, and other miscellaneous fees charged to tenants and income items.

### ***Expenses***

*Property operating expenses.* Property operating expenses include property maintenance costs, salary and employee benefit costs, utilities, casualty-related expenses and recoveries and other property operating costs of property owned directly or indirectly by us.

*Property management fees.* Property management fees include fees paid to NexVest, our property manager, for managing each property directly or indirectly owned by us (see Note 13 to our unaudited consolidated financial statements).

*Real estate taxes and insurance.* Real estate taxes include the property taxes assessed by local and state authorities depending on the location of each property owned directly or indirectly by us. Insurance includes the cost of commercial, general liability, and other needed insurance for each property owned directly or indirectly by us.

*Advisory and administrative fees.* Advisory and administrative fees include the fees paid to our Adviser pursuant to the Advisory Agreement (see Note 13 to our unaudited consolidated financial statements).

*Property general and administrative expenses.* Property general and administrative expenses include the costs of marketing, professional fees, general office supplies, and other administrative related costs of each property owned directly or indirectly by us.

*Corporate general and administrative expenses.* Corporate general and administrative expenses include, but are not limited to, audit fees, legal fees, listing fees, board of trustee fees, investor relations costs and payments of reimbursements to our Adviser for operating expenses. Corporate general and administrative expenses and the Advisory Fees and Administrative Fees paid to our Adviser will not exceed the Expense Cap for the 12 months subsequent to the Deregistration Date, calculated in accordance with the Advisory Agreement. The Expense Cap does not limit the reimbursement by us of expenses related to securities offerings paid by our Adviser. The Expense Cap also does not apply to legal, accounting, financial, due diligence, and other service fees incurred in connection with mergers and acquisitions, extraordinary litigation, or other events outside our ordinary course of business or any out-of-pocket acquisition or due diligence expenses incurred in connection with the acquisition or disposition of real estate assets. Additionally, in the sole discretion of the Adviser, the Adviser may elect to waive reimbursement for eligible out-of-pocket expenses paid on the Company's behalf. Once waived, such expenses are considered permanently waived and become non-recoupable in the future.

*Conversion expense -* Conversion expenses include the costs of the Business Change in conjunction with the Deregistration Order, which primarily include legal fees and other fees incurred in preparation for or as a direct result of the conversion. These conversion expenses are included in the consolidated statement of operations and comprehensive income (loss) as conversion expenses.

*Depreciation and amortization.* Depreciation and amortization costs primarily include depreciation of our real properties and amortization of acquired in-place leases on property owned directly or indirectly by us.

#### ***Other Income and Expense***

*Interest Expense.* Interest expense primarily includes the cost of interest expense on debt, the amortization of deferred financing costs, if any, and the related impact of interest rate derivatives, if any, used to manage our interest rate risk.

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

*Income Tax Expense.* Income tax expense is primarily derived from taxable gains from asset sales and other income earned from investments held in our TRSs.

*Unrealized Gain (Loss) on Investments.* Unrealized gains and losses represent changes in fair value for equity method investments, CLO equity investments, bonds, common stock, convertible notes, LLC interests, LP interests, rights and warrants, and senior loans for which the fair value option has been elected.

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

### Real Estate Investments Statistics

As of June 30, 2023, the Company was invested in two retail properties and one office and hospitality property (excluding investments in undeveloped land), as listed below:

| Property Name     | Rentable Square Footage (in thousands) | Property Type        | Date Acquired | Average Effective Monthly Occupied Rent Per Square Foot |                                    |
|-------------------|--|----------------------|---------------|---|------------------------------------|
|                   |  |                      |               | (1) as of June 30, 2023                                 | % Occupied (2) as of June 30, 2023 |
| White Rock Center | 82,793                                 | Retail               | 6/13/2013     | \$ 1.50   | 66.5 %                             |
| 5916 W Loop 289   | 30,140                                 | Retail               | 7/23/2013     | \$ 0.40   | 100.0 %                            |
| Cityplace Tower   | 1,353,087                              | Office & Hospitality | (3) 8/15/2018 | \$ 2.14   | 62.9 %                             |
|                   | <u>1,466,020</u>                       |                      |               |   |                                    |

- (1) Average effective monthly occupied rent per square foot is equal to the average of the contractual rent for commenced leases as of June 30, 2023, minus any tenant concessions over the term of the lease, divided by the occupied square footage of commenced leases as of June 30, 2023.
- (2) Percent occupied is calculated as the rentable square footage occupied as of June 30, 2023, divided by the total rentable square footage, expressed as a percentage.
- (3) Cityplace is currently under development and the Company is converting part of the property into a hotel, which was still under construction as of June 30, 2023.

### Results of Operations for the Three Months Ended June 30, 2023 and March 31, 2023 and Six Months Ended June 30, 2023

The following table sets forth a summary of our operating results for the three months ended June 30, 2023 and March 31, 2023 and six months ended June 30, 2023 (in thousands):

|  | For the Three Months Ended June 30, 2023 | For the Three Months Ended March 31, 2023 | For the Six Months Ended June 30, 2023 |
|--|--|---|--|
| Total revenues                                       | \$13,880                                 | \$14,866                                  | \$28,746                               |
| Total expenses                                       | (13,853)                                 | (12,538)                                  | (26,391)                               |
| Operating income                                     | 27                                       | 2,328                                     | 2,355                                  |
| Interest expense                                     | (3,762)                                  | (3,462)                                   | (7,224)                                |
| Equity in income (losses) of unconsolidated ventures | 422                                      | (76)                                      | 346                                    |
| Income tax expense                                   | (308)                                    | (806)                                     | (1,114)                                |
| Change in unrealized losses                          | (9,332)                                  | (18,640)                                  | (27,972)                               |
| Realized gains (losses)                              | (914)                                    | 1,135                                     | 221                                    |
| Net loss   | (13,867)                                 | (19,521)                                  | (33,388)                               |
| Net loss attributable to preferred shareholders      | (1,155)                                  | (1,155)                                   | (2,310)                                |
| Net loss attributable to common shareholders         | <u>\$ (15,022)</u>                       | <u>\$ (20,676)</u>                        | <u>\$ (35,698)</u>                     |

The change in our net loss for the three months ended June 30, 2023 and March 31, 2023 and the net loss for the six months ended June 30, 2023 primarily relates to mark-to-market losses on our investments accounted for at fair value partially offset by interest and dividends.

## **Revenues**

*Rental income.* Rental income was \$5.4 million and \$4.7 million for the three months ended June 30, 2023 and March 31, 2023, and \$10.1 million for the six months ended June 30, 2023. There was an increase of \$0.7 million between the three months ended March 31, 2023 and the three months ended June 30, 2023, which was primarily due to a decrease in lease cancellations and buy outs. Rental income primarily consists of lease revenue from our investment in Cityplace Tower.

*Interest and dividends.* Interest and dividends totaled \$8.4 million and approximately \$10.2 million for the three months ended June 30, 2023 and March 31, 2023, and \$18.6 million for the six months ended June 30, 2023. There was a decrease of \$1.7 million between the three months ended March 31, 2023, and the three months ended June 30, 2023, which was primarily due to a decrease in CLO proceeds.

*Other income.* Other income was approximately \$22.0 thousand and \$9.0 thousand for the three months ended June 30, 2023 and March 31, 2023, and \$31.0 thousand for the six months ended June 30, 2023. There was an increase of \$13.0 thousand between the three months ended March 31, 2023 and the three months ended June 30, 2023, which was primarily due to an increase in parking fees.

## **Expenses**

*Property operating expenses.* Property operating expenses were \$2.5 million and \$1.5 million for the three months ended June 30, 2023 and March 31, 2023, and \$4.0 million for the six months ended June 30, 2023. There was an increase of \$1.0 million between the three months ended March 31, 2023 and the three months ended June 30, 2023, which was primarily due to an increase in repair and maintenance expenses. Property operating expenses consist primarily of expenses from our investment in Cityplace Tower.

*Property management fees.* Property management fees were \$191.0 thousand and \$171.0 thousand for the three months ended June 30, 2023 and March 31, 2023, and \$362.0 thousand six months ended June 30, 2023. There was a decrease of approximately \$20.0 thousand between the three months ended March 31, 2023 and the three months ended June 30, 2023, which was primarily due to an increase in property management fees at White Rock Center. Property management fees are primarily based on gross revenues derived primarily from our investment in Cityplace Tower.

*Real estate taxes and insurance.* Real estate taxes and insurance costs were \$1.3 million and \$1.4 million for the three months ended June 30, 2023 and March 31, 2023, and \$2.7 million for the six months ended June 30, 2023. There was a decrease of \$17.0 thousand between the three months ended March 31, 2023 and the three months ended June 30, 2023, which was primarily due to an decrease in property taxes at Cityplace Tower. Real estate taxes and insurance expenses consist primarily of expenses from our investment in Cityplace Tower.

*Advisory and administrative fees.* For the three months ended June 30, 2023 and March 31, 2023, the Company incurred Administrative Fees and Advisory Fees of \$1.6 million and \$3.6 million, which excludes \$1.6 million and \$0.4 million in fees that were waived to comply with the Expense Cap, and \$5.2 million for the six months ended June 30, 2023, which excludes \$2.0 million in fees that were deferred to comply with the Expense Cap. There was a decrease of \$1.9 million between the three months ended March 31, 2023 and the three months ended June 30, 2023. The decrease in periods was primarily due to an increase in fees that were required to be deferred to comply with the Expense Cap. The fees that were deferred to comply with the Expense Cap have been waived and cannot be recouped by the Adviser.

*Property general and administrative expenses.* Property general and administrative expenses were \$1.0 million and \$0.7 million for the three months ended June 30, 2023 and March 31, 2023 and approximately \$1.8 million for the six months ended June 30, 2023. There was an increase of \$0.3 million between the three months ended March 31, 2023 and the three months ended June 30, 2023, which was primarily due to a write-off of a related party payable at December 31, 2022. Property general and administrative expenses consist primarily of expenses from our investment in Cityplace Tower.

*Corporate general and administrative expenses.* Corporate general and administrative expenses were \$2.3 million and \$1.5 million for the three months ended June 30, 2023 and March 31, 2023, and approximately \$3.7 million for the six months ended June 30, 2023. There was an increase of \$0.8 million between the three months ended March 31, 2023 and the three months ended June 30, 2023, which was primarily driven by stock compensation expense of \$0.4 million.



*Conversion expenses.* Conversion expenses were \$1.3 million and approximately \$0.1 million for the three months ended June 30, 2023 and March 31, 2023 and \$1.4 million for the six months ended June 30, 2023. There was an increase of \$1.1 million between the three months ended March 31, 2023 and the three months ended June 30, 2023, which was primarily driven by an increase in legal fees and audit related fees associated to the conversion of the predecessor.

*Depreciation and amortization.* Depreciation and amortization costs were \$3.6 million and \$3.5 million for the three months ended June 30, 2023 and March 31, 2023 and \$7.1 million for the six months ended June 30, 2023. There was an increase of approximately \$0.1 million between the three months ended March 31, 2023 and the three months ended June 30, 2023, which was primarily due to a decrease in amortization of leases. Depreciation and amortization expenses consist primarily of expenses from our investment in Cityplace Tower. Due to the Business Change, the fair value of our real estate properties as of July 1, 2022 became the new cost basis for the Company. This change reset the depreciable basis of our properties as well as caused the recognition of new intangible lease assets.

#### **Other Income and Expense**

*Interest expense.* Interest expense was \$3.8 million and approximately \$3.4 million for the three months ended June 30, 2023 and March 31, 2023 and approximately \$7.2 million for the six months ended June 30, 2023. There was an increase of approximately \$0.4 million between the three months ended March 31, 2023 and the three months ended June 30, 2023, which was primarily due to an increase in interest expense at Cityplace Tower attributed to an increase in interest rates and the NexBank Revolver.

*Equity in losses of unconsolidated ventures.* Equity in losses of unconsolidated ventures was \$0.4 million and \$(0.1) million for the three months ended June 30, 2023 and March 31, 2023 and \$0.3 million for the six months ended June 30, 2023. There was an increase of approximately \$0.5 million between the three months ended March 31, 2023 and the three months ended June 30, 2023, which was primarily driven by an increase in net income at Marriott Uptown.

*Income tax expense.* The Company has recorded income tax expense (benefit) of \$(0.1) million and \$0.8 million for the three months ended June 30, 2023 and March 31, 2023, and \$0.9 million associated with the TRSs for the six months ended June 30, 2023. There was a decrease of \$1.0 million between the three months ended March 31, 2023 and the three months ended June 30, 2023, which was largely driven by income from the Company's legacy CLO investments and investments in debt instruments not secured by mortgages on real property. The tax expense is partially offset by the quarterly change in valuation allowance on a deferred tax asset of \$(0.4) million for a net expense of \$0.3 million for the three months ended June 30, 2023, that is recorded on the Consolidated Statement of Operations.

*Change in unrealized losses.* Unrealized losses from our investments accounted for at fair value was \$9.3 million and \$18.6 million for the three months ended June 30, 2023 and March 31, 2023 and \$28.0 million for the six months ended June 30, 2023. There was a decrease of \$9.2 million between the three months ended March 31, 2023 and the three months ended June 30, 2023. The decrease is largely driven by mark-to-market losses on SFR OP Units of \$4.8 million, mark-to-market losses on NHT common stock of \$4.7 million and losses on VB OP common units of \$4.6 million.

*Realized gains (losses).* Realized gains (losses) were \$(0.9) million and \$1.1 million for the three months ended June 30, 2023 and March 31, 2023, and \$0.2 million for the six months ended June 30, 2023. There was a decrease of \$(2.0) million between the three months ended March 31, 2023 and the three months ended June 30, 2023. The decrease was primarily driven by realized losses on common stock of Elme Communities of \$0.6 million, Whitestone REIT of \$0.9 million, and realized losses on SFP of \$0.5 million.

#### **Non-GAAP Measurements**

##### ***Net Operating Income and Same Store Net Operating Income***

Net Operating Income ("NOI") is a non-GAAP financial measure of performance. NOI is used by investors and our management to evaluate and compare the performance of our properties to other comparable properties, to determine trends in earnings and to compute the fair value of our properties as NOI is calculated by adjusting net income (loss) to add back (1) interest expense, (2) Advisory Fees and Administrative Fees, (3) the impact of depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets that are included in net income (loss) computed in accordance with GAAP, (4) corporate general and administrative expenses, (5) income tax expenses, (6) conversion expenses, (7) entity level general and administrative expenses incurred at the properties that are not reflective of the continuing operations of the properties, (8) non-operating property investment revenue, (9) realized and change in

unrealized gains (losses) generated from non-real estate investments, and (10) equity in income (losses) of unconsolidated equity method ventures.

The cost of funds is eliminated from net income (loss) because it is specific to our particular financing capabilities and constraints. The cost of funds is also eliminated because it is dependent on historical interest rates and other costs of capital as well as past decisions made by us regarding the appropriate mix of capital, which may have changed or may change in the future. Corporate general and administrative expenses, advisory fees and administrative fees, conversion expenses, and income tax expenses are eliminated because they do not reflect continuing operating costs of the property. Depreciation and amortization expenses are eliminated because they may not accurately represent the actual change in value in our properties that result from use of the properties or changes in market conditions. While certain aspects of real property do decline in value over time in a manner that is reasonably captured by depreciation and amortization, the value of the properties as a whole have historically increased or decreased as a result of changes in overall economic conditions instead of from actual use of the property or the passage of time. Equity in income (losses) of unconsolidated equity method ventures are eliminated because they do not reflect continuing operating costs of the property. Gains and losses from the sale of real property vary from property to property and are affected by market conditions at the time of sale, which will usually change from period to period. Also, expenses that are incurred upon acquisition of a property do not reflect continuing operating costs of the property owner. These gains and losses can create distortions when comparing one period to another or when comparing our operating results to the operating results of other real estate companies that have not made similarly timed purchases or sales. Non-operating property investment revenue and realized and unrealized gains (losses) from non-real estate investments are eliminated as they do not reflect continuing operating costs of the properties. We believe that eliminating these items from net income (loss) is useful because the resulting measure captures the actual ongoing revenue generated and actual expenses incurred in operating our properties as well as trends in occupancy rates, rental rates and operating costs.

However, the usefulness of NOI is limited because it excludes corporate general and administrative expenses, interest expense, Advisory Fees and Administrative Fees, conversion expenses, income tax expenses, depreciation and amortization expense, and gains and losses from the sale of operating real estate assets that are included in net income (loss) as determined under GAAP, certain property general and administrative expenses that are not reflective of the continuing operations of the properties, non-operating property investment revenue and realized and change in unrealized gains and losses generated from non-real estate investments, and equity in income or losses of unconsolidated equity method ventures, all of which may be material values. NOI may fail to capture significant trends in these components of net income, which further limits its usefulness.

NOI is a measure of the operating performance of our properties but does not measure our performance as a whole. NOI is therefore not a substitute for net income (loss) as computed in accordance with GAAP. This measure should be analyzed in conjunction with net income (loss) computed in accordance with GAAP and discussions elsewhere in “—Results of Operations” regarding the components of net income (loss) that are eliminated in the calculation of NOI.

Other companies may use different methods for calculating NOI or similarly entitled measures and, accordingly, our NOI may not be comparable to similarly entitled measures reported by other companies that do not define the measure exactly as we do.

We define “Same Store NOI” as NOI for our properties that are comparable between periods and that are stabilized. Please see below for a discussion of properties included as Same Store (defined below). We view Same Store NOI as an important measure of the operating performance of our properties because it allows us to compare operating results of properties owned for the entirety of the current and comparable periods and therefore eliminates variations caused by acquisitions or dispositions from the beginning of the compared period to the end of the current period.

***NOI and Same Store NOI for the Three Months Ended June 30, 2023 and March 31, 2023 and the Six Months Ended June 30, 2023***

The following table, reconciles our NOI for the three months ended June 30, 2023 and March 31, 2023 and for the six months ended June 30, 2023 to net loss, the most directly comparable GAAP financial measure (in thousands):

|  | For the Three Months Ended<br>June 30 | For the Three Months Ended<br>March 31 | For the Six Months Ended<br>June 30 |
|--|---------------------------------------|--|-------------------------------------|
|  | 2023                                  | 2023                                   | 2023                                |
| Net loss   | \$ (13,867)                           | \$ (19,521)                            | \$ (33,388)                         |
| Adjustments to reconcile net loss to NOI:                            |                                       |  |                                     |
| Advisory and administrative fees                                     | 1,660                                 | 3,578                                  | 5,238                               |
| Corporate general and administrative expenses                        | 2,252                                 | 1,496                                  | 3,748                               |
| Conversion expenses  | 1,281                                 | 163                                    | 1,444                               |
| Income tax expense   | 308                                   | 806                                    | 1,114                               |
| Depreciation and amortization  | 3,584                                 | 3,524                                  | 7,108                               |
| Interest expense   | 3,762                                 | 3,462                                  | 7,224                               |
| Property general and administrative expenses (1)                     | —                                     | —                                      | —                                   |
| Non-operating property investment revenue                            | (8,441)                               | (10,137)                               | (18,578)                            |
| Realized gains (losses) from non-real estate investments             | 914                                   | (1,135)                                | (221)                               |
| Change in unrealized gains (losses) from non-real estate investments | 9,332                                 | 18,640                                 | 27,972                              |
| Equity in income (losses) of unconsolidated equity method ventures   | (422)                                 | 76                                     | (346)                               |
| NOI  | \$ 363                                | \$ 952                                 | \$ 1,315                            |
| Less Non-Same Store  |                                       |  |                                     |
| Revenues   | \$ (5,064)                            | \$ (4,382)                             | \$ (9,446)                          |
| Operating expenses   | 4,955                                 | 3,644                                  | 8,599                               |
| Same Store NOI   | \$ 254                                | \$ 214                                 | \$ 468                              |

(1) Includes an adjustment to net loss to exclude certain property general and administrative expenses that are not reflective of the continuing operations of the properties.

***Net Operating Income for Our Same Store and Non-Same Store Properties for the Three Months Ended June 30, 2023 and March 31, 2023 and the Six Months Ended June 30, 2023***

There are two properties in our same store pool for the three months ended June 30, 2023 and March 31, 2023 and the six months ended June 30, 2023 (our "Same Store" properties). Our Same Store properties exclude the following one property in our Portfolio as of June 30, 2023 and March 31, 2023, because it was not yet stabilized: Cityplace Tower. Non-Same Store properties include properties not yet stabilized.

The following table reflects the revenues, property operating expenses and NOI for the three months ended June 30, 2023 and March 31, 2023 for our Same Store and Non-Same Store properties (dollars in thousands):

|  | For the Three Months<br>Ended June 30 | For the Three Months<br>Ended March 31 | \$ Change       | % Change   |
|--|---------------------------------------|--|-----------------|------------|
|  | 2023                                  | 2023                                   |                 |            |
| <b>Revenues</b>                              |                                       |  |                 |            |
| Same Store                                   |                                       |  |                 |            |
| Rental income                                | \$ 374                                | \$ 348                                 | \$ 27           | 7.8 %      |
| Same Store revenues                          | 374                                   | 348                                    | 27              | 7.8 %      |
| Non-Same Store                               |                                       |  |                 |            |
| Rental income                                | 5,042                                 | 4,373                                  | 669             | 15.3 %     |
| Other income                                 | 22                                    | 9                                      | 13              | N/M        |
| Non-Same Store revenues                      | 5,064                                 | 4,382                                  | 682             | 15.6 %     |
| Total revenues                               | 5,438                                 | 4,729                                  | 709             | 15.0 %     |
| <b>Operating expenses</b>                    |                                       |  |                 |            |
| Same Store                                   |                                       |  |                 |            |
| Property operating expenses                  | 26                                    | 24                                     | 2               | 8.3 %      |
| Real estate taxes and insurance              | 63                                    | 82                                     | (19)            | (23.2)%    |
| Property management fees                     | 19                                    | 17                                     | 2               | 11.8 %     |
| Property general and administrative expenses | 13                                    | 10                                     | 3               | 30.0 %     |
| Same Store operating expenses                | 121                                   | 133                                    | (12)            | (9.0)%     |
| Non-Same Store                               |                                       |  |                 |            |
| Property operating expenses                  | 2,493                                 | 1,483                                  | 1,010           | 68.1 %     |
| Real estate taxes and insurance              | 1,277                                 | 1,275                                  | 2               | 0.2 %      |
| Property management fees                     | 173                                   | 153                                    | 20              | 13.1 %     |
| Property general and administrative expenses | 1,012                                 | 733                                    | 279             | 38.1 %     |
| Non-Same Store operating expenses            | 4,955                                 | 3,644                                  | 1,311           | 36.0 %     |
| Total operating expenses                     | 5,076                                 | 3,777                                  | 1,299           | 34.4 %     |
| <b>NOI</b>                                   |                                       |  |                 |            |
| Same Store                                   | 254                                   | 214                                    | 40              | 18.7 %     |
| Non-Same Store                               | 109                                   | 738                                    | (629)           | N/M        |
| <b>Total NOI</b>                             | <b>\$ 363</b>                         | <b>\$ 952</b>                          | <b>\$ (589)</b> | <b>N/M</b> |

See reconciliation of net loss to NOI above under “NOI and Same Store NOI for the Three Months Ended June 30, 2023 and March 31, 2023 and the Six Months Ended June 30, 2023.”

The following table reflects the revenues, property operating expenses and NOI for the six months ended June 30, 2023 for our Same Store and Non-Same Store properties (dollars in thousands):

|  | <b>For the Six Months Ended June 30</b> |
|--|---|
|  | <b>2023</b>                             |
| <b>Revenues</b>                              |   |
| Same Store                                   |   |
| Rental income                                | \$ 722                                  |
| Same Store revenues                          | 722                                     |
| Non-Same Store                               |   |
| Rental income                                | 9,415                                   |
| Other income                                 | 31                                      |
| Non-Same Store revenues                      | 9,446                                   |
| Total revenues                               | 10,168                                  |
| <b>Operating expenses</b>                    |   |
| Same Store                                   |   |
| Property operating expenses                  | 50                                      |
| Real estate taxes and insurance              | 145                                     |
| Property management fees                     | 36                                      |
| Property general and administrative expenses | 23                                      |
| Same Store operating expenses                | 254                                     |
| Non-Same Store                               |   |
| Property operating expenses                  | 3,976                                   |
| Real estate taxes and insurance              | 2,552                                   |
| Property management fees                     | 326                                     |
| Property general and administrative expenses | 1,745                                   |
| Non-Same Store operating expenses            | 8,599                                   |
| Total operating expenses                     | 8,853                                   |
| <b>NOI</b>                                   |   |
| Same Store                                   | 468                                     |
| Non-Same Store                               | 847                                     |
| <b>Total NOI</b>                             | <b>\$ 1,315</b>                         |

See reconciliation of net loss to NOI above under “NOI and Same Store NOI for the Three Months Ended June 30, 2023 and March 31, 2023 and Six Months Ended June 30, 2023.”

***Same Store Results of Operations for the Three Months Ended June 30, 2023 and March 31, 2023 and the Six Months Ended June 30, 2023***

As of June 30, 2023, our Same Store properties were approximately 75.4% leased with a weighted average monthly effective occupied rent per square foot of \$1.21. As of March 31, 2023, our Same Store properties were approximately 75.4% leased with a weighted average monthly effective rent per square foot of \$1.21. For our Same Store properties, we

recorded the following operating results for the three months ended June 30, 2023 as compared to the three months ended March 31, 2023 and for the six months ended June 30, 2023.

### **Revenues**

*Rental Income.* Rental income was \$374.0 thousand and \$347.5 thousand for the three months ended June 30, 2023 and March 31, 2023, and \$721.5 thousand for the six months ended June 30, 2023. There was an increase of approximately \$26.5 thousand between the three months ended March 31, 2023 and three months ended June 30, 2023, which was primarily related to an increase in rental revenue at White Rock Center.

### **Expenses**

*Property operating expenses.* Property operating expenses were \$25.8 thousand and \$24.3 thousand for the three months ended June 30, 2023 and March 31, 2023, and \$50.1 thousand for the six months ended June 30, 2023. There was a increase of approximately \$1.5 thousand, or approximately 8.3%, between the three months ended March 31, 2023 and the three months ended June 30, 2023. The majority of the decrease is related to a decrease in repair and maintenance costs.

*Real estate taxes and insurance.* Real estate taxes and insurance costs were \$62.8 thousand and \$82.0 thousand for the three months ended June 30, 2023 and March 31, 2023, and approximately \$144.8 thousand for the six months ended June 30, 2023. There was a decrease of approximately \$19.0 thousand, or approximately 23.2%, between the three months ended March 31, 2023 and the three months ended June 30, 2023. The majority of the decrease is related to a decrease in recoverable taxes.

*Property management fees.* Property management fees were \$18.5 thousand and \$17.3 thousand for the three months ended June 30, 2023 and March 31, 2023, and approximately \$35.7 thousand for the six months ended June 30, 2023. There was an increase of approximately \$2.0 thousand, or approximately 11.8%, between the three months ended March 31, 2023 and the three months ended June 30, 2023. The majority of the increase is related to an increase in gross receipts upon which property management fees are calculated.

*Property general and administrative expenses.* Property general and administrative expenses were \$13.5 thousand and \$9.7 thousand for the three months ended June 30, 2023 and March 31, 2023, and \$23.4 thousand for the six months ended June 30, 2023. There was an increase of \$3.0 thousand, or approximately 30.0% between the three months ended March 31, 2023 and the three months ended June 30, 2023. The majority of the increase is related to a increase in miscellaneous legal fees.

### **FFO and AFFO**

We believe that net income (loss), as defined by GAAP, is the most appropriate earnings measure. We also believe that funds from operations (“FFO”), as defined by the National Association of Real Estate Investment Trusts (“NAREIT”) and adjusted funds from operations (“AFFO”) are important non-GAAP supplemental measures of operating performance for a REIT.

Since the historical cost accounting convention used for real estate assets requires depreciation except on land, such accounting presentation implies that the value of real estate assets diminishes predictably over time. However, since real estate values have historically risen or fallen with market and other conditions, presentations of operating results for a REIT that use historical cost accounting for depreciation could be less informative. Thus, NAREIT created FFO as a supplemental measure of operating performance for REITs that excludes historical cost depreciation and amortization, among other items, from net income (loss), as defined by GAAP. FFO is defined by NAREIT as net income (loss) computed in accordance with GAAP, excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization. We compute FFO attributable to common shareholders in accordance with NAREIT’s definition.

AFFO makes certain adjustments to FFO in order to arrive at a more refined measure of the operating performance of our Portfolio. There is no industry standard definition of AFFO and practice is divergent across the industry. AFFO adjusts FFO to remove items such as equity based compensation expense and the amortization of deferred financing costs incurred in connection with obtaining long-term debt financing, and change in unrealized gains (losses). We believe AFFO is useful to investors as a supplemental gauge of our operating performance and is useful in comparing our operating performance with other REITs that are not as involved in the aforementioned activities.

We believe that the use of FFO and AFFO, combined with the required GAAP presentations, improves the understanding of operating results of REITs among investors and makes comparisons of operating results among such companies more meaningful. While FFO and AFFO are relevant and widely used measures of operating performance of REITs, they do not represent cash flows from operations or net income (loss) as defined by GAAP and should not be considered as an alternative or substitute to those measures in evaluating our liquidity or operating performance. FFO and AFFO do not purport to be indicative of cash available to fund our future cash requirements. Further, our computation of FFO and AFFO may not be comparable to FFO and AFFO reported by other REITs that do not define FFO in accordance with the current NAREIT definition or that interpret the current NAREIT definition or define AFFO differently than we do.

The following table reconciles our calculations of FFO and AFFO to net loss, the most directly comparable GAAP financial measure, for the three months ended June 30, 2023 and March 31, 2022 and six months ended June 30, 2023 (in thousands, except per share amounts):

|   | <u>For the Three Months<br/>Ended June 30,</u> | <u>For the Three Months<br/>Ended March 31,</u> | <u>For the Six Months<br/>Ended June 30,</u> |
|---|--|---|--|
|   | <u>2023</u>                                    | <u>2023</u>                                     | <u>2023</u>                                  |
| Net loss  | \$(13,867)                                     | \$(19,521)                                      | \$(33,388)                                   |
| Depreciation and amortization                               | 3,584  | 3,524   | 7,108  |
| Realized gains (losses)                                     | 914  | (1,135)   | (221)  |
| <b>FFO</b>  | <b>(9,369)</b>                                 | <b>(17,132)</b>                                 | <b>(26,501)</b>                              |
| Distributions to preferred shareholders                     | (1,155)  | (1,155)   | (2,310)                                      |
| <b>FFO attributable to common shareholders</b>              | <b>(10,524)</b>                                | <b>(18,287)</b>                                 | <b>(28,811)</b>                              |
| <b>FFO per share - basic</b>                                | <b>\$ (0.29)</b>                               | <b>\$ (0.49)</b>                                | <b>\$ (0.78)</b>                             |
| <b>FFO per share - diluted</b>                              | <b>\$ (0.28)</b>                               | <b>\$ (0.49)</b>                                | <b>\$ (0.77)</b>                             |
| Equity-based compensation expense                           | 436  | —   | 436  |
| Amortization of deferred financing costs - long term debt   | 230  | (474)   | (244)  |
| Change in unrealized losses                                 | 9,332  | 18,640  | 27,972                                       |
| <b>AFFO attributable to common shareholders</b>             | <b>(526)</b>                                   | <b>(121)</b>                                    | <b>(647)</b>                                 |
| <b>AFFO per share - basic</b>                               | <b>\$ (0.02)</b>                               | <b>\$ 0.00</b>                                  | <b>\$ (0.02)</b>                             |
| <b>AFFO per share - diluted</b>                             | <b>\$ (0.02)</b>                               | <b>\$ 0.00</b>                                  | <b>\$ (0.02)</b>                             |
| <b>Weighted average common shares outstanding - basic</b>   | <b>37,172</b>                                  | <b>37,172</b>                                   | <b>\$ 37,172</b>                             |
| <b>Weighted average common shares outstanding - diluted</b> | <b>(1) 37,755</b>                              | <b>37,172</b>                                   | <b>37,465</b>                                |
| <b>Dividends declared per common share</b>                  | <b>\$ 0.15</b>                                 | <b>\$ 0.15</b>                                  | <b>\$ 0.30</b>                               |
| <b>FFO Coverage - diluted</b>                               | <b>(2) -1.85x</b>                              | <b>-3.28x</b>                                   | <b>-2.56x</b>                                |
| <b>AFFO Coverage - diluted</b>                              | <b>(2) -0.16x</b>                              | <b>-0.02x</b>                                   | <b>-0.06x</b>                                |
| <b>Net income (loss) coverage</b>                           | <b>(2) -2.49x</b>                              | <b>-3.50x</b>                                   | <b>-2.99x</b>                                |

(1) The Company uses actual diluted weighted average common shares outstanding when in a dilutive position for FFO and AFFO.

(2) Indicates coverage ratio of FFO/AFFO/net income (loss) per common share (diluted) over dividends declared per common share during the period.

*The three months ended June 30, 2023 and March 31, 2023 and six months ended June 30, 2023*

FFO was \$(9.4) million and \$(17.1) million for the three months ended June 30, 2023 and March 31, 2023 and \$(26.5) million for the six months ended June 30, 2023, which was an increase of approximately \$7.8 million between the three months ended March 31, 2023 and the three months ended June 30, 2023. The change in our FFO between the periods primarily relates to an increase in unrealized losses.

AFFO was \$(0.5) million and \$(0.1) million for the three months ended June 30, 2023 and March 31, 2023 and \$(0.6) million for the six months ended June 30, 2023, which was an increase of approximately \$(0.4) million between the three months ended March 31, 2023 and the three months ended June 30, 2023. The change in our AFFO between the periods primarily relates to an increase in interest expense.

**Liquidity and Capital Resources**

Our short-term liquidity requirements consist primarily of funds necessary to pay for debt maturities, operating expenses and other expenditures including:

- capital expenditures to continue the ongoing development of Cityplace Tower;
- interest expense and scheduled principal payments on outstanding indebtedness (see “—Obligations and Commitments” below);
- recurring maintenance necessary to maintain our properties;
- distributions necessary to qualify for taxation as a REIT;
- income taxes for taxable income generated by TRS entities;
- acquisition of additional properties or investments;
- advisory and administrative fees payable to our Adviser;
- general and administrative expenses;
- reimbursements to our Adviser; and
- property management fees.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations and existing cash balances. As of June 30, 2023, we had \$10.6 million of cash available to meet our short-term liquidity requirements. As of June 30, 2023, we also had \$34.2 million of restricted cash held in reserve by the lender on the Cityplace debt. These reserves include escrows for property taxes and insurance, reserves for tenant improvements as well as required excess collateral.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the costs of acquiring additional properties, make additional accretive investments pursuant to our investment strategy, renovations and other capital expenditures to improve our properties and scheduled debt payments and distributions. We expect to meet our long-term liquidity requirements through various sources of capital, which may include a revolving credit facility and future debt or equity issuances, existing working capital, net cash provided by operations, long-term mortgage indebtedness and other secured and unsecured borrowings, and property and non-real estate asset dispositions. However, there are a number of factors that may have a material adverse effect on our ability to access these capital sources, including the state of overall equity and credit markets, our degree of leverage, our unencumbered asset base and borrowing restrictions imposed by lenders (including as a result of any failure to comply with financial covenants in our existing and future indebtedness), general market conditions for REITs, our operating performance and liquidity, market perceptions about us and restrictions on sales of properties under the Code. The success of our business strategy will depend, in part, on our ability to access these various capital sources.



In addition to our ongoing renovation of Cityplace, our other properties will require periodic capital expenditures and renovation to remain competitive. We estimate an additional \$190 million to \$210 million of capital expenditures to complete the Cityplace renovation. Also, acquisitions, redevelopments, or expansions of our properties will require significant capital outlays. Long-term, we may not be able to fund such capital improvements solely from net cash provided by operations because we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deductions for dividends paid and excluding net capital gains, to qualify and maintain our qualification as a REIT, and we are subject to tax on any retained income and gains. As a result, our ability to fund capital expenditures, acquisitions, or redevelopment through retained earnings long-term is limited. Consequently, we expect to rely heavily upon the availability of debt or equity capital for these purposes. If we are unable to obtain the necessary capital on favorable terms, or at all, our financial condition, liquidity, results of operations, and prospects could be materially and adversely affected.

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

We believe that our available cash, expected operating cash flows, and potential debt or equity financings will provide sufficient funds for our operations, anticipated scheduled debt service payments and dividend requirements for the twelve-month period following June 30, 2023.

### **Cash Flows**

The following table presents selected data from our consolidated statements of cash flows for the six months ended June 30, 2023 (in thousands):

|   | <b>For the Six Months Ended June 30</b> |
|---|---|
|   | <b>2023</b>                             |
| Net cash provided by (used in) operating activities             | \$(20,849)                              |
| Net cash provided by (used in) investing activities             | 18,633                                  |
| Net cash provided by (used in) used in financing activities     | (1,642)                                 |
| Net decrease in cash, cash equivalents and restricted cash      | (3,858)                                 |
| Cash, cash equivalents and restricted cash, beginning of period | 48,649                                  |
| Cash, cash equivalents and restricted cash, end of period       | \$44,791                                |

*Cash flows from operating activities.* During the six months ended June 30, 2023, net cash provided by (used in) operating activities was \$(20.8) million. Cash flows from operating activities was primarily driven by an income tax payment of \$10.7 million.

*Cash flows from investing activities.* During the six months ended June 30, 2023, net cash provided by (used in) investing activities was \$18.6 million. Cash flows from investing activities was primarily driven by proceeds from the sale of several equities and senior loans.

*Cash flows from financing activities.* During the six months ended June 30, 2023, net cash provided by (used in) financing activities was \$(1.6) million. Cash flows from financing activities was primarily driven by notes payable borrowings of \$20.0 million, offset by credit facility repayments of \$6.0 million, and dividends paid to common shareholders of \$11.2 million.

### **LIBOR Transition**

LIBOR ceased publication on June 30, 2023. The Company holds debt that uses LIBOR as the reference rate as of June 30, 2023. Beginning on July 1, 2023, LIBOR rates will be replaced with SOFR as the reference rate for the remaining LIBOR debt and derivative instruments, with applicable spread adjustments. The Company does not anticipate any material changes for all in rates of debt or derivative instruments from the cessation of LIBOR and transition to SOFR as the reference rate.

## **Debt**

### ***Mortgage Debt***

As of June 30, 2023, our consolidated subsidiaries had aggregate mortgage debt outstanding to third parties of approximately \$143.5 million at a weighted average interest rate of 7.8%. See Note 7 to our unaudited consolidated financial statements for additional information.

We intend to invest in additional real estate investments as suitable opportunities arise and adequate sources of equity and debt financing are available. We expect that future investments in properties, including any improvements or renovations of current or newly acquired properties, will depend on and will be financed by, in whole or in part, our existing cash, future borrowings and the proceeds from additional issuances of common shares or other securities or investment and property dispositions.

Although we expect to be subject to restrictions on our ability to incur indebtedness, we expect that we will be able to refinance existing indebtedness or incur additional indebtedness for acquisitions or other purposes, if needed. However, there can be no assurance that we will be able to refinance our indebtedness, incur additional indebtedness or access additional sources of capital, such as by issuing common shares or other debt or equity securities, on terms that are acceptable to us or at all.

Furthermore, following the completion of our renovation and development programs and depending on the interest rate environment at the applicable time, we may seek to refinance our floating rate debt into longer-term fixed rate debt at lower leverage levels.

### ***Credit Facility***

On January 8, 2021, the Company entered into the Credit Facility with Raymond James Bank, N.A. and drew the full balance. The Credit Facility, as amended, matures on November 6, 2023 and as of June 30, 2023, bore interest at the one-month SOFR plus 4.25%. During the three and six months ended June 30, 2023, the Company paid down \$3.0 million and \$6.0 million, respectively on the Credit Facility. As of June 30, 2023, the Credit Facility had an outstanding balance of \$5.0 million. For additional information regarding our Credit Facility, see Note 6.

### ***Revolving Credit Facility***

On May 22, 2023, the Company entered into the NexBank Revolver with NexBank, with the option for the Company to receive additional disbursements thereunder up to a maximum amount of \$50.0 million. As of June 30, 2023, the NexBank Revolver bears interest at one-month SOFR plus 3.50% and matures on May 20, 2024, with the option to extend the maturity by one year, twice. As of June 30, 2023, the NexBank Revolver had an outstanding balance of \$20.0 million.

## Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of June 30, 2023 for the next five calendar years subsequent to June 30, 2023.

|  | Payments Due by Period (in thousands) |                   |                  |                  |                 |                 |                 |
|--|---------------------------------------|-------------------|------------------|------------------|-----------------|-----------------|-----------------|
|  | Total                                 | 2023              | 2024             | 2025             | 2026            | 2027            | Thereafter      |
| <b>Property Level Debt</b>                           |                                       |                   |                  |                  |                 |                 |                 |
| Principal payments                                   | \$ 156,737                            | \$ 143,487        | \$ —             | \$ 13,250        | \$ —            | \$ —            | \$ —            |
| Interest expense                                     | 10,223                                | 8,468             | 1,096            | 659              | —               | —               | —               |
| Total  | \$ 166,960                            | \$ 151,955        | \$ 1,096         | \$ 13,909        | \$ —            | \$ —            | \$ —            |
| <b>Prime Brokerage Borrowing</b>                     |                                       |                   |                  |                  |                 |                 |                 |
| Principal payments                                   | \$ 2,118                              | \$ —              | \$ —             | \$ —             | \$ —            | \$ —            | \$ 2,118 (1)    |
| Interest expense                                     | 590                                   | 118               | 118              | 118              | 118             | 118             | — (1)           |
| Total  | \$ 2,708                              | \$ 118            | \$ 118           | \$ 118           | \$ 118          | \$ 118          | \$ 2,118        |
| <b>Preferred Shares</b>                              |                                       |                   |                  |                  |                 |                 |                 |
| Dividend payments                                    | N/A (2)                               | \$ 6,930          | \$ 9,240         | \$ 9,240         | \$ 9,240        | \$ 9,240        | N/A (2)         |
| <b>Credit Facility</b>                               |                                       |                   |                  |                  |                 |                 |                 |
| Principal payments                                   | \$ 25,000                             | \$ 5,000          | \$ 20,000        | \$ —             | \$ —            | \$ —            | \$ —            |
| Interest expense                                     | 1,718                                 | 1,043             | 675              | —                | —               | —               | —               |
| Total  | \$ 26,718                             | \$ 6,043          | \$ 20,675        | \$ —             | \$ —            | \$ —            | \$ —            |
| <b>Total contractual obligations and commitments</b> | <b>\$ 196,386</b>                     | <b>\$ 165,046</b> | <b>\$ 31,129</b> | <b>\$ 23,267</b> | <b>\$ 9,358</b> | <b>\$ 9,358</b> | <b>\$ 2,118</b> |

(1) Assumes no additional borrowings or repayments. The Prime Brokerage balance has no stated maturity date.

(2) The Series A Preferred Shares are perpetual.

### Credit Facility

The Credit Facility will mature on November 6, 2023 and is subject to monthly amortization payments through the maturity date. We believe we will have adequate liquidity to pay these obligations when they come due.

### Revolving Credit Facility

The NexBank Revolver will mature on May 20, 2024, with the option to extend the maturity by one year, twice, and is subject to monthly interest payments through the maturity date, with the remaining principal being due on the maturity date. We believe we will have adequate liquidity to pay these obligations when they come due.

### Cityplace Debt

On May 8, 2023, we received lender consent to defer the maturity of the Cityplace debt to September 8, 2023. Also on May 8, 2023, the parties to the loan agreement agreed to convert the index upon which the interest rate is based to one-month SOFR effective as of the first interest period beginning on or after May 8, 2023. The purpose of the deferral was to

allow for continued discussions around refinancing the debt. Management recognizes that finding an alternative source of funding is necessary to repay the debt by the maturity date. Management believes that there is sufficient time before the maturity date and that the Company has sufficient access to capital to ensure the Company is able to meet its obligations as they become due.

#### *Advisory Agreement*

As consideration for the Adviser's services under the Advisory Agreement, we pay our Adviser the Fees, which includes the Advisory Fee equal to 1.00% of Managed Assets and the Administrative Fee equal to 0.20% of the Company's Managed Assets. The Advisory Agreement provides that the Fees shall be paid in cash, unless the Adviser, in its sole discretion, elects to have all or a portion of the monthly installment of the Fees paid in common shares of the Company, subject to certain restrictions. For additional information, see Notes 14 and 17 to our unaudited consolidated financial statements.

We also generally reimburse our Adviser for operating or offering expenses it incurs on our behalf or in connection with the services it performs for us. Direct payment of operating expenses by us together with reimbursement of operating expenses to the Adviser, plus compensation expenses relating to equity awards granted under a long-term incentive plan and all other corporate general and administrative expenses of the Company, including the Fees payable under the Advisory Agreement, may not exceed the Expense Cap of 1.5% of Managed Assets, calculated as of the end of each quarter, for the twelve-month period following the Company's receipt of the Deregistration Order; provided, however, that this limitation will not apply to Offering Expenses, legal, accounting, financial, due diligence and other service fees incurred in connection with extraordinary litigation and mergers and acquisitions or other events outside the ordinary course of our business or any out-of-pocket acquisition or due diligence expenses incurred in connection with the acquisition or disposition of certain real estate-related investments; provided, further, in the event the Company consolidates another entity that it does not wholly own as a result of owning a controlling interest in such entity or otherwise, expenses will be calculated without giving effect to such consolidation and instead such entity's expenses will, on a pro rata basis consistent with the Company's percentage ownership, be considered those of the Company for purposes of calculation of expenses. The Adviser may, at its discretion and at any time, waive its right to reimbursement for eligible out-of-pocket expenses paid on the Company's behalf. Once waived, these expenses are considered permanently waived and become non-recoupable in the future.

As of June 30, 2023, a total of \$3.1 million in Fees to the Adviser have been waived to comply with the Expense Cap. Should the Company's Fees and expenses subject to the Expense Cap be less than the 1.5% limit for the twelve month period subsequent to the Deregistration Date, some or all of the deferred expenses could be recouped by the Adviser up to the Expense Cap. No Advisory Fees were recouped by the Adviser as of June 30, 2023, and all such deferred fees were waived.

#### **Income Taxes**

We anticipate that we will continue to qualify to be taxed as a REIT for U.S. federal income tax purposes, and we intend to continue to be organized and to operate in a manner that will permit us to qualify as a REIT. However, we can give no assurance that we will maintain REIT qualification. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual "REIT taxable income", as defined by the Code, to stockholders. As a REIT, we will be subject to federal income tax on our undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (1) 85% of our ordinary income, (2) 95% of our capital gain net income and (3) 100% of our undistributed income from prior years. Taxable income from certain non-REIT activities is managed through a TRS and is subject to applicable federal, state, and local income and margin taxes. The Company has recorded a current income tax expense of \$0.9 million associated with the TRSs for the six months ended June 30, 2023, which is largely driven by income from the Company's legacy CLO investments and investments in debt instruments not secured by mortgages on real property. The tax expense is partially driven by the quarterly change in valuation allowance on a deferred tax asset of \$0.3 million for a net expense of \$1.1 million for the six months ended June 30, 2023, that is recorded on the Consolidated Statement of Operations.

If we fail to qualify as a REIT in any taxable year, we could be subject to U.S. federal income tax on our taxable income at regular corporate income tax rates, and dividends paid to our shareholders would not be deductible by us in computing taxable income. Any resulting corporate liability could be substantial and could materially and adversely affect our net income (loss) and net cash available for distribution to stockholders. Unless we were entitled to relief under certain

Code provisions, we also would be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year in which we failed to qualify to be taxed as a REIT. As of June 30, 2023, we believe we are in compliance with all applicable REIT requirements.

We evaluate the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more-likely-than-not” (greater than 50% probability) of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Our management is required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which include federal and certain states. As of June 30, 2023 and to our knowledge, we have no examinations in progress and none are expected at this time.

We recognize our tax positions and evaluate them using a two-step process. First, we determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Second, we will determine the amount of benefit to recognize and record the amount that is more likely than not to be realized upon ultimate settlement.

We had no material unrecognized tax benefit or expense, accrued interest or penalties as of June 30, 2023. We and our subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The 2021, 2020 and 2019 tax years remain open to examination by tax jurisdictions to which our subsidiaries and we are subject. When applicable, we recognize interest and/or penalties related to uncertain tax positions on our consolidated statements of operations and comprehensive income (loss).

### **Dividends**

We intend to make regular quarterly dividend payments to holders of our common shares. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains. As a REIT, we will be subject to federal income tax on our undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (1) 85% of our ordinary income, (2) 95% of our capital gain net income and (3) 100% of our undistributed income from prior years. We intend to make regular quarterly dividend payments of all or substantially all of our taxable income to holders of our common shares out of assets legally available for this purpose, if and to the extent authorized by our Board. Before we make any dividend payments, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our debt payable. If our cash available for distribution is less than our taxable income, we could be required to sell assets, borrow funds or raise additional capital to make cash dividends or we may make a portion of the required dividend in the form of a taxable distribution of stock or debt securities.

We will make dividend payments based on our estimate of taxable earnings per common share, but not earnings calculated pursuant to GAAP. Our dividends and taxable income and GAAP earnings will typically differ due to items such as depreciation and amortization, fair value adjustments, differences in premium amortization and discount accretion, investments held through our TRSs, book/tax differences on income derived from partnerships, and non-deductible general and administrative expenses. Our quarterly dividends per share may be substantially different than our quarterly taxable earnings and GAAP earnings per share. Our Board declared a dividend on our common shares of \$0.15 per share which was paid on June 30, 2023 to shareholders of record on June 15, 2023. Our Board declared a dividend on our Series A Preferred Shares of \$0.34375 per share which was paid on June 30, 2023 to shareholders of record on June 23, 2023. We expect that dividends on our common shares, when, if and as declared by our Board, will be declared on a quarterly basis.

### **Off-Balance Sheet Arrangements**

As of June 30, 2023, we had the following off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

#### *Commitments*

The Company is the guarantor on three secured loans to, and dividend payments with respect to Series D Preferred Stock of NSP, an affiliate of the Adviser, with the secured loans having an aggregate principal amount of approximately

\$662.1 million outstanding as of June 30, 2023. NSP is current on all debt and dividend payments and in compliance with all debt compliance provisions. See Note 13 for additional information.

The Company is a limited guarantor and an indemnitor on one of NHT's loans with an aggregate principal amount of \$77.4 million as of June 30, 2023. The obligations include a customary environmental indemnity and a so-called "bad boy" guarantee, which is generally only applicable if and when the borrower directly, or indirectly through an agreement with an affiliate, joint venture partner or other third party, voluntarily files a bankruptcy or similar liquidation or reorganization action or takes other actions that are fraudulent or improper. NHT is current on all debt payments and in compliance with all debt compliance provisions.

### **Critical Accounting Policies and Estimates**

During the six months ended June 30, 2023, there have been no material changes in our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K filed with the SEC on March 31, 2023.

### **Inflation**

The real estate market has not been directly affected by inflation in the past several years due to increases in rents nationwide. Our lease terms are generally for a period of one year or more and rental rates reset to market if renewed. The majority of our leases also contain protection provisions applicable to reimbursement billings for utilities.

Inflation may also affect the overall cost of debt, as the implied cost of capital increases. The Federal Reserve has recently started raising interest rates to combat inflation and restore price stability and is expected to continue to raising interest rates in response to or in anticipation of continued inflation concerns. We intend to mitigate these risks through long-term fixed interest rate loans and interest rate hedges.

### **REIT Tax Election**

We have elected to be taxed as a REIT under Sections 856 through 860 of the Code. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our "REIT taxable income," as defined by the Code, to our shareholders. Taxable income from certain non-REIT activities are managed through one or more TRS entities and is subject to applicable federal, state, and local income and margin taxes. The Company has recorded a current income tax expense of \$0.9 million associated with the TRSs for the six months ended June 30, 2023, which is largely driven by income from the Company's legacy CLO investments and investments in debt investments not secured by mortgages on real property. The tax expense is partially offset by the quarterly change in the valuation allowance on a deferred tax asset of \$0.3 million for a net expense of \$1.1 million for the six months ended June 30, 2023, that is recorded on the Consolidated Statement of Operations. We believe we qualify for taxation as a REIT under the Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will operate in a manner so as to qualify as a REIT.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not required for smaller reporting companies.

### **Item 4. Controls and Procedures**

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

As required by Rule 13a-15(b) and Rule 15d-15(b) under the Exchange Act, our management, including our President and Chief Financial Officer, evaluated, as of June 30, 2023, the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) and Rule 15d-15(e). Based on that evaluation, our President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2023, to provide reasonable assurance that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Exchange Act and is accumulated and communicated to management, including the President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

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

**Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed under Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K filed with the SEC on March 31, 2023.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

None.

### Item 5. Other Information

None.

### Item 6. Exhibits

#### EXHIBIT INDEX

| Exhibit Number | Description   |
|----------------|---|
| 10.1           | <a href="#">Loan Agreement, dated May 22, 2023, by and between NexPoint Diversified Real Estate Trust Operating Partnership, L.P., NexPoint Real Estate Capital, LLC, NexPoint Real Estate Opportunities, LLC and NexBank (incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed with the SEC on May 25, 2023).</a> |
| 10.2           | <a href="#">Guaranty Agreement, dated May 22, 2023, by the Company in favor of NexBank (incorporated by reference to Exhibit 10.2 of the Company’s Current Report on Form 8-K filed with the SEC on May 25, 2023).</a>  |
| 10.3           | <a href="#">Form of 7.50% Convertible Notes of NexPoint SFR Operating Partnership, L.P., due June 30, 2027 (incorporated by reference to Exhibit 10.4 to VineBrook Homes Trust, Inc.’s Current Report on Form 8-K, filed with the SEC on June 14, 2023).</a>  |
| 10.4           | <a href="#">Second Amended and Restated Limited Partnership Agreement of NexPoint SFR Operating Partnership, L.P. dated June 30, 2023 (incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K, filed with the SEC on June 30, 2023).</a>   |
| 31.1*          | <a href="#">Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>  |



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|          |   |
|----------|---|
| 31.2*    | <a href="#">Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>  |
| 32.1+    | <a href="#">Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a> |
| 101.INS* | Inline XBRL Instance Document (The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document)                                 |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema   |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase   |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase  |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase   |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase  |
| 104      | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)  |

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\* Filed herewith.

+ Furnished herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**NEXPOINT DIVERSIFIED REAL ESTATE TRUST**

| <b>Signature</b>                      | <b>Title</b>  | <b>Date</b>     |
|---------------------------------------|---|-----------------|
| <u>/s/ Jim Dondero</u><br>Jim Dondero | President and Trustee<br>(Principal Executive Officer)  | August 14, 2023 |
| <u>/s/ Brian Mitts</u><br>Brian Mitts | Chief Financial Officer, Executive VP-Finance,<br>Treasurer, Assistant Secretary and Trustee<br>(Principal Financial Officer and Principal<br>Accounting Officer) | August 14, 2023 |

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jim Dondero, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NexPoint Diversified Real Estate Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2023

/s/ Jim Dondero

Jim Dondero

President

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Brian Mitts, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NexPoint Diversified Real Estate Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2023

/s/ Brian Mitts

Brian Mitts

Chief Financial Officer, Executive VP-  
Finance, Treasurer and Assistant Secretary  
(Principal Financial Officer)

**CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of NexPoint Diversified Real Estate Trust (the “Company”) for the period ending June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Jim Dondero, President of the Company, and Brian Mitts, Chief Financial Officer, Executive VP-Finance, Treasurer and Assistant Secretary of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 14, 2023

/s/ Jim Dondero

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Jim Dondero  
President  
(Principal Executive Officer)

Dated: August 14, 2023

/s/ Brian Mitts

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Brian Mitts  
Chief Financial Officer, Executive VP-  
Finance, Treasurer and Assistant Secretary  
(Principal Financial Officer)