

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): July 30, 2021



ARES COMMERCIAL REAL ESTATE CORPORATION

(Exact Name of Registrant as Specified in Charter)

Maryland	001-35517	45-3148087
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

245 Park Avenue, 42nd Floor, New York, NY	10167
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (212) 750-7300

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

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

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company ☐

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

Item 2.02 Results of Operations and Financial Condition.

On July 30, 2021, the registrant issued a press release announcing its financial results for the quarter ended June 30, 2021. A copy of the summary press release and the earnings presentation are attached hereto as Exhibit 99.1 and Exhibit 99.2, respectively, and incorporated herein by reference.

The information disclosed under this Item 2.02, including Exhibit 99.1 and Exhibit 99.2 hereto, is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 and shall not be deemed incorporated by reference into any filing made under the Securities Act of 1933, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits:

Exhibit Number	Description
99.1	Press Release, dated July 30, 2021
99.2	Presentation of Ares Commercial Real Estate Corporation, dated July 30, 2021
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document

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 hereunto duly authorized.

ARES COMMERCIAL REAL ESTATE CORPORATION

Date: July 30, 2021

By: /s/ Tae-Sik Yoon

Name: Tae-Sik Yoon

Title: Chief Financial Officer and Treasurer



**ARES COMMERCIAL REAL ESTATE CORPORATION REPORTS
SECOND QUARTER 2021 RESULTS**

*Second quarter GAAP net income of \$17.6 million or \$0.43 per diluted common share and
Distributable Earnings⁽¹⁾ of \$15.1 million or \$0.37 per diluted common share*

Closed \$311 million of new loan commitments

- Subsequent to end of second quarter -

*Declared third quarter 2021 dividend of \$0.33 per diluted common share and
a supplemental dividend of \$0.02 per diluted common share*

Closed \$254 million of new loan commitments

NEW YORK—(BUSINESS WIRE)—Ares Commercial Real Estate Corporation (the “Company”) (NYSE:ACRE), a specialty finance company engaged in originating and investing in commercial real estate assets, reported generally accepted accounting principles (“GAAP”) net income of \$17.6 million or \$0.43 per diluted common share and Distributable Earnings⁽¹⁾ of \$15.1 million or \$0.37 per diluted common share for the second quarter of 2021.

“We reported another strong quarter with Distributable Earnings per share up 16% versus the same period a year ago,” said Bryan Donohoe, Chief Executive Officer of Ares Commercial Real Estate Corporation. “With our broad market coverage and increased capital base, we are in a strong position to invest given our growing pipeline of attractive opportunities. During the second quarter, we closed \$311 million of commitments and, subsequent to the end of the quarter, another \$254 million of commitments in July.”

“Our senior-oriented portfolio continues to perform well with recovering real estate market fundamentals leading to a corresponding lift in our weighted average portfolio risk rating,” said Tae-Sik Yoon, Chief Financial Officer of Ares Commercial Real Estate Corporation. “In addition, as we continue to see further reductions in our CECL reserve due to improvements in our overall loan performance and market environment outlook, combined with the accretive impact of our recent common share offering, our book value per share has now increased for the fourth consecutive quarter.”

(1) Beginning in the fourth quarter of 2020, the non-GAAP financial measure of Core Earnings was renamed to Distributable Earnings. Refer to Schedule I for the definition and reconciliation of Distributable Earnings.

COMMON STOCK DIVIDEND

On May 4, 2021, the Company declared a regular cash dividend of \$0.33 per common share and a supplemental cash dividend of \$0.02 per common share for the second quarter of 2021. The second quarter 2021 dividend and supplemental cash dividend were paid on July 15, 2021 to common stockholders of record as of June 30, 2021. On July 30, 2021, the Company declared a regular cash dividend of \$0.33 per common share and a supplemental cash dividend of \$0.02 per common share for the third quarter of 2021. The third quarter 2021 dividend and supplemental cash dividend will be payable on October 15, 2021 to common stockholders of record as of September 30, 2021.

ADDITIONAL INFORMATION

The Company issued a presentation of its second quarter 2021 results, which can be viewed at www.arescre.com on the Investor Resources section of our home page under Events and Presentations. The presentation is titled "Second Quarter 2021 Earnings Presentation." The Company also filed its Quarterly Report on Form 10-Q for the quarter ended June 30, 2021 with the U.S. Securities and Exchange Commission on July 30, 2021.

CONFERENCE CALL AND WEBCAST INFORMATION

On Friday, July 30, 2021, the Company invites all interested persons to attend its webcast/conference call at 12:00 p.m. (Eastern Time) to discuss its second quarter 2021 financial results.

All interested parties are invited to participate via telephone or the live webcast, which will be hosted on a webcast link located on the Home page of the Investor Resources section of the Company's website at <http://www.arescre.com>. Please visit the website to test your connection before the webcast. Domestic callers can access the conference call by dialing +1 (888) 317-6003. International callers can access the conference call by dialing +1 (412) 317-6061. All callers will need to enter the Participant Elite Entry Number 9261682 followed by the # sign and reference "Ares Commercial Real Estate Corporation" once connected with the operator. All callers are asked to dial in 10-15 minutes prior to the call so that name and company information can be collected. For interested parties, an archived replay of the call will be available through August 13, 2021 at 5:00 p.m. (Eastern Time) to domestic callers by dialing +1 (877) 344-7529 and to international callers by dialing +1 (412) 317-0088. For all replays, please reference conference number 10156566. An archived replay will also be available through August 13, 2021 on a webcast link located on the Home page of the Investor Resources section of the Company's website.

ABOUT ARES COMMERCIAL REAL ESTATE CORPORATION

Ares Commercial Real Estate Corporation is a specialty finance company primarily engaged in originating and investing in commercial real estate loans and related investments. Through its national direct origination platform, the Company provides a broad offering of flexible and reliable financing solutions for commercial real estate owners and operators. The Company originates senior mortgage loans, as well as subordinate financings, mezzanine debt and preferred equity, with an emphasis on providing value added financing on a variety of properties located in liquid markets across the United States. Ares Commercial Real Estate Corporation elected and qualified to be taxed as a real estate investment trust and is externally managed by a subsidiary of Ares Management Corporation. For more information, please visit www.arescre.com. The contents of such website are not, and should not be deemed to be, incorporated by reference herein.

FORWARD-LOOKING STATEMENTS

Statements included herein or on the webcast / conference call may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, which relate to future events or the Company's future performance or financial condition. These statements are not guarantees of future performance, condition or results and involve a number of risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of a number of factors, including the returns on current and future investments, rates of repayments and prepayments on the Company's mortgage loans, availability of investment opportunities, the Company's ability to originate additional investments and completion of pending investments, the availability of capital, the availability and cost of financing, market trends and conditions in the Company's industry and the general economy, the level of lending and borrowing spreads and interest rates, commercial real estate loan volumes, the impact of the COVID-19 pandemic and the pandemic's impact on the U.S. and global economy, the Company's ability to pay future dividends at historical levels or at all, and the risks described from time to time in the Company's filings with the Securities and Exchange Commission (the "SEC"), including, but not limited to, the risk factors described in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K, filed with the SEC on February 18, 2021 and the risk factors described in Part II, Item 1A. Risk Factors in the Company's Quarterly

Report on Form 10-Q, filed with the SEC on July 30, 2021. Any forward-looking statement, including any contained herein, speaks only as of the time of this press release and Ares Commercial Real Estate Corporation undertakes no duty to update any forward-looking statements made herein or on the webcast/conference call. Projections and forward-looking statements are based on management's good faith and reasonable assumptions, including the assumptions described herein.

INVESTOR RELATIONS CONTACTS

Ares Commercial Real Estate Corporation
Carl Drake or John Stilmar
(888) 818-5298
iracre@aresmgmt.com

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	As of	
	June 30, 2021	December 31, 2020
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 75,671	\$ 74,776
Loans held for investment (\$1,118,269 and \$550,590 related to consolidated VIEs, respectively)	2,032,408	1,815,219
Current expected credit loss reserve	(16,893)	(23,604)
Loans held for investment, net of current expected credit loss reserve	2,015,515	1,791,615
Real estate owned, net	36,860	37,283
Other assets (\$2,467 and \$1,079 of interest receivable related to consolidated VIEs, respectively; \$105,990 and \$6,410 of other receivables related to consolidated VIEs, respectively)	128,789	25,823
Total assets	<u>\$ 2,256,835</u>	<u>\$ 1,929,497</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Secured funding agreements	\$ 404,205	\$ 755,552
Notes payable	43,976	61,837
Secured term loan	60,000	110,000
Collateralized loan obligation securitization debt (consolidated VIEs)	979,777	443,871
Secured borrowings	59,902	59,790
Due to affiliate	3,731	3,150
Dividends payable	16,528	11,124
Other liabilities (\$599 and \$391 of interest payable related to consolidated VIEs, respectively)	9,679	11,158
Total liabilities	<u>1,577,798</u>	<u>1,456,482</u>
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share, 450,000,000 shares authorized at June 30, 2021 and December 31, 2020 and 47,001,121 and 33,442,332 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively	464	329
Additional paid-in capital	700,994	497,803
Accumulated other comprehensive income	117	—
Accumulated earnings (deficit)	(22,538)	(25,117)
Total stockholders' equity	<u>679,037</u>	<u>473,015</u>
Total liabilities and stockholders' equity	<u>\$ 2,256,835</u>	<u>\$ 1,929,497</u>

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue:				
Interest income	\$ 30,859	\$ 29,835	\$ 61,564	\$ 61,283
Interest expense	(11,092)	(13,042)	(23,231)	(28,576)
Net interest margin	19,767	16,793	38,333	32,707
Revenue from real estate owned	3,764	1,189	6,421	6,409
Total revenue	23,531	17,982	44,754	39,116
Expenses:				
Management and incentive fees to affiliate	2,951	2,152	5,518	3,924
Professional fees	615	660	1,400	1,563
General and administrative expenses	1,195	959	2,351	1,827
General and administrative expenses reimbursed to affiliate	788	1,038	1,540	2,089
Expenses from real estate owned	3,842	3,254	7,120	9,930
Total expenses	9,391	8,063	17,929	19,333
Provision for current expected credit losses	(3,883)	(4,007)	(7,123)	23,111
Unrealized losses on loans held for sale	—	3,998	—	3,998
Income (loss) before income taxes	18,023	9,928	33,948	(7,326)
Income tax expense, including excise tax	408	160	593	169
Net income (loss) attributable to common stockholders	<u>\$ 17,615</u>	<u>\$ 9,768</u>	<u>\$ 33,355</u>	<u>\$ (7,495)</u>
Earnings (loss) per common share:				
Basic earnings (loss) per common share	\$ 0.43	\$ 0.29	\$ 0.88	\$ (0.23)
Diluted earnings (loss) per common share	<u>\$ 0.43</u>	<u>\$ 0.29</u>	<u>\$ 0.88</u>	<u>\$ (0.23)</u>
Weighted average number of common shares outstanding:				
Basic weighted average shares of common stock outstanding	41,009,175	33,316,933	37,731,317	32,607,442
Diluted weighted average shares of common stock outstanding	41,294,597	33,539,580	38,025,933	32,607,442
Dividends declared per share of common stock⁽¹⁾	<u>\$ 0.35</u>	<u>\$ 0.33</u>	<u>\$ 0.70</u>	<u>\$ 0.66</u>

(1) There is no assurance dividends will continue at these levels or at all.

SCHEDULE 1

Reconciliation of Net Income to Non-GAAP Distributable Earnings

Beginning in the fourth quarter of 2020, the non-GAAP financial measure of Core Earnings was renamed to Distributable Earnings to more appropriately reflect the principal purpose of the measure. Distributable Earnings helps the Company evaluate its financial performance excluding the effects of certain transactions and GAAP adjustments that it believes are not necessarily indicative of its current loan origination portfolio and operations. To maintain the Company's REIT status, the Company is generally required to annually distribute to its stockholders substantially all of its taxable income. The Company believes the disclosure of Distributable Earnings provides useful information to investors regarding the Company's ability to pay dividends, which is one of the principal reasons investors invest in the Company. The presentation of this additional information is not meant to be considered in isolation or as a substitute for financial results prepared in accordance with GAAP. Distributable Earnings is defined as net income (loss) computed in accordance with GAAP, excluding non-cash equity compensation expense, the incentive fees the Company pays to its Manager (Ares Commercial Real Estate Management LLC), depreciation and amortization (to the extent that any of the Company's target investments are structured as debt and the Company forecloses on any properties underlying such debt), any unrealized gains, losses or other non-cash items recorded in net income (loss) for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income (loss), one-time events pursuant to changes in GAAP and certain non-cash charges after discussions between the Company's manager and the Company's independent directors and after approval by a majority of the Company's independent directors. Loan balances that are deemed to be uncollectible are written off as a realized loss and are included in Distributable Earnings. Distributable Earnings is aligned with the calculation of "Core Earnings," which is defined in the Management Agreement and is used to calculate the incentive fees the Company pays to its Manager.

Reconciliation of net income attributable to common stockholders, the most directly comparable GAAP financial measure, to Distributable Earnings is set forth in the table below for the three and twelve months ended June 30, 2021 (\$ in thousands):

	For the three months ended June 30, 2021		For the twelve months ended June 30, 2021	
Net income attributable to common stockholders	\$	17,615	\$	62,689
Stock-based compensation		497		1,767
Incentive fees to affiliate		693		1,884
Depreciation of real estate owned		225		897
Provision for current expected credit losses		(3,883)		(10,048)
Change in unrealized losses on loans held for sale		—		(3,998)
Distributable Earnings	\$	15,147	\$	53,191
Net income attributable to common stockholders	\$	0.43	\$	1.76
Stock-based compensation		0.01		0.05
Incentive fees to affiliate		0.02		0.05
Depreciation of real estate owned		0.01		0.03
Provision for current expected credit losses		(0.09)		(0.28)
Change in unrealized losses on loans held for sale		—		(0.11)
Basic Distributable Earnings per common share	\$	0.37	\$	1.50
Net income attributable to common stockholders	\$	0.43	\$	1.75
Stock-based compensation		0.01		0.05
Incentive fees to affiliate		0.02		0.05
Depreciation of real estate owned		0.01		0.03
Provision for current expected credit losses		(0.09)		(0.28)
Change in unrealized losses on loans held for sale		—		(0.11)
Diluted Distributable Earnings per common share	\$	0.37	\$	1.49



Second Quarter 2021 Earnings Presentation

Disclaimer

Statements included herein may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended, which may relate to future events or the future performance or financial condition of Ares Commercial Real Estate Management LLC (“ACREM”), a subsidiary of Ares Management Corporation (“Ares Corp.”), Ares Corp., certain of their subsidiaries and certain funds and accounts managed by ACREM, Ares Corp. and/or their subsidiaries, including, without limitation, Ares Commercial Real Estate Corporation (“ACRE” or, the “Company”). These statements are not guarantees of future results or financial condition and involve a number of risks and uncertainties. Actual results could differ materially from those in the forward-looking statements as a result of a number of factors, including the returns on current and future investments, rates of repayments and prepayments on ACRE’s mortgage loans, availability of investment opportunities, ACRE’s ability to originate additional investments and completion of pending investments, the availability of capital, the availability and cost of financing, imposition of margin calls or valuation adjustment events in connection with such financings, market trends and conditions in ACRE’s industry and the general economy, the level of lending and borrowing spreads, commercial real estate loan volumes, the impact of the novel Coronavirus (“COVID-19”) pandemic and significant market volatility on ACRE’s business, ACRE’s borrowers, ACRE’s industry and the global economy, ACRE’s ability to pay future dividends at historical levels or at all, government-sponsored enterprise activity and other risks described from time to time in ACRE’s and Ares Corp.’s filings within the Securities and Exchange Commission (“SEC”). Any forward-looking statement, including any contained herein, speaks only as of the time of this release and none of ACRE, ARES Corp. nor ACREM undertakes any duty to update any forward-looking statements made herein. Any such forward-looking statements are made pursuant to the safe harbor provisions available under applicable securities laws.

Ares Corp. is the parent to several registered investment advisers, including Ares Management LLC (“Ares Management”) and ACREM. Collectively, Ares Corp., its affiliated entities, and all underlying subsidiary entities shall be referred to as “Ares” unless specifically noted otherwise. For a discussion regarding the potential risks and impact of the COVID-19 pandemic on ACRE, see Part I, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part I, Item 1A, “Risk Factors” in ACRE’s Annual Report on Form 10-K for the year ended December 31, 2020 and Part II, Item 1A, “Risk Factors” in ACRE’s Quarterly Report in Form 10-Q for the three months ended June 30, 2021.

The information contained in this presentation is summary information that is intended to be considered in the context of ACRE’s SEC filings and other public announcements that ACRE, ACREM or Ares may make, by press release or otherwise, from time to time. ACRE, ACREM and Ares undertake no duty or obligation to publicly update or revise the forward-looking statements or other information contained in this presentation. These materials contain information about ACRE, ACREM and Ares, and certain of their respective personnel and affiliates, information about their respective historical performance and general information about the market. You should not view information related to the past performance of ACRE, ACREM or Ares or information about the market, as indicative of future results, the achievement of which cannot be assured.

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For the definitions of certain terms used in this presentation, please refer to the “Glossary” slide in the appendix.

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Company Highlights

Defensive Portfolio of Primarily Senior Loans

98%
senior loans

53
loans across 17 markets

\$2.0 billion
outstanding principal balance

*Focused on multifamily, office
and industrial properties*

Stable Earnings and Financial Metrics in Q2 2021

\$0.37
Distributable Earnings⁽²⁾
per diluted common share

\$14.45
book value per diluted
common share

\$0.35
Q3 Dividend declared⁽³⁾

*Another quarter of Distributable Earnings
in excess of dividends*

Increased and Diverse Deployment Activity

\$311 million
of new commitments in Q2

80%
increase in commitments
vs. pre-COVID quarterly average⁽¹⁾

\$254 million
of new commitments
subsequent to Q2

*Originations across key property types including
industrial, multifamily and self storage*

Supported by Ares Management

\$262 billion
ARES AUM⁽⁴⁾

~190
ARES real estate investment
professionals⁽⁴⁾

\$33 billion
ARES Real Estate Group AUM⁽⁴⁾

*Benefit from the broader Ares Management
investment platform*

*Another strong quarter of earnings with a focus on accelerating investment
in expanding market opportunities to support the growth potential of our portfolio*

As of June 30, 2021, unless otherwise noted. Past performance is not indicative of future results. There is no guarantee or assurance investment objectives will be achieved. Diversification does not ensure profit or protect against market loss.

1. Based on comparison of new commitments in Q2 2021 to the quarterly average of new commitments in 2018 and 2019.
2. Beginning in Q4 2020, the non-GAAP financial measure of Core Earnings was renamed to Distributable Earnings. See page 17 for Distributable Earnings definition and page 16 for the Reconciliation of Net Income to Non-GAAP Distributable Earnings.
3. Consists of Q3 2021 cash dividend of \$0.33 and supplemental cash dividend of \$0.02. There is no assurance that dividends will be paid at historical levels or at all.
4. Includes the acquisition of Black Creek Group, which closed on July 1, 2021.

Summary of Q2 2021 Results and Activity

Earnings Results	<ul style="list-style-type: none"> GAAP net income of \$0.43 per diluted common share⁽¹⁾ Distributable Earnings of \$0.37 per diluted common share, a 16% increase from Q2 2020⁽²⁾ Book value per diluted common share of \$14.45, a 4% increase from Q2 2020 Maintained cash dividend of \$0.33 and supplemental cash dividend of \$0.02⁽³⁾
Portfolio Activity and Performance	<ul style="list-style-type: none"> Portfolio with \$2.2 billion in commitments <ul style="list-style-type: none"> \$248 million in outstanding principal funded, with \$311 million of new commitments⁽⁴⁾ \$125 million in full or partial loan repayments 97% of contractual interest payments received in Q2 2021⁽⁵⁾
Capital	<ul style="list-style-type: none"> Demonstrated strong capital markets execution to improve balance sheet positioning⁽⁶⁾⁽⁷⁾ <ul style="list-style-type: none"> Raised \$102 million in common equity offering that priced above book value per share \$83 million in investable capital to fund future portfolio growth⁽⁸⁾
Recent Developments	<ul style="list-style-type: none"> Originations have accelerated in Q3 2021 with \$254 million in new commitments and \$219 million in outstanding principal funded quarter to date Declared Q3 2021 cash dividend of \$0.33 and a supplemental cash dividend of \$0.02

Note: As of June 30, 2021, unless otherwise noted.

1. Inclusive of \$0.09 provision benefit per diluted common share for Q2 2021 for CECL.

2. Beginning in Q4 2020, the non-GAAP financial measure of Core Earnings was renamed to Distributable Earnings. See page 17 for Distributable Earnings definition and page 16 for the Reconciliation of Net Income to Non-GAAP Distributable Earnings.

3. There is no assurance dividends will continue at these levels or at all.

4. Outstanding principal funded includes fundings on previously originated loans.

5. Based on outstanding principal balance. The 3% of contractual interest payments not received represents the two loans in maturity default.

6. Total debt to equity ratio of 2.1x and recourse debt to equity ratio of 0.7x excluding CECL reserve.

7. Total debt to equity ratio of 2.2x and recourse debt to equity ratio of 0.7x including CECL reserve.

8. As of July 29, 2021, includes \$2 million of unrestricted cash and \$81 million of anticipated additional financing proceeds under uncommitted secured funding agreements. Does not include amounts under the secured revolving funding agreement with City National Bank ("CNB Facility").

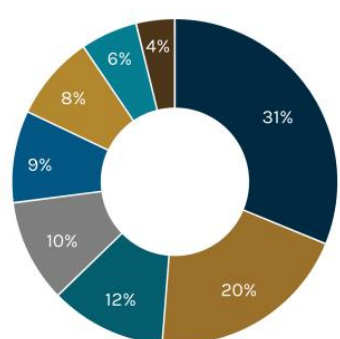
Loan Portfolio Positioning and Performance

Portfolio Characteristics

Defensive and Diversified Portfolio	53 Number of Active Loans	\$2.0 billion Outstanding Principal Balance ⁽²⁾	60% Multifamily, Office and Industrial
Well-Constructed for Volatile Markets	98% Percentage of Senior Loans ⁽¹⁾	1.3 years Weighted Average Remaining Life	100% % of Loan Portfolio with LIBOR Floors/Fixed Rate
Stable Credit and Cash Flow	6.1% Weighted Average Unleveraged Effective Yield ⁽³⁾	97% of Contractual Interest Payments Received in Q2 2021 ⁽⁴⁾	93% Internally rated a 3 or better ⁽⁵⁾

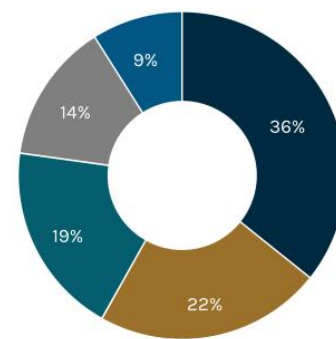
Focused and Geographically Diverse Portfolio⁽¹⁾

By Asset Type



■ Office
■ Hotel
■ Industrial
■ Self Storage

By Geography



■ Southeast
■ Midwest
■ West
■ Mid-Atlantic / Northeast
■ Southwest

Note: As of June 30, 2021, unless otherwise noted. Past performance is not indicative of future results. Diversification does not ensure profit or protect against market loss.

1. Based on outstanding principal balance.

2. Weighted average unpaid principal balance of loan portfolio of \$1.962 billion for Q2 2021.

3. Excludes impact of one loan on non-accrual status. Including the one non-accrual loan, total weighted average unleveraged effective yield for total loans held for investment is 6.0%.

4. Based on outstanding principal balance. The 3% of contractual interest payments not received represents the two loans in maturity default.

5. Percentage calculated based on the unpaid principal balance, excluding the CECL Reserve, of the Company's loans held for investment within each risk rating.

See page 17 for discussion of the Company's portfolio risk rating methodology.

Portfolio Activity

New Investment Commitments

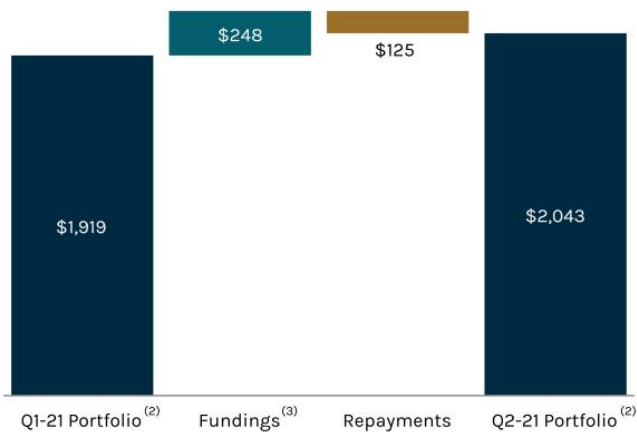
\$311 million
Q2-21 commitments⁽¹⁾

\$52 million
average loan size on
Q2-21 commitments

100%
senior loans for
Q2-21 commitments

\$254 million
closed Q3-21
to date

(\$ in millions)

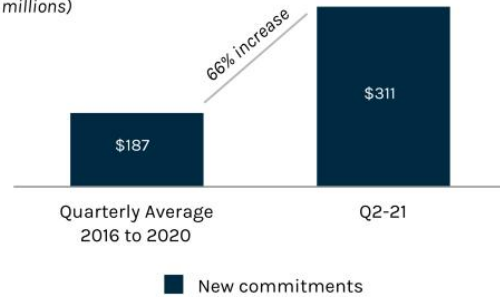


Note: Differences may arise due to rounding.

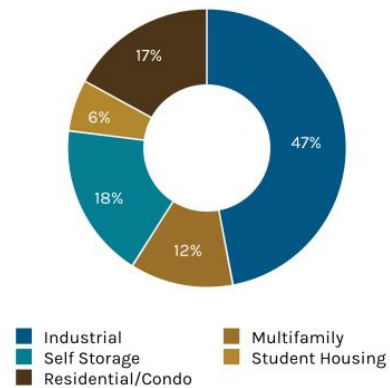
1. Includes 6 new loan commitments.
2. Represents outstanding principal balance.
3. Outstanding principal funded includes fundings on previously originated loans.
4. Based on commitment amount for new loan commitments closed in Q2 2021.

Quarterly Investment Activity

(\$ in millions)



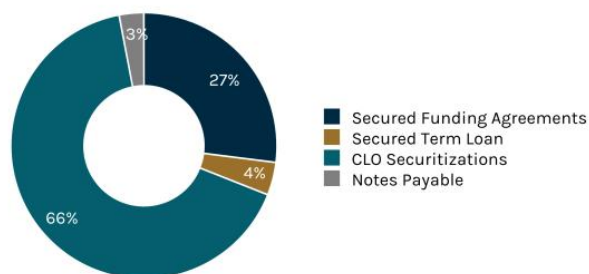
Q2-21 Loan Origination Composition⁽⁴⁾



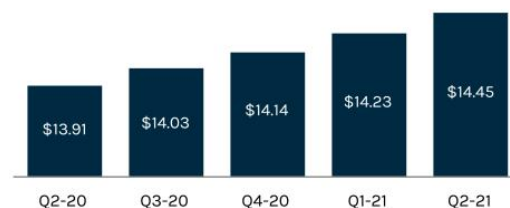
Conservative Balance Sheet and Liquidity Management

Diversified & Conservative Balance Sheet	8 Sources of Financing ⁽¹⁾	69% Non-recourse	\$2.3 billion Outstanding Total Capacity Across All Financings ⁽²⁾
Well-Constructed for Volatile Markets	0% Spread Based Mark to Market Provisions ⁽⁴⁾	1.9 years Average Weighted Remaining Term of Financing vs. Loans ⁽⁵⁾	Asset Diversification Across Facilities Only One Hotel Loan Per Secured Funding Agreement
Leverage and Investable Capital Supportive of Growth	2.1x Debt to Equity Ratio ⁽⁶⁾⁽⁷⁾	\$83 million Investable Capital to Fund Future Portfolio Growth ⁽⁸⁾	Additional Capacity Under the Ares Warehouse and CLO Securitizations

Diversified Sources of Financing⁽³⁾



Strong Profitability and Accretive Capital Raises



(\$ in millions)	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21
Debt to Equity ⁽⁶⁾	3.0x	2.8x	2.8x	2.4x	2.1x
% Non-Recourse	34%	36%	37%	71%	69%
Principal Outstanding	\$1,489	\$1,406	\$1,374	\$1,437	\$1,495

Note: As of June 30, 2021, unless otherwise noted. Diversification does not ensure profit or protect against market loss.

1. Excludes Notes Payable. See page 10 for additional details on sources of funding.

2. Weighted average unpaid principal balance of \$1.487 billion across all financings for Q2 2021.

3. Based on outstanding principal balance.

4. Secured funding agreements are not subject to capital markets mark-to-market provisions based on changes in market borrowing spreads but are subject to remarking provisions based on the credit performance of our loans.

5. Assumes exercise of extension options on financing agreements.

6. Excludes CECL reserve.

7. Total debt to equity ratio of 2.2x including CECL reserve.

8. As of July 29, 2021, includes \$2 million of unrestricted cash and \$81 million of anticipated additional financing proceeds under uncommitted secured funding agreements. Does not include amounts under the CNB Facility.



History of Growing and Consistent Dividends



1. There is no assurance that dividends will be paid at historical levels or at all.

2. Beginning in Q4 2020, the non-GAAP financial measure of Core Earnings was renamed to Distributable Earnings. See page 17 for Distributable Earnings definition and page 16 for Reconciliation of Net Income to Non-GAAP Distributable Earnings.



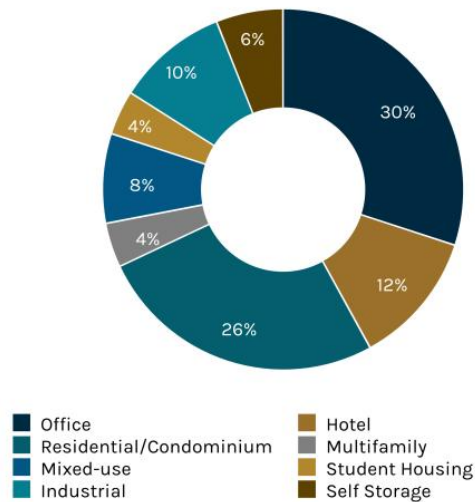
Appendix

Current Expected Credit Losses

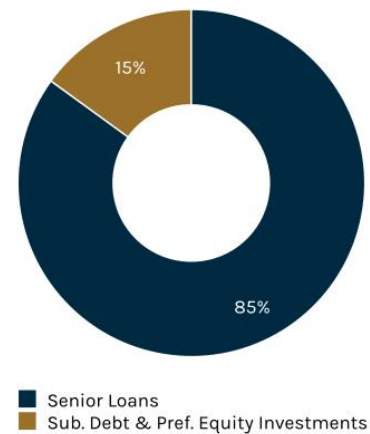
(\$ in thousands)		
Balance at 3/31/2021	\$	21,996
Provision for CECL		(3,883)
Balance at 6/30/2021	\$	18,113

- No specific loan impairments on loan portfolio
- Reduction in CECL reserve of \$3.9 million (bifurcated between funded commitments benefit of \$4.0 million and unfunded commitments provision of \$0.1 million) primarily attributable to improved economic outlook

Current Expected Credit Loss Reserve
by Property Type



Current Expected Credit Loss Reserve
by Loan Type



Additional Details on Sources of Funding

(\$ in millions)						
Financing Sources	Total Commitments		Outstanding Balance		Pricing Range	Mark-to-Market
Secured Funding Agreements						
Wells Fargo Facility	\$	350.0	\$	238.4	LIBOR+1.50 to 2.75%	Credit
Citibank Facility		325.0		44.7	LIBOR+1.50 to 2.25%	Credit
CNB Facility		50.0		—	LIBOR+2.65%	Credit
Morgan Stanley Facility		250.0		100.4	LIBOR+1.75 to 2.85%	Credit
MetLife Facility		180.0		20.7	LIBOR+2.10 to 2.50%	Credit
Subtotal	\$	1,155.0	\$	404.2		
Asset Level Financing						
Notes Payable	\$	51.8	\$	44.9	LIBOR+3.00 to 3.75%	None
Capital Markets						
Secured Term Loan	\$	60.0	\$	60.0	LIBOR+5.38%	Credit
2017-FL3 Securitization		445.6		445.6	LIBOR+1.70%	None
2021-FL4 Securitization		540.5		540.5	LIBOR+1.17%	None
Subtotal	\$	1,046.1	\$	1,046.1		
Total Debt	\$	2,252.9	\$	1,495.2		

Note: As of June 30, 2021.

Loans Held for Investment Portfolio Details

(\$ in millions)

#	Loan Type	Location	Origination Date	Current Loan Commitment	Outstanding Principal	Carrying Value	Interest Rate	LIBOR Floor	Unleveraged Effective Yield	Maturity Date	Payment Terms ⁽¹⁾
Office Loans:											
1	Senior	IL	Nov 2020	\$151.5	\$150.5	\$149.7	L+3.61%	1.5%	5.5%	Mar 2023	I/O
2	Senior	Diversified	Jan 2020	132.6	111.6	111.3	L+3.65%	1.6%	5.7%	Jan 2023	I/O
3	Senior	IL	Nov 2017	67.8	67.8	67.7	L+3.75%	1.3%	5.3%	Dec 2021	I/O
4	Senior	NC	Mar 2019	84.0	63.1	63.1	L+4.25%	2.4%	6.7%	Mar 2022	I/O
5	Senior	IL	May 2018	59.6	57.5	57.4	L+3.95%	2.0%	6.2%	Jun 2022	I/O
6	Senior	GA	Nov 2019	56.2	45.7	45.4	L+3.05%	2.0%	5.7%	Dec 2022	I/O
7	Senior	CA	Oct 2019	37.2	32.2	32.0	L+3.35%	2.0%	6.0%	Nov 2022	I/O
8	Senior	IL	Dec 2019	41.9	28.5	28.3	L+3.80%	1.8%	6.2%	Jan 2023	I/O
9	Senior	NC	Apr 2019	30.5	28.5	28.0	L+3.53%	2.3%	6.8%	May 2023	I/O
10	Senior	CA	Nov 2018	22.9	22.9	22.8	L+3.40%	2.3%	6.2%	Nov 2021	I/O
11	Senior	NC	Oct 2018	13.5	9.4	9.4	L+4.00%	2.1%	6.6%	Nov 2022	I/O
12	Subordinated	NJ	Mar 2016	16.9	16.9	16.4	12.00%	—%	12.8%	Jan 2026	P/I
13	Subordinated	CA	Nov 2017	3.1	3.0	3.0	L+8.25%	1.3%	9.7%	Nov 2021	I/O
Total Office				\$717.7	\$637.6	\$634.5					
Multifamily Loans:											
14	Senior	FL	Jun 2020	\$91.8	\$91.3	\$90.9	L+5.00%	0.8%	6.7%	Jun 2022	I/O
15	Senior	TX	Sep 2019	75.0	75.0	74.8	L+3.25%	0.2%	3.5%	Oct 2024	I/O
16	Senior	FL	Jun 2020	46.7	46.2	46.1	L+5.00%	0.8%	6.6%	Jun 2022	I/O
17	Senior	FL	Dec 2018	43.5	43.5	43.4	L+2.60%	2.4%	5.5%	Jan 2022	I/O
18	Senior	NJ	Mar 2020	41.0	41.0	40.9	L+3.05%	1.5%	4.9%	Mar 2022	I/O
19	Senior	SC	Jun 2021	37.5	37.5	37.1	L+2.75%	0.2%	3.4%	Jun 2023	I/O
20	Senior	PA	Dec 2018	30.3	29.4	29.3	L+3.00%	2.4%	5.9%	Dec 2021	I/O
21	Senior	SC	Aug 2019	34.6	26.9	26.7	L+6.50%	2.2%	10.1%	Sep 2022	I/O
22	Senior	WA	Feb 2020	19.0	18.7	18.6	L+3.00%	1.7%	5.1%	Mar 2023	I/O
Total Multifamily				\$419.4	\$409.5	\$407.8					

Note: As of June 30, 2021.
1. I/O = interest only, P/I = principal and interest.

Loans Held for Investment Portfolio Details

(\$ in millions)											
#	Loan Type	Location	Origination Date	Current Loan Commitment	Outstanding Principal	Carrying Value	Interest Rate	LIBOR Floor	Unleveraged Effective Yield	Maturity Date	Payment Terms ⁽¹⁾
Hotel Loans:											
23	Senior	OR/WA	May 2018	\$68.1	\$68.1	\$67.1	L+3.45%	1.9%	7.4%	May 2022	I/O
24	Senior	Diversified	Sep 2018	64.3	60.8	60.8	L+3.60%	2.1%	6.2%	Sep 2021	I/O
25	Senior	CA	Dec 2017	40.0	40.0	39.9	L+4.12%	1.4%	5.8%	Jan 2022	I/O
26	Senior	MI	Nov 2015	33.2	33.2	33.1	L+3.95%	0.3%	4.4%	Jul 2022	I/O
27	Senior	IL	Apr 2018	32.9	32.9	31.3	L+4.40%	1.9%	—% ⁽²⁾	May 2022	I/O
Total Hotel				\$238.5	\$235.0	\$232.2					
Mixed-Use Loans:											
28	Senior	FL	Feb 2019	\$84.0	\$84.0	\$84.0	L+4.25%	1.5%	5.7%	Feb 2023	I/O
29	Senior	CA	Jan 2021	58.8	56.5	56.3	(3)	(3)	5.4%	Jan 2024	I/O
30	Senior	TX	Sep 2019	42.2	35.7	35.5	(4)	0.3%	4.7%	Sep 2022	I/O
31	Senior	CA	Feb 2020	39.6	32.1	31.8	L+4.10%	1.7%	6.3%	Mar 2023	I/O
Total Mixed-Use				\$224.6	\$208.3	\$207.6					
Student Housing Loans:											
32	Senior	TX	Dec 2017	\$39.7	\$39.7	\$39.7	L+4.75%	0.5%	5.5%	Jan 2022	P/I
33	Senior	CA	Jun 2017	36.7	36.7	36.7	L+3.95%	0.4%	4.3%	Jul 2022	I/O
34	Senior	NC	Feb 2019	30.0	30.0	30.0	L+3.15%	2.3%	5.9%	Feb 2022	I/O
35	Senior	TX	Dec 2017	25.1	24.6	24.4	L+3.45%	1.6%	5.6%	Feb 2023	I/O
36	Senior	FL	Jul 2019	22.0	22.0	21.9	L+3.25%	2.3%	6.0%	Aug 2022	I/O
37	Senior	AL	Apr 2021	19.5	19.5	19.3	L+3.85%	0.2%	4.4%	May 2024	I/O
Total Student Housing				\$173.0	\$172.5	\$172.0					

Note: As of June 30, 2021.

1. I/O = interest only, P/I = principal and interest.

2. Loan was on non-accrual status as of June 30, 2021 and therefore, there is no Unleveraged Effective Yield as the loan is non-interest accruing.

3. At origination, the California loan was structured as both a senior and mezzanine loan with us holding both positions. The senior loan, which had an outstanding principal balance of \$45.0 million as of June 30, 2021, accrues interest at a per annum rate of L+3.80 with a 0.20% LIBOR floor and the mezzanine loan, which had an outstanding principal balance of \$11.5 million as of June 30, 2021, accrues interest at a per annum rate of 10.00%.

4. In March 2021, ACRE and the borrower entered into a modification agreement to, among other things, split the original senior Texas loan into two separate notes. Note A, which had an outstanding principal balance of \$35.3 million as of June 30, 2021, accrues interest at a per annum rate of L + 3.75% and Note B, which had an outstanding principal balance of \$0.4 million as of June 30, 2021, accrues interest at a per annum rate of L+10.00%.

Loans Held for Investment Portfolio Details

(\$ in millions)											
#	Loan Type	Location	Origination Date	Current Loan Commitment	Outstanding Principal	Carrying Value	Interest Rate	LIBOR Floor	Unleveraged Effective Yield	Maturity Date	Payment Terms ⁽¹⁾
Industrial Loans:											
38	Senior	NY	Jan 2020	\$77.5	\$64.3	\$64.3	L+5.00%	1.6%	8.1%	Aug 2021	I/O
39	Senior	IL	May 2021	100.7	62.1	61.4	L+4.55%	0.2%	5.3%	May 2024	I/O
40	Senior	NJ	Jun 2021	44.7	23.2	22.9	L+3.75%	0.3%	4.6%	May 2024	I/O
41	Senior	CA	Nov 2019	26.6	22.8	22.8	L+4.50%	1.9%	7.4%	Dec 2021	I/O
42	Senior	CA	Aug 2019	19.6	13.9	13.8	L+3.75%	2.0%	6.3%	Mar 2023	I/O
Total Industrial				\$269.1	\$186.3	\$185.2					
Self Storage Loans:											
43	Senior	NJ	Apr 2021	\$55.5	\$55.5	\$55.6	L+3.80%	0.4%	4.1%	Feb 2024	I/O
44	Senior	FL	Feb 2019	19.5	19.5	19.5	L+3.50%	2.0%	6.0%	Mar 2022	I/O
45	Senior	FL	Jan 2021	10.8	10.8	10.7	L+2.90%	1.0%	4.4%	Dec 2023	I/O
46	Senior	FL	Jan 2021	7.0	7.0	6.9	L+2.90%	1.0%	4.3%	Dec 2023	I/O
47	Senior	FL	Jan 2021	6.4	6.4	6.4	L+2.90%	1.0%	4.3%	Dec 2023	I/O
48	Senior	MO	Jan 2021	6.5	6.0	6.0	L+3.00%	1.3%	4.4%	Dec 2023	I/O
49	Senior	IL	Jan 2021	5.6	5.5	5.4	L+3.00%	1.0%	4.3%	Dec 2023	I/O
50	Senior	FL	Jan 2021	4.4	4.4	4.4	L+2.90%	1.0%	4.2%	Dec 2023	I/O
Total Self Storage				\$115.7	\$115.1	\$114.9					
Residential/Condominium Loans:											
51	Senior	NY	Oct 2018	\$52.4	\$52.4	\$52.4	(2)	(2)	11.0%	May 2021 ⁽³⁾	I/O
52	Senior	CA	Jan 2018	14.3	14.3	14.3	13.00%	—%	13.0%	May 2021 ⁽³⁾	I/O
53	Subordinated	HI	Aug 2018	11.5	11.5	11.5	14.00%	—%	21.7%	Aug 2021	I/O
Total Residential/Condominium				\$78.2	\$78.2	\$78.2					
Loan Portfolio Total/Weighted Average				\$2,236.2	\$2,042.5	\$2,032.4	1.4% ⁽⁴⁾		6.0%		

Note: As of June 30, 2021.

1. I/O = interest only, P/I = principal and interest.

2. At origination, the New York loan was structured as both a senior and mezzanine loan with the Company holding the mezzanine loan and a third party holding the senior loan. In April 2021, the Company purchased the senior loan from the third party at par. The senior loan, which had an outstanding principal balance of \$33.8 million as of June 30, 2021, accrues interest at a per annum rate of L + 6.00% with a 1.75% LIBOR floor and the mezzanine loan, which had an outstanding principal balance of \$18.6 million as of June 30, 2021, accrues interest at a per annum rate of L + 14.00% with a 2.28% LIBOR floor. The mezzanine loan includes a \$2.6 million loan to the borrower, for which such amount accrues interest at a per annum rate of 20.00%.

3. Loans were in maturity default as of June 30, 2021. Loans were evaluated for impairment and it was concluded that no impairment charge should be recognized as of June 30, 2021 and that these loans should not be placed on non-accrual status as of June 30, 2021. For more information see "Notes to Consolidated Financial Statements," "Note 3 - Loans Held for Investment" in our Quarterly Report on Form 10-Q.

4. The weighted average floor is calculated based on loans with LIBOR floors.

Consolidated Balance Sheets

(\$ in thousands, except share and per share data)	As of	
	6/30/2021	12/31/2020
ASSETS		
Cash and cash equivalents	\$ 75,671	\$ 74,776
Loans held for investment (\$1,118,269 and \$550,590 related to consolidated VIEs, respectively)	2,032,408	1,815,219
Current expected credit loss reserve	(16,893)	(23,604)
Loans held for investment, net of current expected credit loss reserve	2,015,515	1,791,615
Real estate owned, net	36,860	37,283
Other assets (\$2,467 and \$1,079 of interest receivable related to consolidated VIEs, respectively; \$105,990 and \$6,410 of other receivables related to consolidated VIEs, respectively)	128,789	25,823
Total assets	\$ 2,256,835	\$ 1,929,497
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Secured funding agreements	\$ 404,205	\$ 755,552
Notes payable	43,976	61,837
Secured term loan	60,000	110,000
Collateralized loan obligation securitization debt (consolidated VIEs)	979,777	443,871
Secured borrowings	59,902	59,790
Due to affiliate	3,731	3,150
Dividends payable	16,528	11,124
Other liabilities (\$599 and \$391 of interest payable related to consolidated VIEs, respectively)	9,679	11,158
Total liabilities	1,577,798	1,456,482
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share, 450,000,000 shares authorized at June 30, 2021 and December 31, 2020 and 47,001,121 and 33,442,332 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively	464	329
Additional paid-in capital	700,994	497,803
Accumulated other comprehensive income	117	—
Accumulated earnings (deficit)	(22,538)	(25,117)
Total stockholders' equity	679,037	473,015
Total liabilities and stockholders' equity	\$ 2,256,835	\$ 1,929,497

Consolidated Statements of Operations

(\$ in thousands, except share and per share data)	For the Three Months Ended				
	6/30/2021	3/31/2021	12/31/2020	9/30/2020	6/30/2020
Revenue:					
Interest income	\$ 30,859	\$ 30,704	\$ 29,144	\$ 30,626	\$ 29,835
Interest expense	(11,092)	(12,139)	(11,499)	(11,875)	(13,042)
Net interest margin	19,767	18,565	17,645	18,751	16,793
Revenue from real estate owned	3,764	2,658	3,560	3,623	1,189
Total revenue	23,531	21,223	21,205	22,374	17,982
Expenses:					
Management and incentive fees to affiliate	2,951	2,567	2,388	1,847	2,152
Professional fees	615	785	438	639	660
General and administrative expenses	1,195	1,157	935	969	959
General and administrative expenses reimbursed to affiliate	788	752	762	802	1,038
Expenses from real estate owned	3,842	3,277	4,151	4,046	3,254
Total expenses	9,391	8,538	8,674	8,303	8,063
Provision for current expected credit losses	(3,883)	(3,240)	(1,877)	(1,048)	(4,007)
Realized losses on loans sold	—	—	—	4,008	—
Change in unrealized losses on loans held for sale	—	—	—	(3,998)	3,998
Income before income taxes	18,023	15,925	14,408	15,109	9,928
Income tax expense, including excise tax	408	185	1	181	160
Net income attributable to common stockholders	\$ 17,615	\$ 15,740	\$ 14,407	\$ 14,928	\$ 9,768
Earnings per common share:					
Basic earnings per common share	\$ 0.43	\$ 0.46	\$ 0.43	\$ 0.45	\$ 0.29
Diluted earnings per common share	\$ 0.43	\$ 0.45	\$ 0.43	\$ 0.44	\$ 0.29
Weighted average number of common shares outstanding:					
Basic weighted average shares of common stock outstanding	41,009,175	34,417,040	33,349,475	33,337,445	33,316,933
Diluted weighted average shares of common stock outstanding	41,294,597	34,720,950	33,567,072	33,550,444	33,539,580
Dividends declared per share of common stock ⁽¹⁾	\$ 0.35	\$ 0.35	\$ 0.33	\$ 0.33	\$ 0.33

1. There is no assurance dividends will continue at these levels or at all.

Reconciliation of Net Income to Non-GAAP Distributable Earnings

(\$ in thousands, except per share data)	For the Three Months Ended				
	6/30/2021	3/31/2021	12/31/2020	9/30/2020	6/30/2020
Net income attributable to common stockholders	\$ 17,615	\$ 15,740	\$ 14,407	\$ 14,928	\$ 9,768
Stock-based compensation	497	521	382	367	365
Incentive fees to affiliate	693	658	533	—	303
Depreciation of real estate owned	225	224	224	224	224
Provision for current expected credit losses	(3,883)	(3,240)	(1,877)	(1,048)	(4,007)
Change in unrealized losses on loans held for sale	—	—	—	(3,998)	3,998
Distributable Earnings	\$ 15,147	\$ 13,903	\$ 13,669	\$ 10,473	\$ 10,651
Net income attributable to common stockholders	\$ 0.43	\$ 0.46	\$ 0.43	\$ 0.45	\$ 0.29
Stock-based compensation	0.01	0.02	0.01	0.01	0.01
Incentive fees to affiliate	0.02	0.02	0.02	—	0.01
Depreciation of real estate owned	0.01	0.01	0.01	0.01	0.01
Provision for current expected credit losses	(0.09)	(0.09)	(0.06)	(0.03)	(0.12)
Change in unrealized losses on loans held for sale	—	—	—	(0.12)	0.12
Basic Distributable Earnings per common share	\$ 0.37	\$ 0.40	\$ 0.41	\$ 0.31	\$ 0.32
Net income attributable to common stockholders	\$ 0.43	\$ 0.45	\$ 0.43	\$ 0.44	\$ 0.29
Stock-based compensation	0.01	0.02	0.01	0.01	0.01
Incentive fees to affiliate	0.02	0.02	0.02	—	0.01
Depreciation of real estate owned	0.01	0.01	0.01	0.01	0.01
Provision for current expected credit losses	(0.09)	(0.09)	(0.06)	(0.03)	(0.12)
Change in unrealized losses on loans held for sale	—	—	—	(0.12)	0.12
Diluted Distributable Earnings per common share	\$ 0.37	\$ 0.40	\$ 0.41	\$ 0.31	\$ 0.32

Glossary

Ares Warehouse	The Ares Warehouse represents a real estate debt warehouse investment vehicle maintained by an affiliate of ACREM. The Ares Warehouse holds Ares Management originated commercial real estate loans, which are made available to purchase by other investment vehicles, including ACRE and other Ares Management managed investment vehicles.
Distributable Earnings	Beginning in Q4 2020, the non-GAAP financial measure of Core Earnings was renamed to Distributable Earnings to more appropriately reflect the principal purpose of the measure. Distributable Earnings helps the Company evaluate its financial performance excluding the effects of certain transactions and GAAP adjustments that it believes are not necessarily indicative of its current loan origination portfolio and operations. To maintain the Company's REIT status, the Company is generally required to annually distribute to its stockholders substantially all of its taxable income. The Company believes the disclosure of Distributable Earnings provides useful information to investors regarding the Company's ability to pay dividends, which is one of the principal reasons investors invest in the Company. The presentation of this additional information is not meant to be considered in isolation or as a substitute for financial results prepared in accordance with GAAP. Distributable Earnings is defined as net income (loss) computed in accordance with GAAP, excluding non-cash equity compensation expense, the incentive fees the Company pays to its Manager, depreciation and amortization (to the extent that any of the Company's target investments are structured as debt and the Company forecloses on any properties underlying such debt), any unrealized gains, losses or other non-cash items recorded in net income (loss) for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income (loss), one-time events pursuant to changes in GAAP and certain non-cash charges after discussions between the Company's manager and the Company's independent directors and after approval by a majority of the Company's independent directors. Loan balances that are deemed to be uncollectible are written off as a realized loss and are included in Distributable Earnings. Distributable Earnings is aligned with the calculation of "Core Earnings," which is defined in the Management Agreement and is used to calculate the incentive fees the Company pays to its Manager.
Portfolio Risk Ratings	The portfolio assessment and risk levels have been classified according to the Company's proprietary methodology on a scale of 1.0 (very low risk) to 5.0 (impaired/loss likely). Risk factors include property type, geographic and local market dynamics, physical condition, leasing and tenant profile, projected cash flow, loan structure and exit plan, loan-to-value ratio, debt service coverage ratio, project sponsorship, and other factors deemed necessary. The assumptions underlying this proprietary methodology are subject to change, may not prove to be true and actual risks may be different than the classifications presented herein. Accordingly, no representation or warranty is made in respect of this information. For more information on risk ratings, see "Notes to Consolidated Financial Statements," "Note 4 - Current Expected Credit Losses" in our Quarterly Report on Form 10-Q.
Unleveraged Effective Yield	Unleveraged effective yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premiums or discounts) and assumes no dispositions, early prepayments or defaults.
Weighted Average Unleveraged Effective Yield	Weighted average unleveraged effective yield is calculated based on the average of unleveraged effective yield of all loans held by the Company as weighted by the outstanding principal balance of each loan.

