



ACRES Commercial Realty Corp.

First Quarter 2023 Earnings Presentation

May 3, 2023



## Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of federal securities laws. These forward-looking statements are not historical facts but rather are based on ACRES Commercial Realty Corp.'s ("ACR's" or the "Company's") current beliefs, assumptions and expectations. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to ACR or are within its control. If a change occurs, its business, financial condition, liquidity and results of operations may vary materially from those expressed in the forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect ACR's view only as of the date of this presentation. ACR uses words such as "anticipate," "expect," "intend," "plan," "believe," "seek," "estimate," "target," and variations of these words and similar expressions to identify forward-looking statements. Forward-looking statements are subject to various risks and uncertainties that could cause actual results to vary from its forward-looking statements, including, but not limited to:

- changes in the industry, interest rates, the debt securities markets, real estate markets or the general economy;
- increased rates of default and/or decreased recovery rates on its investments;
- the performance and financial condition of its borrowers;
- the cost and availability of its financings, which depend in part on its asset quality, the nature of its relationships with its lenders and other capital providers, its business prospects and outlook and general market conditions;
- the availability and attractiveness of terms of additional debt repurchases;
- availability, terms and deployment of short-term and long-term capital;
- availability of, and ability to retain, qualified personnel;
- changes in its business strategy;
- availability of investment opportunities in commercial real estate-related and commercial finance assets;
- the degree and nature of its competition;
- the resolution of its non-performing and sub-performing assets;
- the outbreak of widespread contagious disease, such as the novel coronavirus, COVID-19;
- the Company's ability to comply with financial covenants in its debt instruments;
- the adequacy of its cash reserves and working capital;
- the timing of cash flows, if any, from its investments;
- unanticipated increases in financial and other costs, including a rise in interest rates;
- our ability to maintain compliance with over-collateralization and interest coverage tests in our collateralized debt obligations ("CDOs") and/or collateralized loan obligations ("CLOs");
- its dependence on ACRES Capital, LLC, its "Manager", and ability to find a suitable replacement in a timely manner, or at all, if its Manager or the Company were to terminate the management agreement;
- environmental and/or safety requirements;
- its ability to satisfy complex rules in order for ACR to qualify as a real estate investment trust ("REIT"), for federal income tax purposes and qualify for its exemption under the Investment Company Act of 1940, as amended, and its ability and the ability of its subsidiaries to operate effectively within the limitations imposed by these rules;
- legislative and regulatory changes (including changes to laws governing the taxation of REITs or the exemptions from registration as an investment company); and
- other factors discussed under Item IA. Risk Factors in its Annual Report on Form 10-K for the year ended December 31, 2022 and those factors that may be contained in any subsequent filing ACR makes with the Securities and Exchange Commission.

# Disclaimer (continued)



## **Forward-Looking Statements (continued)**

In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this presentation might not occur and actual results, performance or achievement could differ materially from those anticipated or implied in the forward-looking statements. The Company undertakes no obligation, and specifically disclaims any obligation, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## **Past Performance**

Past performance is not indicative of future results. There is no guarantee that any investment strategy referenced herein will work under all market conditions. Prior to making any investment decision, you should evaluate your ability to invest for the long-term, especially during periods of downturns in the market. You alone assume the responsibility of evaluating the merits and risks associated with any potential investment or investment strategy referenced herein.

## **Notes on Presentation**

This presentation contains information regarding financial results that is calculated and presented on the basis of methodologies other than in accordance with accounting principles generally accepted in the United States ("GAAP"), which management believes is relevant to assessing ACR's financial performance. Please refer to page 25 for the reconciliation of Net Loss, a GAAP financial measure, to Earnings Available for Distribution ("EAD"), a non-GAAP financial measure.

Unless otherwise indicated, information included in this presentation is at or for the period ended March 31, 2023.

## **Definitions**

Refer to page 30 for a description of certain terms not otherwise defined or footnoted, including EAD, Benchmark Rate, GAAP Book Value, and other key terms.

## **No Offer or Sale of Securities**

This presentation is for informational purposes only and does not constitute an offer to sell or the solicitation of any offer to buy any securities of ACR or any other entity. Any offering of securities would be made pursuant to separate documentation and any such securities would not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

# First Quarter 2023 Highlights



- Manager is focused on delivering shareholder value through EAD <sup>(1)</sup> growth and share repurchases
- Earnings and capital gains can be retained through tax assets to increase book value



(1) Refer to page 25 for the reconciliation of Net Loss, a GAAP financial measure, to EAD, a non-GAAP financial measure

(2) Book value is down \$0.03 per share from the previous quarter



Results for Quarter Ended March 31, 2023

# Results and Recent Developments



## Financial Results

- GAAP net loss per share for Q1 2023: **(\$0.28)**, and includes:
  - **\$(0.60)** due to \$5.1M provision for CECL reserves, primarily attributable to modeled increases in expected general portfolio credit risk
- EAD <sup>(1)</sup> for Q1 2023: **\$0.52**

## Book Value

- GAAP book value: **\$24.51**, **down 0.1%** from \$24.54 in the fourth quarter of 2022 and **up 1.7%** from \$24.10 in the first quarter of 2022
- Annual increase of **14.2%** since ACRES acquisition in Q3 2020

## CRE Loan Activity & CRE Portfolio

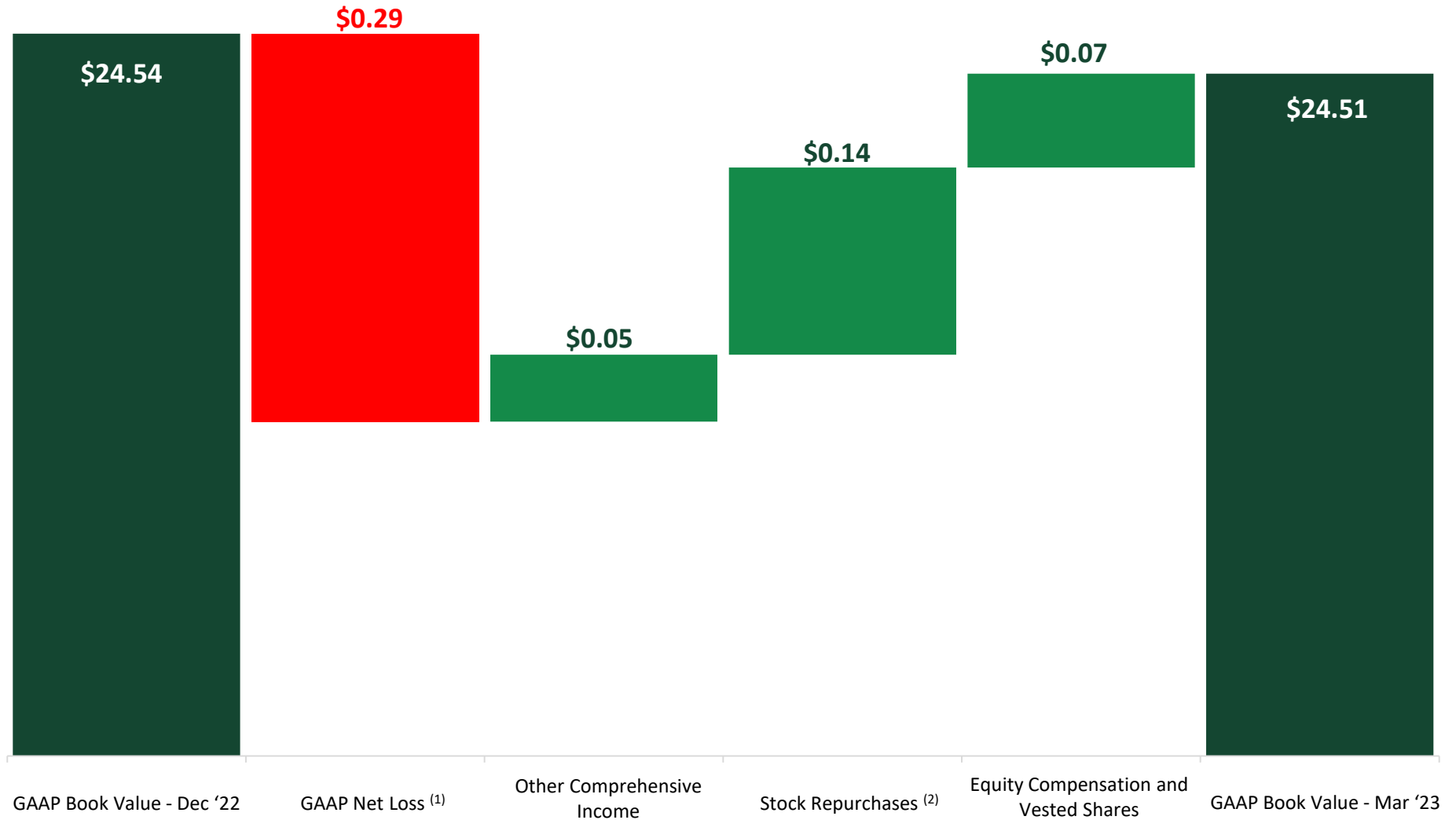
- **\$2.0B** CRE loan portfolio comprising 79 loans with a weighted average LTV of **74%**
- **\$16.0M** of CRE loan originations and **\$94.1M** of loan repayments
- **5%** of CRE loan portfolio is rated 4 or 5
- **97%** of the par value of the CRE loan portfolio is current on payments
- **\$134.6M** of net investments in real estate and property held for sale

## Capitalization & Liquidity

- Non-recourse, non-mark-to-market CLO financings comprised **77%** of asset-specific borrowings
- Total liquidity of **\$130.6M** at March 31, 2023

(1) Refer to page 25 for the reconciliation of Net Loss, a GAAP financial measure, to EAD, a non-GAAP financial measure

# Summary of Changes to GAAP Book Value per Share



(1) Per share adjustments are calculated based on the share count outstanding utilized in the calculation of book value at March 31, 2023

(2) At March 31, 2023, \$13.6 million, or 1.2 million shares, were repurchased under the board authorized plan



# CRE Loan Activity and CRE Portfolio



# Deployment Progress



## CRE Loan Production, at Par

\$ in Millions	2 <sup>nd</sup> Quarter 2022	3 <sup>rd</sup> Quarter 2022	4 <sup>th</sup> Quarter 2022	1 <sup>st</sup> Quarter 2023	12 Mos. Ended Mar. 31, 2023 <sup>(1)</sup>
<b>New CRE floating-rate loan commitments</b>	<b>\$311.7</b>	<b>\$181.3</b>	<b>\$18.0</b>	<b>\$16.0</b>	<b>\$526.9</b>
Sales, payoffs and paydowns	(109.2)	(83.5)	(114.6)	(94.1)	(401.4)
Future fundings	16.6	16.4	22.7	14.9	70.5
New unfunded loan commitments	(39.8)	(44.3)	(0.7)	(1.2)	(85.9)
<b>Net CRE loan (repayments) fundings</b>	<b>\$179.3</b>	<b>\$69.9</b>	<b>\$(74.6)</b>	<b>\$(64.4)</b>	<b>\$110.1</b>
<b>New CRE loans:</b>					
<b>Weighted average LTV</b>	<b>73%</b>	<b>61%</b>	<b>67%</b>	<b>60%</b>	<b>68%</b>
<b>Weighted average coupon</b>	<b>1M BR + 3.79%</b>	<b>1M BR + 6.04%</b>	<b>1M BR + 4.80%</b>	<b>1M BR + 5.50%</b>	<b>1M BR + 4.58%</b>
<b>Weighted average BR floor</b>	<b>0.61%</b>	<b>2.18%</b>	<b>4.32%</b>	<b>4.50%</b>	<b>1.38%</b>

(1) Year to date totals include adjustments for rounding

# Production, Payoff and Paydown Detail



New Loan Production in the 1 <sup>st</sup> Qtr. 2023	Coupon Rate	Commitments (\$ in Millions)
Self Storage (1 Loan)	1M BR (4.50% floor) + 5.50%	\$16.0

Loan Payoffs & Paydowns in the 1 <sup>st</sup> Qtr. 2023	W. Avg. Months on Balance Sheet	W. Avg. Coupon Rate	Payoffs & Paydowns (\$ in Millions)
Payoffs			
Hotel (1 Loan)	52	1M BR (1.92% floor) + 3.83%	\$56.5
Multifamily (3 Loans)	30	1M BR (1.10% floor) + 3.39%	36.9
<b>W. Avg/Total (4 Loans)</b>	<b>43 months</b>	<b>1M BR (1.60% floor) + 3.65%</b>	<b>\$93.4</b>
Paydowns			0.7
<b>Total Payoffs &amp; Paydowns</b>			<b>\$94.1</b>

# CRE Loan Portfolio Overview



\$ in Millions	June 30, 2022	Sep. 30, 2022	Dec. 31, 2022	Mar. 31, 2023
CRE whole loans, floating-rate	\$2,070.0	\$2,125.9	\$2,052.9	\$1,990.1
CRE mezzanine loan <sup>(1)</sup>	4.7	4.7	4.7	4.7
<b>Total loans held for investment amortized cost</b>	<b>\$2,074.7</b>	<b>\$2,130.6</b>	<b>\$2,057.6</b>	<b>\$1,994.8</b>
Allowance for credit losses	(5.2)	(7.8)	(18.8)	(23.9)
<b>Total loans held for investment carrying value</b>	<b>\$2,069.5</b>	<b>\$2,122.8</b>	<b>\$2,038.8</b>	<b>\$1,970.9</b>
<b>Weighted Averages</b>				
CRE whole loans, floating-rate <sup>(2)</sup>	1M BR + 3.61%	1M BR + 3.76%	1M BR + 3.78%	1M BR + 3.89%
1M BR Floor <sup>(2)</sup>	0.62%	0.67%	0.68%	0.66%
<b>Total CRE loan portfolio LTV</b>	<b>72%</b>	<b>72%</b>	<b>73%</b>	<b>74%</b>
<b>Total number of CRE Loans</b>	<b>89</b>	<b>88</b>	<b>82</b>	<b>79</b>

(1) Fully reserved at December 31, 2022 and March 31, 2023

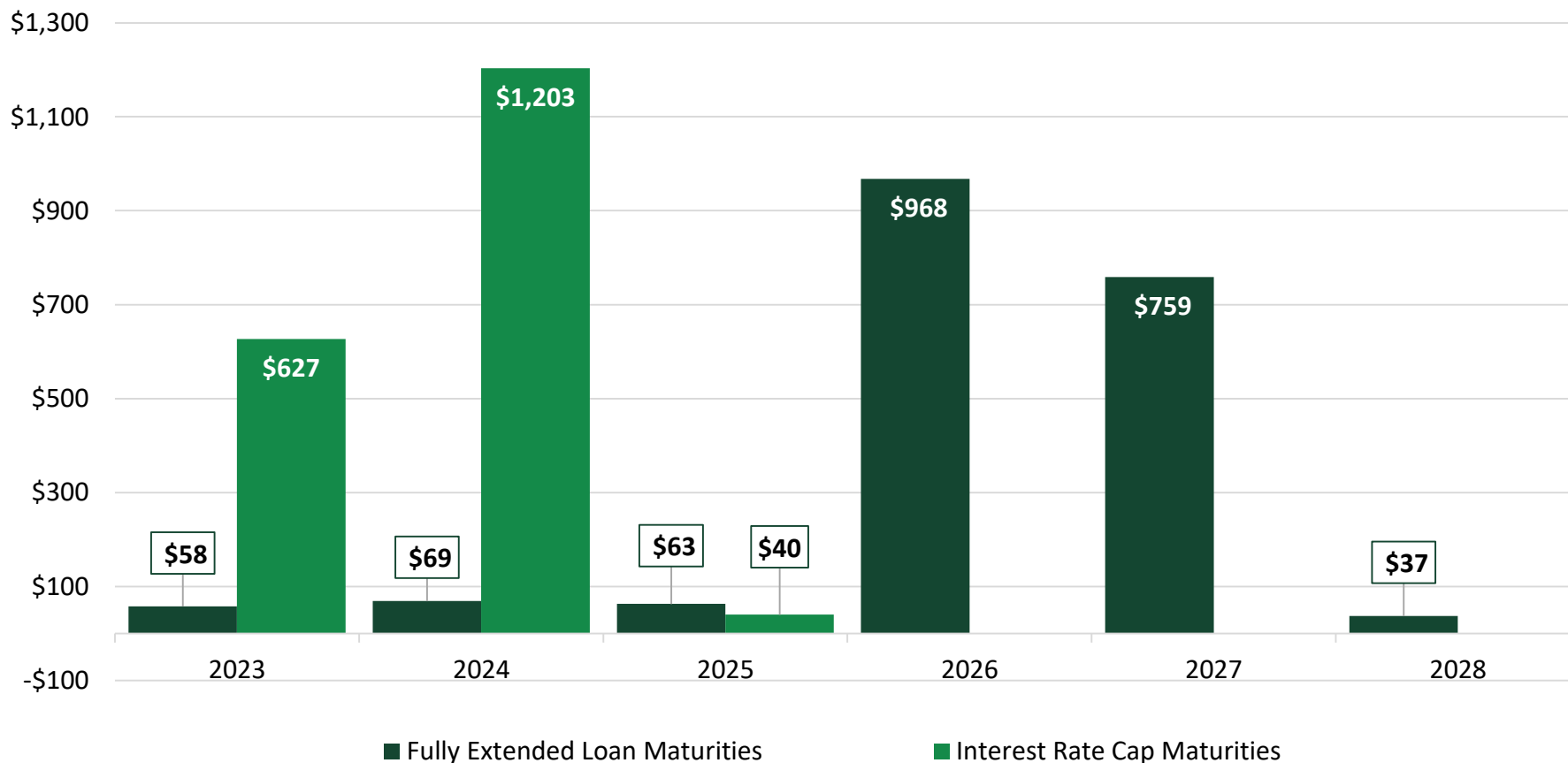
(2) At March 31, 2023, all CRE whole loans are now indexed only to SOFR and the benchmark rate was 4.80%

# CRE Loan Portfolio Maturity Profile



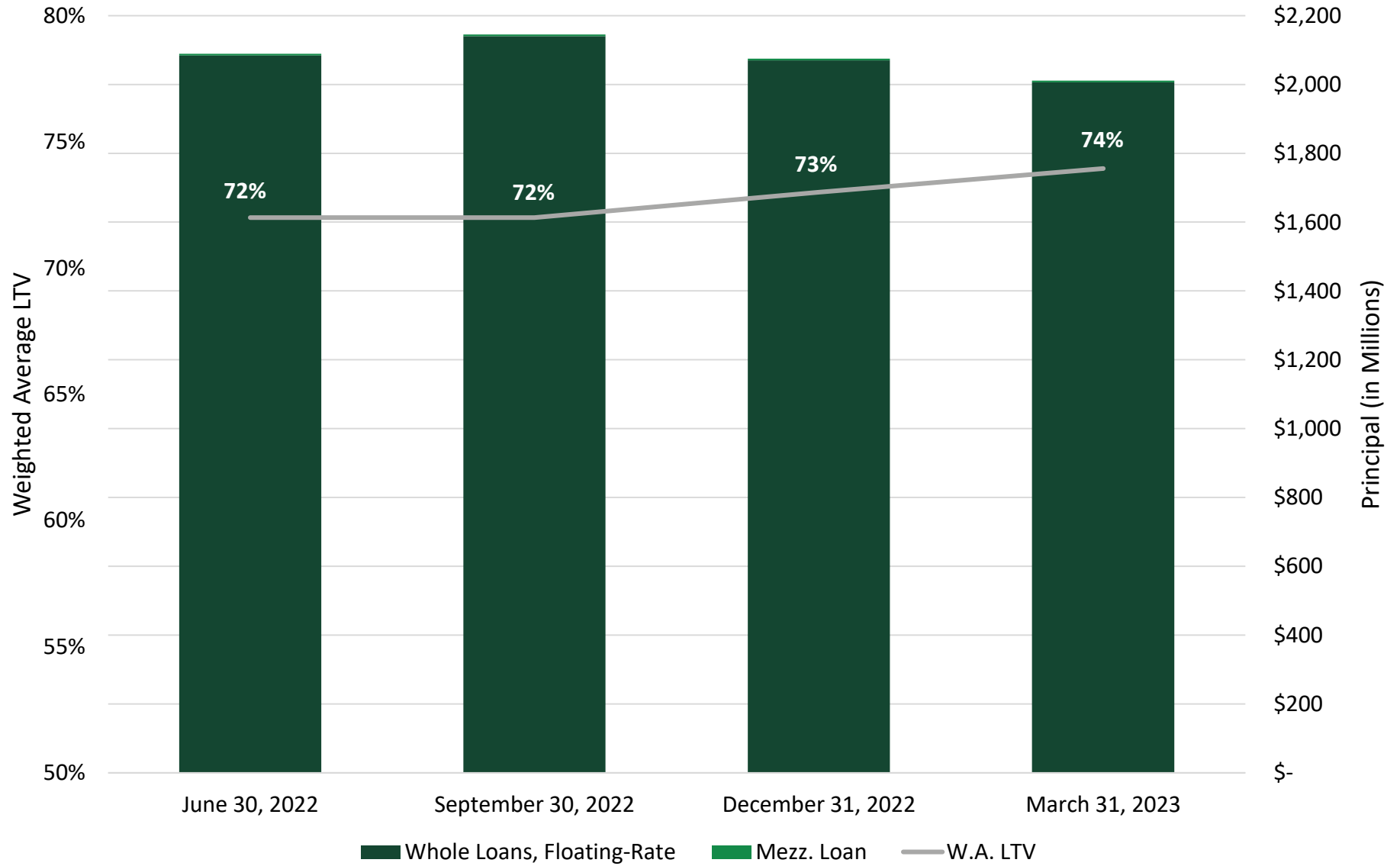
- Fully extended weighted average loan maturity of **3.4 years** <sup>(1)(2)</sup>
- **94%** of the par value of the portfolio has interest rate caps in place at March 31, 2023 <sup>(3)(4)</sup>

## Fully Extended Loan and Interest Rate Cap Maturities (\$ in millions at par)



- (1) Excludes loans in default at March 31, 2023
- (2) Fully-extended maturity basis assumes borrower elects and qualifies for all extensions
- (3) Interest rate caps are contractually owned by the underlying borrower and supplement the property cash flows that collateralize the CRE loan portfolio
- (4) Our current interest rate caps have maturities from April 2023 through September 2025

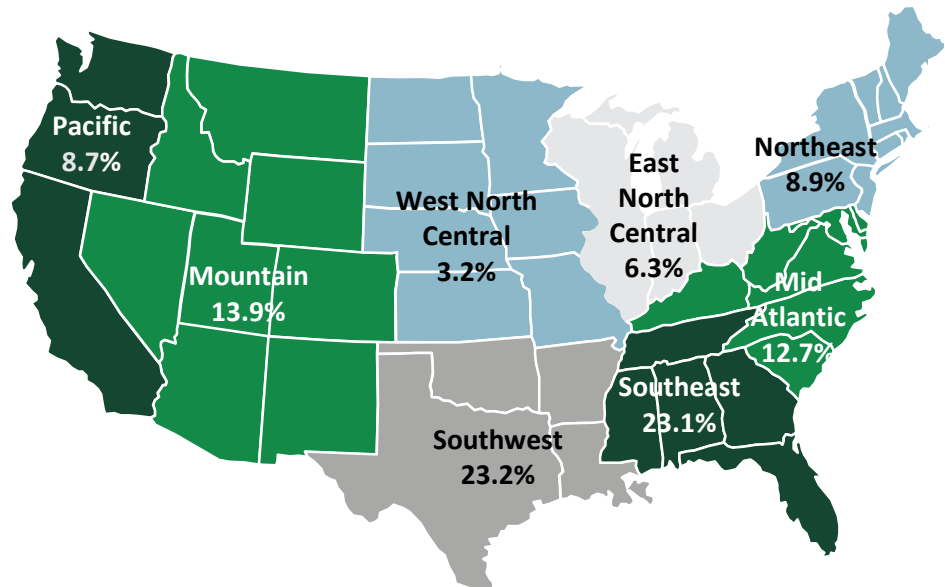
# CRE Loan Portfolio LTV



# CRE Loan Portfolio Diversification



## Balance by Region <sup>(1)</sup>



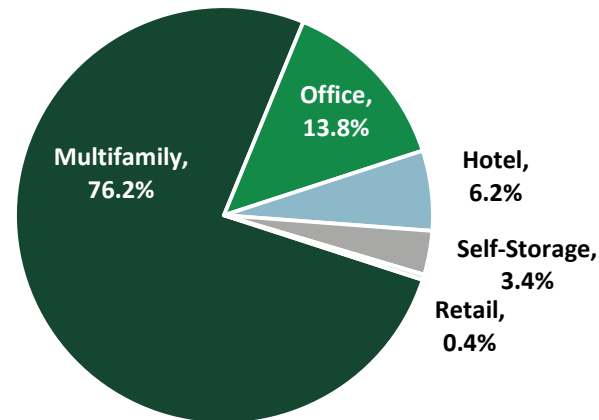
### Top State Concentration Metrics:

- Texas: 23.2%
- Florida: 17.1%
- Arizona: 8.7%
- New York: 6.7%
- South Carolina: 5.9%

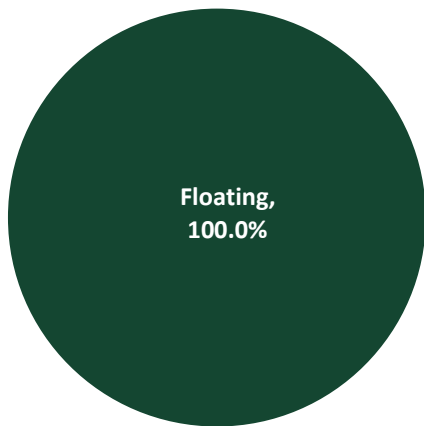
(1) Based on the regions identified by the National Council of Real Estate Investment Fiduciaries (NCREIF)

(2) CRE Portfolio includes one fixed rate loan with no carrying value at March 31, 2023

## Property Type



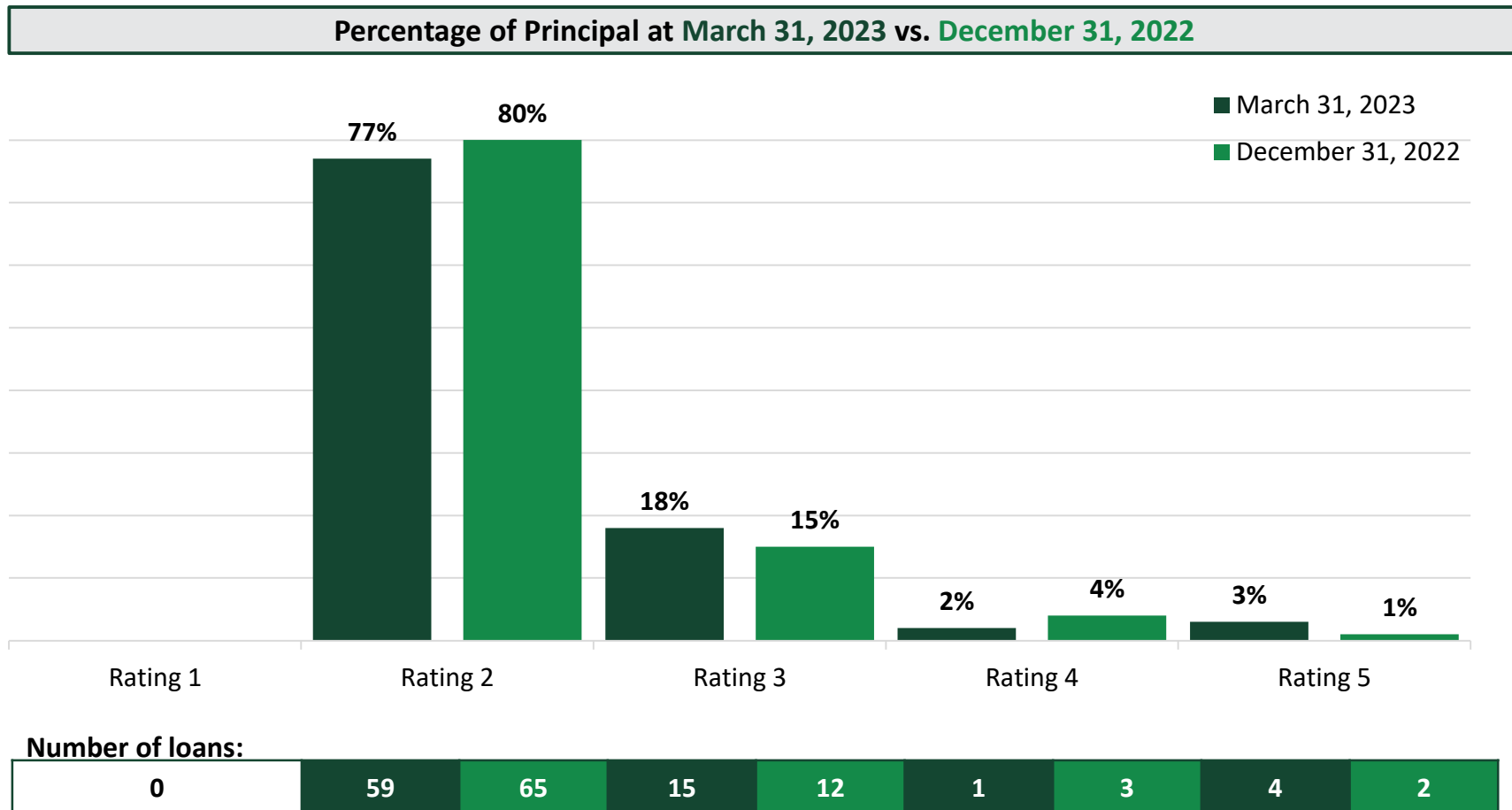
## Interest Rate Type <sup>(2)</sup>



# CRE Loan Portfolio Risk Ratings



- **95%** of ACR's loans have a risk rating of 2 or 3 that are performing in line or near underwritten expectations <sup>(1)</sup>
- **All but four** of ACR's 79 loans are current on contractual payments through March 31, 2023

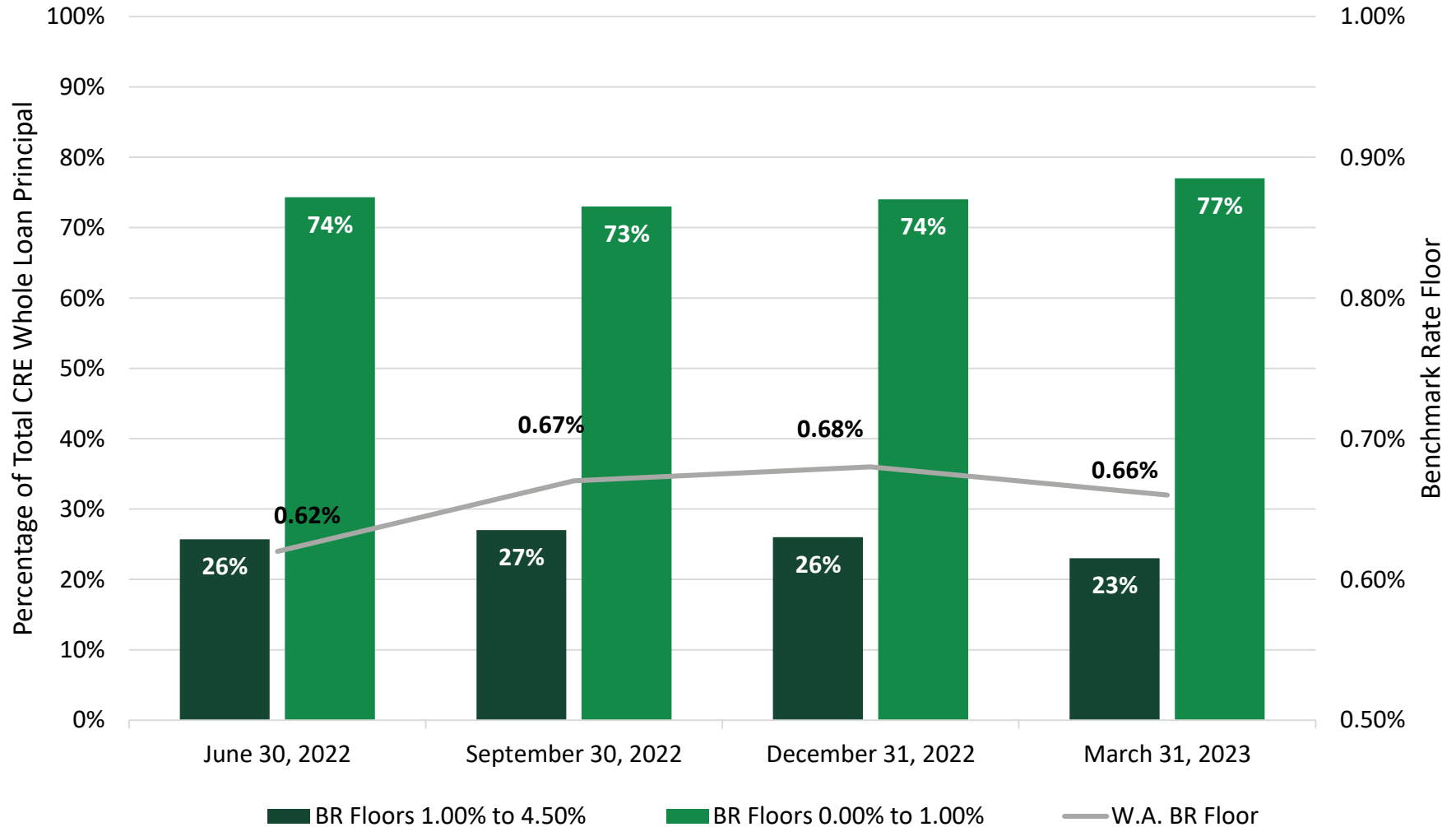


(1) See page 31 for additional information on the risk rating definitions

# Benchmark Rate Floor Trend



## BR Floor Trend by Weighted Average Floor Pool





# Investments in Real Estate Properties



➤ **\$134.6 million** of net investments in real estate and property held for sale <sup>(1)(2)</sup>



## Office \$14.6M <sup>(3)</sup>

- 99K SF Class A office / life science/ lab space
- Equity investment in the northeast region
- Lease up as life science / lab building
- Acquired in October 2021



## Student Housing \$13.0M <sup>(3)</sup>

- Existing structure and development of adjacent lot
- Equity investment in the southeast region
- Value add and development project
- Acquired in April 2022
- Construction commenced in the first quarter of 2023



## Multifamily \$14.2M <sup>(3)</sup>

- 12-acre parcel of land for multifamily development
- Equity investment in the northeast region
- Development of a multifamily complex
- Acquired in November 2021



## Hotel \$38.6M <sup>(3)</sup>

- 388-key hotel next to a convention center
- Equity investment in the east north central region
- Conversion to a Hilton hotel and stabilization
- Acquired in April 2022



## Hotel \$39.8M <sup>(3)</sup>

- 279-key hotel next to a convention center
- Equity via lending activities in the northeast region
- Acquired the deed in November 2020
- Reclassified to held for sale as of September 30, 2022

(1) Investments in real estate comprise five properties, four of which are held at depreciated/amortized cost basis and one of which is held for sale at lower of cost or fair value

(2) Depreciation and amortization expense is \$954,000 for the 1st quarter of 2023

(3) Represents value on date of acquisition



# Capitalization and Liquidity

# Summary Capitalization



➤ **\$699.3 million** of availability at March 31, 2023

\$ in Millions	Capitalization <sup>(1)</sup>				
	Maximum Capacity	Amount	Availability	W. Avg. Coupon	Leverage Ratio
Term warehouse financing facilities <sup>(2)</sup>	\$500.0	\$311.3	\$187.4	BR + 2.55%	0.8x
Senior secured financing facility <sup>(2)</sup>	500.0	49.8	446.7	BR + 3.71%	0.1x
Mortgage payable <sup>(2)</sup>	20.4	18.3	1.7	BR + 3.80%	-
Construction loans <sup>(3)</sup>	63.5	(2.2)	63.5	- %	-
Senior unsecured notes	150.0	147.7	-	5.75%	0.3x
Trust preferred securities	51.5	51.5	-	BR + 3.95%	0.1x
<b>Total recourse debt</b>	<b>\$1,285.4</b>	<b>\$576.4</b>	<b>\$699.3</b>		<b>1.3x</b>
Securitizations <sup>(2)</sup> (non-MTM)	1,234.4	1,234.4	-	BR + 1.63%	2.8x
<b>Total leverage <sup>(4)</sup></b>	<b>\$2,519.8</b>	<b>\$1,810.8</b>	<b>\$699.3</b>		<b>4.1x</b>
Preferred equity		226.5		8.26%	
Common equity <sup>(5)</sup>		215.3			
<b>Total capitalization</b>		<b>\$2,252.6</b>		<b>6.81% WACC</b>	

(1) For additional details, please refer to the Company's Liquidity and Capital Resources discussion in its 10-K and subsequent public securities filings

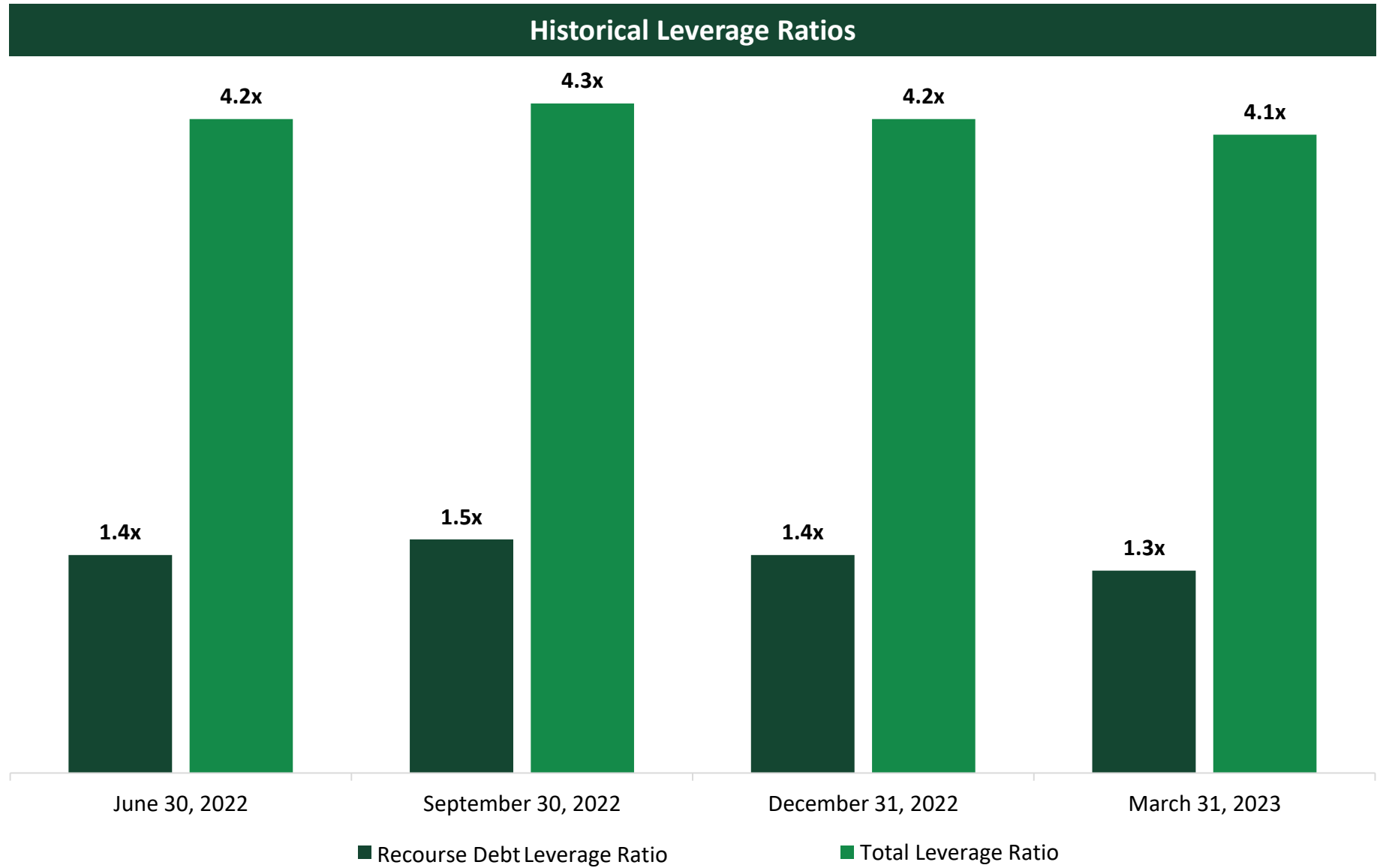
(2) Asset-specific borrowings total \$1.6 billion, of which securitizations are 77%

(3) Current balance represents capitalized deferred debt issuance costs on construction loans that can be drawn upon subsequent to March 31, 2023

(4) Includes \$18.5 million of unamortized deferred debt issuance costs and discounts on borrowings

(5) Includes \$8.0 million of non-controlling interests

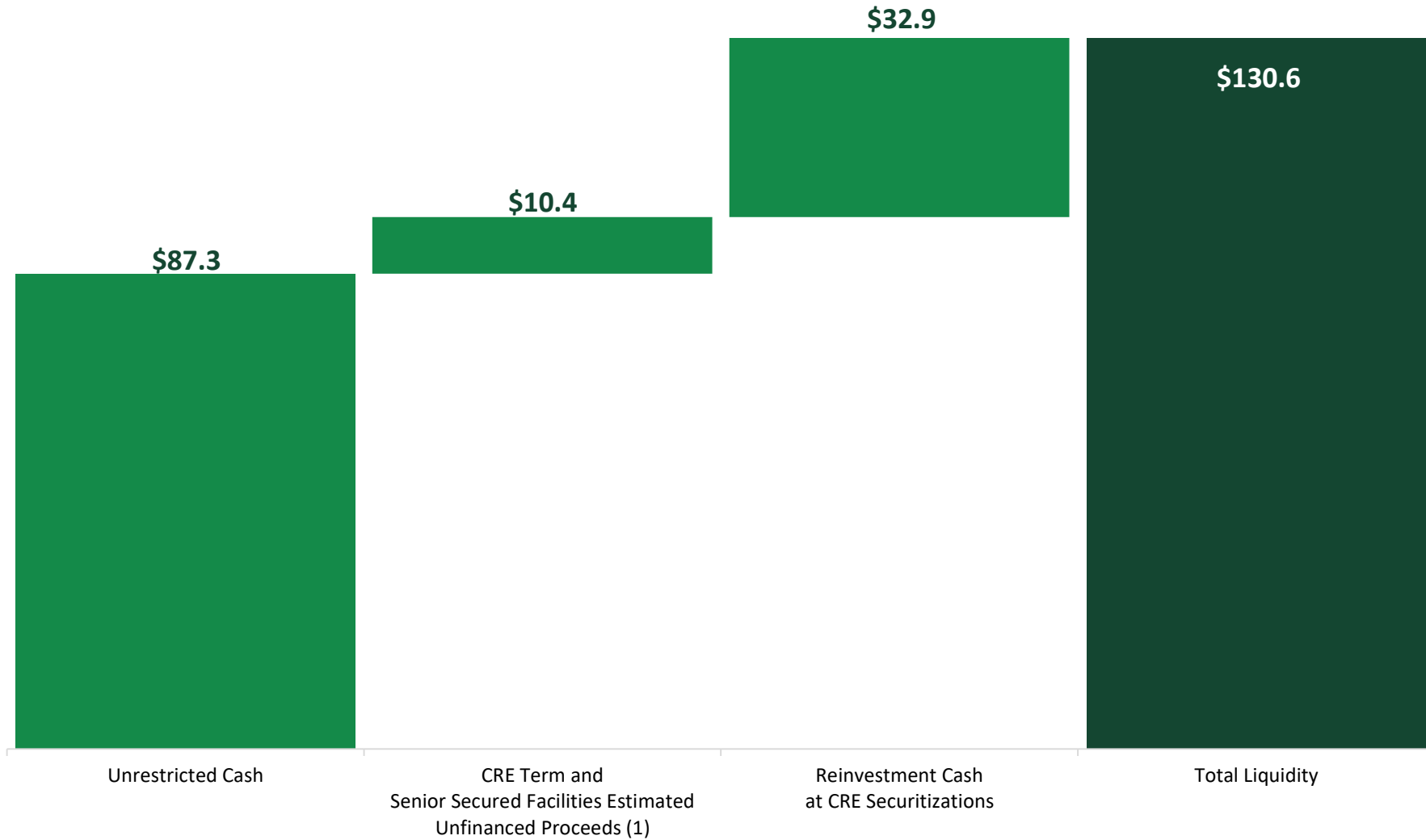
# Historical Leverage Ratios



# Liquidity at March 31, 2023



(\$ in Millions)



(1) Includes the projected amount of proceeds available to the Company if the unfinanced loans were financed with the applicable facilities



# Appendix

# Consolidated Balance Sheets



(in thousands, except share and per share data)

	Mar. 31, 2023	Dec. 31, 2022
	(unaudited)	
<b>Assets</b>		
Cash and cash equivalents	\$ 87,314	\$ 66,232
Restricted cash	33,940	38,579
Accrued interest receivable	12,570	11,969
CRE loans	1,994,790	2,057,590
Less: allowance for credit losses	(23,899)	(18,803)
CRE loans, net	1,970,891	2,038,787
Principal paydowns receivable	54	—
Loan receivable - related party	11,200	11,275
Investments in unconsolidated entities	1,548	1,548
Properties held for sale	40,377	53,769
Investments in real estate	130,571	120,968
Right of use assets	20,152	20,281
Intangible assets	8,628	8,880
Other assets	4,314	4,364
<b>Total Assets</b>	<b>\$ 2,321,559</b>	<b>\$ 2,376,652</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 13,442	\$ 10,391
Management fee payable - related party	679	898
Accrued interest payable	4,762	6,921
Borrowings	1,810,767	1,867,033
Lease liabilities	43,837	43,695
Distributions payable	3,262	3,262
Accrued tax liability	—	113
Liabilities held for sale	3,025	3,025
<b>Total Liabilities</b>	<b>1,879,774</b>	<b>1,935,338</b>
<b>Equity</b>		
Preferred stock, par value \$0.001: 10,000,000 shares authorized 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share; 4,800,000 and 4,800,000 shares issued and outstanding	5	5
Preferred stock, par value \$0.001: 6,800,000 shares authorized 7.875% Series D Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share; 4,607,857 and 4,607,857 shares issued and outstanding	5	5
Common stock, par value \$0.001: 41,666,666 shares authorized; 8,646,136 and 8,708,100 shares issued and outstanding (including 583,333 and 583,333 unvested restricted shares)	9	9
Additional paid-in capital	1,174,510	1,174,202
Accumulated other comprehensive loss	(6,001)	(6,394)
Distributions in excess of earnings	(734,775)	(732,359)
<b>Total Stockholders' Equity</b>	<b>433,753</b>	<b>435,468</b>
Non-controlling interests	8,032	5,846
<b>Total Equity</b>	<b>441,785</b>	<b>441,314</b>
<b>Total Liabilities and Equity</b>	<b>\$ 2,321,559</b>	<b>\$ 2,376,652</b>

# Consolidated Statements of Operations



(Unaudited, in thousands, except share and per share data)

	For the Three Months Ended	
	Mar. 31, 2023	Mar. 31, 2022
<b>Revenues</b>		
Interest income	\$ 45,329	\$ 22,676
Interest expense	31,375	14,907
Net interest income	13,954	7,769
Real estate income	7,071	3,138
Other revenue	33	16
Total revenues	21,058	10,923
<b>Operating Expenses</b>		
General and administrative	2,979	3,457
Real estate expenses	8,860	4,794
Management fees - related party	1,773	1,682
Equity compensation - related party	894	744
Corporate depreciation and amortization	23	22
Provision for (reversal of) credit losses, net	5,096	(1,802)
Total operating expenses	19,625	8,897
<b>Other Income (Expense)</b>		
Loss on extinguishment of debt	—	(460)
Gain on sale of real estate	745	—
Other income	110	798
Total other income	855	338
<b>Income before Taxes</b>	2,288	2,364
Income tax benefit (expense)	5	(280)
<b>Net Income</b>	2,293	2,084
Net income allocated to preferred shares	(4,855)	(4,855)
Net loss allocable to non-controlling interest, net of taxes	146	—
<b>Net Loss Allocable to Common Shares</b>	\$ (2,416)	\$ (2,771)
<b>Net Loss per Common Share - Basic</b>	\$ (0.28)	\$ (0.30)
<b>Net Loss per Common Share - Diluted</b>	\$ (0.28)	\$ (0.30)
Weighted Average Number of Common Shares Outstanding - Basic	8,500,413	9,096,977
Weighted Average Number of Common Shares Outstanding - Diluted	8,500,413	9,096,977



# Earnings Available for Distribution



- The following table provides a reconciliation from GAAP net loss allocable to common shares to Earnings Available for Distribution allocable to common shares, a non-GAAP measure, for the periods presented <sup>(1)</sup>:

(unaudited, in thousands, except share and per share data)

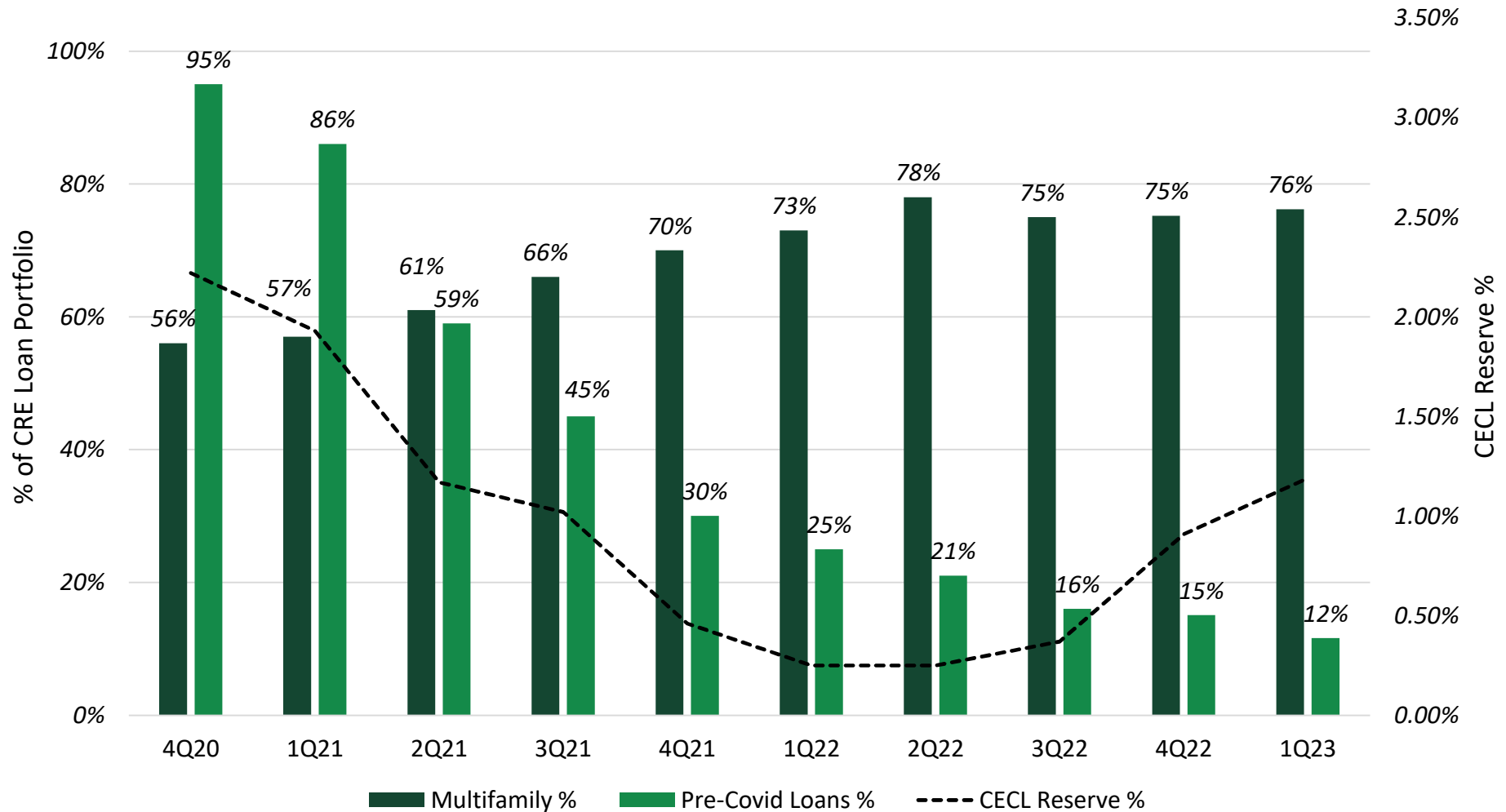
	For the Three Months Ended	
	Mar. 31, 2023	Mar. 31, 2022
<b>Net Loss Allocable to Common Shares - GAAP</b>	\$ (2,416)	\$ (2,771)
<b>Reconciling Items from Continuing Operations:</b>		
Non-cash equity compensation expense	894	744
Non-cash provision for (reversal of) CRE credit losses	5,096	(1,802)
Real estate depreciation and amortization	954	1,391
Non-cash amortization of discounts or premiums associated with borrowings	—	847
Net income from non-core assets	(26)	(656)
<b>Reconciling Items from Legacy CRE Assets:</b>		
Net interest income on legacy CRE assets	—	(29)
<b>EAD Allocable to common shares</b>	\$ 4,502	\$ (2,276)
<b>EAD per Common Share - Diluted</b>	\$ 0.52	\$ (0.25)
Weighted Average Number of Common Shares Outstanding - Diluted on EAD Allocable to Common Shares	8,702,403	9,096,977

(1) See page 30 for additional information

# CECL Trend Analysis Chart



- ACR's CECL reserve as a percentage of the total CRE loan portfolio has declined from 4Q20 as ACR (i) increased its percentage of multifamily loans and (ii) simultaneously reduced its portfolio percentage of loans originated prior to 4Q20 ("Pre-Covid Loans")<sup>(1)(2)</sup>



(1) Percentages based on total CRE loans at par, except for the multifamily percentage, which is based on total carrying value of the CRE loans

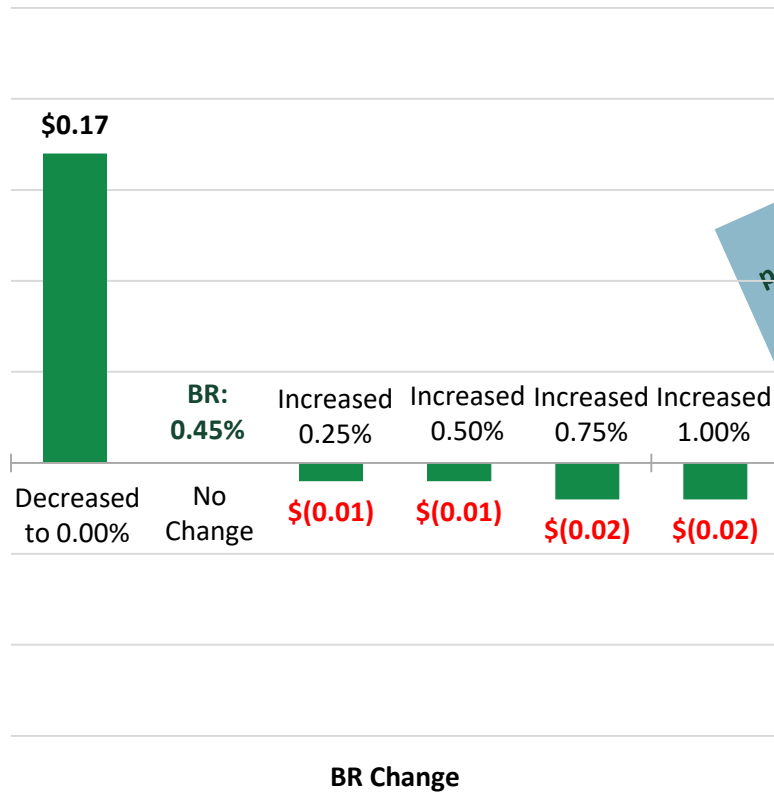
(2) For the three months ended March 31, 2023, the increase to CECL reserves is primarily attributable to modeled increases in expected general portfolio credit risk

# Benchmark Sensitivity Analysis Trend

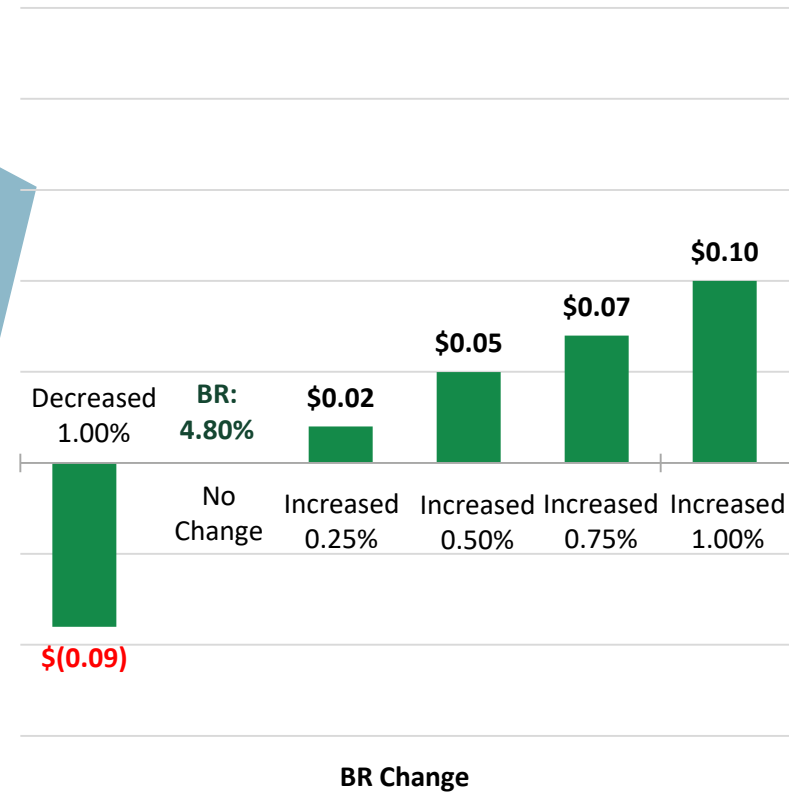


- The recent increases to benchmark rates on net interest income have returned our match-financed investment portfolio to having a direct correlation to the rise or fall in interest rates

Quarterly Net Interest Income per Share Sensitivity to Changes in BRs at March 31, 2022



Quarterly Net Interest Income per Share Sensitivity to Changes in BRs at March 31, 2023



# Illustrative Earnings Potential



- The chart below is meant to display the illustrative earnings potential of the Company. It is not meant to represent performance guidance for any period <sup>(1)</sup>

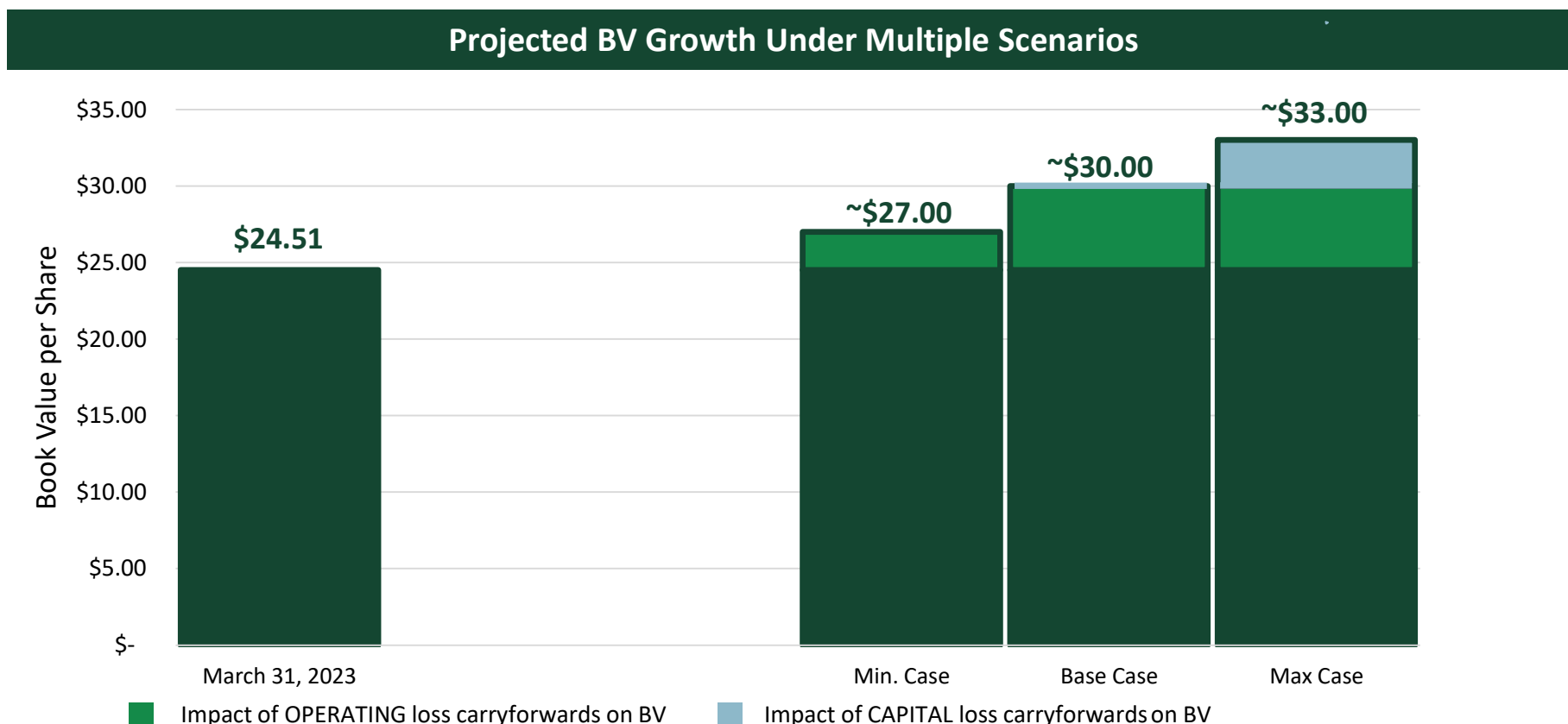
<b>Projected Maximum CRE Loan Portfolio Size &amp; GAAP EPS &amp; EAD per Share</b>		
	(In millions, except per share data)	
Projected maximum CRE loan portfolio size	\$2,100.0	\$2,500.0
Target range of asset-specific leverage	3.7x	4.7x
<hr/>		
Illustrative return on net deployable capital	15.0%	17.0%
CRE net interest income	\$72.6	\$82.3
Less: general & administrative	(10.6)	(10.6)
Less: base and incentive management fees	(8.5)	(10.3)
Less: corporate interest expense	(13.7)	(13.7)
Less: net REO and other GAAP activities	(2.1)	(6.8)
Less: preferred dividends	(19.4)	(19.4)
Illustrative GAAP earnings	\$18.3	\$21.5
Add: other GAAP activities	6.9	11.8
Illustrative EAD	\$25.2	\$33.3
<hr/>		
<i>Fully diluted share count</i>	8.5	8.5
<b>GAAP EPS</b>	<b>\$2.15</b>	<b>\$2.52</b>
<b>EAD EPS</b>	<b>\$2.96</b>	<b>\$3.91</b>

(1) ACR has presented this slide for illustrative purposes only. The illustrative earnings potential is based on current market conditions and assumptions with respect to general business, economic, regulatory, and financial conditions and other future events, as well as matters specific to ACR's business, all of which are difficult to predict and many of which are beyond ACR's control. As a result, there can be no assurance that any of the results will be realized or achieved. The illustration should not be relied upon as being necessarily indicative of future results, and you are cautioned not to place undue reliance on these scenarios. See page 32 for further details and assumptions.

# Projected Book Value Growth<sup>(1)</sup>



- ACR's strategy is to drive book value ("BV") growth over the coming years, with a 35.4% increase in book value since ACRES acquisition in the 3<sup>rd</sup> quarter of 2020
- Projected **OPERATING** loss carryforwards of **\$46.6M**, expected to be fully utilized
- Projected **CAPITAL** loss carryforwards of **\$121.9M**, expected to be partially utilized
- Projected operating loss carryforwards at Taxable REIT Subsidiaries ("TRSs") of **\$60.1M**, expected to be partially utilized



(1) ACR has presented this slide for illustrative purposes only. The projected book value growth is based on available projections and current market conditions and assumptions with respect to general business, economic, regulatory, and financial conditions and other future events, as well as matters specific to ACR's business, all of which are difficult to predict and many of which are beyond ACR's control. As a result, there can be no assurance that any of the results will be realized or achieved. The illustration should not be relied upon as being necessarily indicative of future results, and you are cautioned not to place undue reliance on these scenarios. See page 32 for further details and assumptions.

# Key Definitions



**Earnings Available for Distribution:** Earnings Available for Distribution (“EAD”) is a non-GAAP financial measure that the Company uses to evaluate its operating performance. EAD excludes the effects of certain transactions and GAAP adjustments that it believes are not necessarily indicative of its current CRE loan portfolio and other CRE-related investments and operations. EAD excludes income (loss) from all non-core assets comprising of investments and securities owned by the Company at the initial measurement date of December 31, 2016 in commercial finance, middle market lending, residential mortgage lending, certain legacy CRE loans and other non-CRE assets designated as assets held for sale.

EAD, for reporting purposes, is defined as GAAP net income (loss) allocable to common shares, excluding (i) non-cash equity compensation expense, (ii) unrealized gains and losses, (iii) non-cash provisions for loan losses, (iv) non-cash impairments on securities, (v) non-cash amortization of discounts or premiums associated with borrowings, (vi) net income or loss from a limited partnership interest owned at the initial measurement date, (vii) net income or loss from non-core assets, (viii) real estate depreciation and amortization, (ix) foreign currency gains or losses and (x) income or loss from discontinued operations. EAD may also be adjusted periodically to exclude certain one-time events pursuant to changes in GAAP and certain non-cash items.

Although pursuant to the Fourth Amended and Restated Management Agreement the Company calculates the Manager’s incentive compensation using EAD excluding incentive fees payable to the Manager, the Company includes incentive fees payable to the Manager in EAD for reporting purposes.

**Benchmark Rate:** Benchmark Rate (“BR”) refers to the collective one-month LIBOR and one-month Term Secured Overnight Finance Rate (“SOFR”) rates that are used as benchmarks on the originated loans during the associated period.

**GAAP Book Value:** GAAP book value is presented per common share, excluding unvested restricted stock and including warrants to purchase common stock. The measure refers to common stock book value, which is calculated as total stockholders’ equity less preferred stock equity.

**Leverage Ratio:** Leverage ratio is calculated as the respective period ended borrowings over total equity. Asset-specific leverage ratio excludes corporate debt from the calculation.

**Weighted Average Cost of Capital:** Weighted average cost of capital (“WACC”) calculation excludes the impact of common equity in the denominator.



## Commercial Real Estate Loans Risk Ratings

CRE loans are collateralized by a diversified mix of real estate properties and are assessed for credit quality based on the collective evaluation of several factors, including but not limited to: collateral performance relative to underwritten plan, time since origination, current implied and/or reunderwritten loan-to-collateral value ratios, loan structure and exit plan. Depending on the loan's performance against these various factors, loans are rated on a scale from 1 to 5, with loans rated 1 representing loans with the highest credit quality and loans rated 5 representing loans with the lowest credit quality. The factors evaluated provide general criteria to monitor credit migration in the Company's loan portfolio; as such, a loan's rating may improve or worsen, depending on new information received.

The criteria set forth below should be used as general guidelines, and therefore not every loan will have all of the characteristics described in each category below.

- Rating 1:
  - Property performance has surpassed underwritten expectations
  - Occupancy is stabilized, the property has had a history of consistently high occupancy, and the property has a diverse and high-quality tenant mix
- Rating 2:
  - Property performance is consistent with underwritten expectations and covenants and performance criteria are being met or exceeded
  - Occupancy is stabilized, near stabilized or is on track with underwriting
- Rating 3:
  - Property performance lags behind underwritten expectations
  - Occupancy is not stabilized and the property has some tenancy rollover
- Rating 4:
  - Property performance significantly lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers
  - Occupancy is not stabilized and the property has a large amount of tenancy rollover
- Rating 5:
  - Property performance is significantly worse than underwritten expectations. The loan is not in compliance with loan covenants and performance criteria and may be in default. Expected sale proceeds would not be sufficient to pay off the loan at maturity
  - The property has a material vacancy rate and significant rollover of remaining tenants
  - An updated appraisal is required upon designation and updated on an as-needed basis

# Key Assumptions



## Illustrative Earnings Potential – page 28

- Net deployable capital is calculated as the total current corporate capital of \$633.8 million, less total projected commitments for investments in real estate, excluding potential financing, of \$110.7 million and a working capital reserve of \$40.0 million for a total of \$483.1 million.
- Assumes the rate at which the provision for credit losses is computed is constant for each scenario presented and is equal to the most recently reported allowance for credit losses on the Company's balance sheet divided by the par value of the Company's CRE loan portfolio for that same period.
- Real estate depreciation, provision for credit losses, equity compensation expense and certain non-cash amortization expenses are excluded from the calculation of Earnings Available for Distribution. See page 30 for additional information.

## Projected Book Value Growth – page 29

- Operating loss carryforwards comprise qualified REIT subsidiary ("QRS") net operating loss carryforwards, which have an unlimited useful life.
- Capital loss carryforwards comprise QRS net capital loss carryforwards, which have a useful life of five years.
- The "Min. Case" scenario assumes the partial utilization of the operating loss carryforwards. The "Base Case" scenario assumes the full utilization of existent operating loss carryforwards, plus a portion of the capital loss carryforwards. The "Max Case" scenario assumes the full utilization of existent operating loss carryforwards, plus a greater portion of the capital loss carryforwards than the "Base Case" Scenario.



# Company Information



ACRES Commercial Realty Corp. is a real estate investment trust that is primarily focused on originating, holding and managing commercial real estate mortgage loans and equity investments in commercial real estate property through direct ownership and joint ventures. Additional information is available at the Company's website, [www.acresreit.com](http://www.acresreit.com).

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### New York Stock Exchange:

Common Stock Symbol: ACR  
Pref. Stock Symbols:  
ACRPrC & ACRPrD