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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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 000-55580

HIGHLANDS REIT, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland	**81-0862795**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

1 South Dearborn Street, 20th Floor
Chicago, Illinois, 60603
(Address of Principal Executive Offices)

(312) 583-7990
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Title of each class	Trading Symbol	Name of each exchange on which registered
N/A	N/A	N/A

Securities registered pursuant to Section 12(g) of the Act: Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☑ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☑ No

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	Accelerated filer	Non-accelerated Filer	Smaller reporting company	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. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐ Yes ☑ No

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financials statements. ☐ Yes ☑ No

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to Section 240.10D-1(b). ☐ Yes ☑ No

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

There is no established market for the registrant’s shares of common stock. The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant as of June 30, 2023 (the last business day of the registrant’s most recently completed second quarter) was approximately $248.8 million, based on the estimated per share value of $0.28 as established by the registrant on December 15, 2022.

As of March 13, 2024 there were 721,670,944 shares of the registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference portions of the registrant’s Proxy Statement for its 2024 Annual Meeting of Stockholders expected to be held on May 9, 2024.

TABLE OF CONTENTS

Part I

	Disclosure Regarding Forward Looking Statements	1
Item 1.	Business	1
Item 1A.	Risk Factors	5
Item 1B.	Unresolved Staff Comments	25
Item 1C.	Cybersecurity	26
Item 2.	Properties	26
Item 3.	Legal Proceedings	30
Item 4.	Mine Safety Disclosures	30
	Part II	
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	30
Item 6.	[Reserved]	34
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	35
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	45
Item 8.	Consolidated Financial Statements	46
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	72
Item 9A.	Controls and Procedures	72
Item 9B.	Other Information	72
Item 9C.	Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	72
	Part III	
Item 10.	Directors, Executive Officers and Corporate Governance	72
Item 11.	Executive Compensation	73
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	73
Item 13.	Certain Relationships and Related Transactions, and Director Independence	74
Item 14.	Principal Accounting Fees and Services	74
	Part IV	
Item 15.	Exhibits and Financial Statement Schedules	75
Item 16.	Form 10-K Summary	75
	Exhibit Index	76
	Signatures	78

Part I

Disclosure Regarding Forward-Looking Statements.

References to "Highlands," the "Company," "we" or "us" are to Highlands REIT, Inc. as well as all of Highlands' wholly-owned and consolidated subsidiaries.

Certain statements in this Annual Report on Form 10-K, other than purely historical information, are "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 Exchange Act of 1934, as amended (the "Exchange Act"). These statements include statements about Highlands' plans, objectives, strategies, financial performance and outlook, trends, the amount and timing of future cash distributions, prospects or future events and involve known and unknown risks that are difficult to predict. As a result, our actual financial results, performance, achievements or prospects may differ materially from those expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "guidance," "predict," "potential," "continue," "likely," "will," "would," "illustrative" and variations of these terms and similar expressions, or the negative of these terms or similar expressions. Such forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by Highlands and its management based on their knowledge and understanding of the business and industry, are inherently uncertain. These statements are not guarantees of future performance, and stockholders should not place undue reliance on forward-looking statements. There are a number of risks, uncertainties and other important factors, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking statements contained in this Annual Report on Form 10-K. Such risks, uncertainties and other important factors include, among others: the risks, uncertainties and factors set forth in our filings with the U.S. Securities and Exchange Commission, including our Annual Report on Form 10-K; business, financial and operating risks inherent to real estate investments and the industry; our ability to renew leases, lease vacant space, or re-lease space as leases expire; our ability to repay or refinance our debt as it comes due; difficulty selling or re-leasing our investment properties due to their specific characteristics as described elsewhere in this report; contraction in the global economy or low levels of economic growth; our ability to sell our investment properties at a price and on a timeline consistent with our investment objectives, or at all; our ability to service our debt; changes in interest rates and operating costs; compliance with regulatory regimes and local laws; uninsured or underinsured losses, including those relating to natural disasters or terrorism; domestic or international instability or political or civil unrest, including the ongoing hostilities in Ukraine and Israel and their worldwide economic impact; the amount of debt that we currently have or may incur in the future; provisions in our debt agreements that may restrict the operation of our business; our separation from InvenTrust and our ability to operate as a stand-alone public reporting company; our organizational and governance structure; our status as a REIT; the cost of compliance with and liabilities under environmental, health and safety laws; the uncertainty and economic impact of pandemics, epidemics or other public health emergencies or fear of such events; adverse litigation judgments or settlements; changes in real estate and zoning laws and increase in real property tax rates; changes in federal, state or local tax law, including legislative, administrative, regulatory or other actions affecting REITs; changes in governmental regulations or interpretations thereof; and estimates relating to our ability to make distributions to our stockholders in the future; and the risks, uncertainties and factors set forth in this Annual Report on Form 10-K.

These factors are not necessarily all of the important factors that could cause our actual financial results, performance, achievements or prospects to differ materially from those expressed in or implied by any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth above. Forward-looking statements speak only as of the date they are made, and we do not undertake or assume any obligation to update publicly any of these forward-looking statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

Item 1. Business

Overview and Business Strategy

We are a self-advised and self-administered real estate investment trust ("REIT") created to own and manage substantially all of the "non-core" investment properties previously owned and managed by our former parent, InvenTrust Properties Corp., a Maryland corporation ("InvenTrust"). On April 28, 2016, we were spun-off from InvenTrust through a pro rata distribution (the "Distribution") by InvenTrust of 100% of the outstanding shares of our common stock to holders of InvenTrust's common

stock. Prior to or concurrent with the separation, we and InvenTrust engaged in certain reorganization transactions that were designed to consolidate substantially all of InvenTrust's remaining "non-core" investment properties in Highlands. Highlands was incorporated in December 2015 as a Maryland corporation and operates in a manner that allows us to continue to qualify as a REIT for U.S. federal tax purposes.

This inherited portfolio of "non-core" investment properties, which were acquired by InvenTrust between 2005 and 2008, included investment properties that are special use, single-tenant or build-to-suit; face unresolved legal issues; are in undesirable locations or in weak markets or submarkets; are aging or functionally obsolete; and/or have sub-optimal leasing metrics. Certain of our investment properties are retail properties located in tertiary markets, which are particularly susceptible to the negative trends affecting retail real estate. As a result of these characteristics, such investment properties are difficult to lease, finance and refinance and are relatively illiquid compared to other types of real estate properties. These factors also significantly limit our investment property disposition options, impact the timing of such dispositions and restrict the viable options available to the Company for future potential liquidity options.

Our strategy is focused on preserving, protecting and maximizing the total value of our portfolio with the long-term objective of providing stockholders with a return of their investment. We engage in rigorous asset management, seek to sustain and enhance our portfolio, and improve the quality and income-producing ability of our portfolio by engaging in selective dispositions, acquisitions, capital expenditures, financing, refinancing and enhanced leasing. We are also focused on cost containment efforts across our portfolio, improving our overall capital structure and making select investments in our existing "non-core" investment properties to maximize their value. To the extent we are able to generate cash flows from operations or dispositions of investment properties, in addition to the cash uses outlined above, our board of directors has determined that it is in the best interest of the Company to seek to reinvest in investment properties that are more likely to generate more reliable and stable cash flows, such as multi-family investment properties, as part of the Company's overall strategy to optimize the value of the portfolio, enhance our options for future potential liquidity options and maximize shareholder value. Given the nature and quality of the "non-core" investment properties in our portfolio as well as current market conditions, a definitive timeline for execution of our strategy cannot be made.

With this strategy in mind, on October 24, 2023, we launched a modified "Dutch Auction" self-tender offer in an effort to provide a liquidity option for certain of our stockholders who elected to tender their stock while at the same time balancing the best interests of the Company and of those stockholders who wished to remain invested in the Company. We believe that the tender offer provided an efficient mechanism to provide our stockholders who desired immediate liquidity with the opportunity to tender shares, while also providing a benefit to those stockholders who did not participate, as such stockholders automatically increased their relative percentage ownership interest in the Company and our future operations. On December 8, 2023, the tender offer closed with the repurchase of 169.4 million shares of common stock at a price per share of $0.14. Total cash required to complete the tender offer was $25.2 million, including all costs and fees of the tender offer. We will evaluate the results of this tender offer when considering the manner and timing of potential future liquidity options. Our ability to execute on future liquidity events will be influenced by external and macroeconomic factors, including, among others, interest rate movements, inflation, local, regional, national and global economic performance and real estate markets, government policy changes and competitive factors and we may be unable to execute such a transaction on terms we find attractive for our stockholders.

As of December 31, 2023, our portfolio of investment properties consisted of thirteen multi-family, three retail, one office and two industrial properties, one correctional facility and one parcel of unimproved land, which are all located in the United States. We currently have two business segments, consisting of multi-family and other (see Note 11 to the consolidated financial statements for additional information regarding segment reporting). We may have additional or fewer segments in the future to the extent we enter into additional real property sectors, dispose of investment properties, or change the character of our investment properties.

Disposition Policy

We evaluate each of our investment properties on a rigorous and ongoing basis in an effort to optimize and enhance the total value of our portfolio. In furtherance of this strategy, for the foreseeable future, we anticipate disposing of select "non-core" investment properties that are not generating income or have unfavorable risk-adjusted returns and generally, using the proceeds from such sales to prepare other "non-core" investment properties for sale or invest in investment properties that are more likely to generate more reliable and stable cash flows, such as multi-family investment properties.

The determination of when a particular investment property should be sold or otherwise disposed of will be made after consideration of all of the relevant factors, including whether such disposition will better position the portfolio for a potential future liquidity event, prevailing and projected economic and market conditions, the cash flow being generated by a particular

investment property, tax implications of a disposition, investment opportunities for any cash proceeds, debt characteristics of the investment property, and whether the value of the investment properties is anticipated to decline or increase. The timing of any disposition will depend upon then-prevailing economic and market conditions and the factors described above, which could result in differing holding periods among the investment properties. There can be no assurance that dispositions will occur as planned, on acceptable terms, or within our desired timing.

Financing Strategy

Certain of our investment properties are currently encumbered by debt, and debt financing may be used from time to time for investment property improvements, tenant improvements, acquisition financing, leasing commissions, general corporate purposes and other working capital needs. The form of our indebtedness may vary and could be long-term or short-term, secured or unsecured, or fixed-rate or floating rate. We will not enter into interest rate swaps or caps, or similar hedging transactions or derivative arrangements for speculative purposes, but may do so in order to manage or mitigate our interest rate risk on variable rate debt. For additional information regarding our existing debt, please refer to “Management's Discussion and Analysis - Borrowings,” and Note 8 (Debt) in the accompanying consolidated financial statements for additional discussion.

As of December 31, 2023, the Company guaranteed one mortgage loan up to $4 million and as of December 31, 2022, none of our mortgage debt was recourse to the Company. However, Highlands or its subsidiaries may act as guarantor under customary, non-recourse carve-out guarantees in connection with obtaining mortgage loans on certain of our investment properties.

Conflict of Interest Policy

We maintain policies designed to reduce or eliminate potential conflicts of interest. Any transaction between us and any director, officer or 5% stockholder must be approved pursuant to our related party transaction policy. In addition, we have adopted a code of business conduct and ethics that seeks to identify and mitigate conflicts of interest between our employees, directors and officers and our company. However, we cannot assure you that these policies or provisions of law will always be successful in eliminating or minimizing the influence of such conflicts, and if they are not successful, decisions could be made that might fail to reflect fully the interests of stockholders.

Certain Other Policies

We intend to engage in future investment activities in a manner that is consistent with the requirements applicable to REITs for U.S. federal income tax purposes, unless the board of directors determines that it is no longer in our best interest to so qualify as a REIT.

We may issue senior securities, purchase and sell investments, offer securities in exchange for property and repurchase or reacquire shares or other securities in the future. To the extent we engage in these activities, we will comply with applicable law.

We do not currently have policies in place with respect to making loans to other persons (other than our conflict of interest policies described above) or investing in securities.

Competition

We are subject to significant competition in seeking tenants for the leasing of our investment properties, buyers for the sale of investment properties and sellers for the acquisition of investment properties. We compete with many third parties engaged in real estate investment activities, including other REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, lenders, hedge funds, governmental bodies and other entities. Many of our competitors have substantially greater financial and other resources than we have and may have substantially more operating experience than us. We also face competition from other real estate investment programs for buyers, sellers and tenants that may be suitable for us. We perceive there to be a lower level of competition for certain investment properties in our portfolio based on, among other things, the characteristics of such investment properties, the number of willing buyers and the volume of transactions in their respective markets, which may make it challenging for us to sell these investment properties or attract tenants. Many of our retail tenants face intense competition from online retailers, which impacts demand for our brick-and-mortar retail real estate. A shift to e-commerce sales may adversely impact our retail tenants' sales thus causing those retailers to reduce the number of their retail locations in the future.

Human Capital Management

As of December 31, 2023, we had eight full-time employees, not including consultants and part-time workers. Due to the nature of our portfolio and our business strategy, we rely on consultants, professional firms and third parties, under our supervision, to perform many routine operations for us. Our human capital strategy is focused on talent management. We base our hiring, development, training, compensation and advancement decisions on an objective evaluation of qualifications, performance, skills and experience. Our employees are fairly compensated, without regard to gender, race and ethnicity. All of our full-time employees are offered a comprehensive benefits package, including, but not limited to, paid time off, medical dental and vision insurance, disability, life insurance, 401(k) matching, and reasonable work from home flexibility. We endeavor to maintain a workplace that is free from discrimination or harassment on the basis of color, race, sex, national origin, ethnicity, religion, age, disability, sexual orientation, gender identity or expression or any other status protected by applicable law. To that end, we conduct annual training to raise awareness of, and prevent, harassment and discrimination.

Environmental & Other Government Regulation

As an owner of real estate, we are subject to various U.S. federal, state and local laws, ordinances and regulations, including, among other things, zoning regulations, land use controls, environmental controls relating to air and water quality, noise pollution and indirect environmental impacts such as increased motor vehicle activity. We believe that we have all permits and approvals necessary under current law to operate our investment properties.

Compliance with existing environmental and other laws and regulations has not had a material effect on our financial condition or results of operations, and management does not believe it will have a material effect in the future. However, we cannot predict the impact of unforeseen environmental contingencies or new or changed laws or regulations on investment properties in which we hold an interest, or on investment properties that may be acquired directly or indirectly in the future.

Insurance

We have insurance coverage for our investment properties which includes the type of coverage and limits we believe to be appropriate for each investment property and our business operations. Such coverage typically includes commercial general liability and property insurance which, includes property damage and loss of rental income resulting from such perils as fire, windstorm, flood and extended coverage. Our management believes our insurance coverage contains policy terms and conditions and insured limits that are customary for similar properties and operations.

Principal Executive Offices

Our principal executive offices are located at 1 South Dearborn Street, 20th Floor, Chicago, Illinois, 60603, and our telephone number is (312) 583-7990. We maintain a website at www.highlandsreit.com.

Smaller Reporting Company

We qualify as a “smaller reporting company” under Rule 12b-2 of the Exchange Act, which is defined as a company with a public equity float of less than $250 million or it has less than $100 million in annual revenues and no public float or public float of less than $700 million. To the extent that we remain a smaller reporting company, we will have reduced disclosure requirements for our public filings, including: (1) less extensive narrative disclosure than required of other reporting companies, particularly in the description of executive compensation and (2) the requirement to provide only two years of audited financial statements, instead of three years. In addition, until such time as the public float of our common stock exceeds $75 million, we will be a non-accelerated filer and will not be required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes Oxley Act.

Available Information

Stockholders may obtain copies of our filings with the Securities and Exchange Commission (“SEC”), free of charge, from the website maintained by the SEC at www.sec.gov or from our website at www.highlandsreit.com. These include our annual report on Form 10-K, quarterly reports on form 10-Q, and our current reports on Form 8-K. Our filings will be available on our website as soon as reasonably practicable after we electronically file such materials with the SEC. However, the information from our website is not incorporated by reference into this report.

Item 1A. Risk Factors

You should carefully consider each of the following risks described below and all of the other information in this Annual Report on Form 10-K in evaluating us. Our business, financial condition, cash flows, results of operations and/or ability to pay distributions to our stockholders could be materially adversely affected by any of these risks. This Annual Report on Form 10-K also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this Annual Report on Form 10-K. See "Disclosure Regarding Forward-Looking Statements."

Risk Factors Summary

The following is a summary of the principal risks and uncertainties described in more detail in this Annual Report:

- Short-term multi-family community leases associated with any multi-family residential properties we acquire may expose us to the effects of declining market rent and could adversely impact our business, results of operations and financial condition.
- The costs of compliance with laws and regulations relating to our residential properties may adversely affect our business, results of operations and financial condition.
- Increased competition and increased affordability of residential housing could limit our ability to retain tenants, lease multi-family properties or increase or maintain rents.
- We could be negatively impacted by the condition of Fannie Mae or Freddie Mac and by changes in government support for multi-family housing.
- We may be unable to renew our commercial leases, lease vacant space or re-lease space as leases expire, thereby increasing or prolonging vacancies.
- We may be unable to lease or dispose of our correctional facility on acceptable terms or at all.
- We depend on tenants for our revenue, and accordingly, lease terminations, vacancies, tenant defaults and bankruptcies could adversely affect the income produced by our investment properties.
- Our legacy portfolio includes investment properties that are special use, single-tenant and/or build-to-suit; face unresolved legal issues; are aging or functionally obsolete; or have sub-optimal leasing metrics, which may make them difficult to lease, finance or sell.
- Many of our investment properties are located in weak markets or submarkets, which may adversely affect our ability to rent such investment properties, increase rental rates and/or sell such investment properties.
- Economic and market conditions could negatively impact our business, results of operations and financial condition.
- The uncertainty and economic impact of pandemics, epidemics or other public health emergencies or fear of such events, could adversely affect our and our tenants' financial condition and operations.
- Our ongoing business strategy involves the selling of investment properties; however, we may be unable to sell an investment property at acceptable terms and conditions, if at all.
- We may not successfully implement our strategy, in which case you may have to hold your investment for an indefinite period.
- Real estate is a competitive business.
- Any difficulties in obtaining capital necessary to make tenant improvements, pay leasing commissions and make capital improvements at our investment properties could materially and adversely affect our financial condition and results of operations.
- There are inherent risks with investments in real estate, including the relative illiquidity of such investments.
- Our investment properties may be subject to impairment charges that may materially affect our financial results.
- Many real estate costs and certain operating costs are fixed, even if revenue from our investment properties decreases.
- Operating and other expenses may increase in the future, which may cause our cash flow and our operating results to decrease.
- Our revenue from our retail investment properties will be impacted by the success and economic viability of our anchor retail tenants. Our reliance on single or significant tenants in certain buildings may decrease our ability to lease vacated space and adversely affect our financial condition, cash flows and results of operations.
- Government or public resistance to privatization of correctional facilities could negatively impact our future tenants, if any, and our ability to dispose of this investment property, which could have an adverse impact on our business, financial condition or results of operations.

- We could incur significant, material costs related to government regulation and litigation with respect to environmental matters, which could materially and adversely affect our business, financial condition or results of operations.
- We are increasingly dependent on information technology, and potential cyber-attacks, security problems, or other disruptions present risks and could disrupt our operations, result in the loss of confidential information or damage our business relationships and reputation.
- If we are unable to repay or refinance our existing debt as it comes due, we may need to sell the underlying investment property sooner than anticipated or the lender may foreclose, in which case our financial condition, cash flows and results of operations could be materially adversely affected.
- Our special purpose property-owning subsidiaries may default under non-recourse mortgage loans.
- Due to volatility in the financial markets, challenging economic conditions and distressed investment properties within our portfolio, it may be difficult for us to obtain debt financing or refinancing on favorable terms, or at all, and to service any future indebtedness that we may incur.
- Our failure to comply with the covenants in our debt agreements could materially and adversely affect us.
- Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to make distributions to our stockholders.
- Failure to remain qualified as a REIT would cause us to be taxed as a regular corporation, which would substantially reduce funds available for distributions to our stockholders, adversely affect our financial condition, results of operations and ability to engage in certain transactions and may have other adverse consequences, including under the tax laws.
- We may be subject to adverse legislative or regulatory tax changes that could reduce the value of our common stock.
- There is no established public market for our shares and you may not be able to sell your shares.
- The estimated value per share of our common stock is based on a number of assumptions and estimates that may not be accurate or complete and is also subject to a number of limitations.
- We may issue additional securities, including common stock, preferred stock and debt securities, which could subordinate the rights of existing holders of our securities and, for holders of our equity securities, may result in dilution.
- Certain provisions of Maryland law and our governing documents affect the rights of our stockholders and may restrict or alter our ability to engage in certain transactions.
- Our board of directors may change our investment strategy without stockholder approval, which could alter the nature of your investment.

Risks Related to Our Business and Industry

Short-term multi-family community leases associated with any multi-family residential properties we acquire may expose us to the effects of declining market rent and could adversely impact our business, results of operations and financial condition.

We expect that substantially all of our multi-family community leases will be for a term of one year or less. Because these leases generally permit the residents to leave at the end of the lease term without penalty, our rental revenues may be impacted by declines in market rents more quickly than if our leases were for longer terms.

The costs of compliance with laws and regulations relating to our residential properties may adversely affect our business, results of operations and financial condition.

Various laws, ordinances, and regulations affect multi-family residential properties, including regulations relating to recreational facilities, such as activity centers and other common areas. In addition, rent control laws may be applicable to any of our residential properties.

Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations, stricter interpretation of existing laws or the future discovery of environmental contamination may require material expenditures by us. Future laws, ordinances or regulations may impose material environmental liabilities, and the current environmental condition of our investment properties might be affected by the operations of the tenants, by the existing condition of the land, by operations in the vicinity of the investment properties, such as the presence of underground storage tanks, or by the activities of unrelated third parties.

These laws typically allow liens to be placed on the affected investment property. In addition, there are various local, state and federal fire, health, life-safety and similar regulations which we may be required to comply with, and which may subject us to liability in the form of fines or damages for noncompliance.

Any newly acquired or developed multi-family residential properties must comply with Title II of the Americans with Disabilities Act (the "ADA") to the extent that such properties are "public accommodations" and/or "commercial facilities" as defined by the ADA. Compliance with the ADA requires removal of structural barriers to handicapped access in certain public areas of the properties where such removal is "readily achievable." Our investment properties may not comply in all material respects with all present requirements under the ADA and applicable state laws. When acquiring investment properties, we may not succeed in placing the burden on the seller to ensure compliance with the ADA. Noncompliance with the ADA could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages to private litigants. The cost of defending against any claims of liability under the ADA or the payment of any fines or damages could adversely affect our financial condition and affect cash available to return capital and the amount of distributions to you.

Increased competition and increased affordability of residential housing could limit our ability to retain tenants, lease multi-family properties or increase or maintain rents.

The multi-family sector is highly competitive. This competition could reduce occupancy levels and revenues at our multi-family communities, which would adversely affect our operations. We face competition from many sources. We face competition from other multi-family communities both in the immediate vicinity and in the larger geographic market where our multi-family communities are located. These competitors may have greater experience and financial resources than us giving them an advantage in attracting tenants to their properties. For example, our competitors may be willing to offer multi-family housing at rental rates below our rates, causing us to lose existing or potential tenants and pressuring us to reduce our rental rates to retain existing tenants or convince new tenants to lease space at our investment property. Overbuilding of multi-family communities may also occur. Any increase in the amount of multi-family housing available in a given market may decrease occupancy and multi-family rental rates for our investment properties. In addition, increases in operating costs due to inflation may not be offset by increased multi-family rental rates for our investment properties. Furthermore, multi-family communities we acquire most likely compete, or will compete, with numerous housing alternatives in attracting tenants, including owner-occupied single- and multi-family housing available to rent or purchase. Competitive housing in a particular area and the increasing affordability of owner-occupied single- and multi-family housing available to rent or buy caused by low mortgage interest rates and government programs to promote home ownership could adversely affect our ability to retain our tenants, lease multi-family housing and increase or maintain rental rates.

We could be negatively impacted by the condition of Fannie Mae or Freddie Mac and by changes in government support for multi-family housing.

Fannie Mae and Freddie Mac are a major source of financing for multi-family real estate in the United States. In the future, we may utilize loan programs sponsored by these entities as a source of capital to finance our growth and our operations. In September 2008, the U.S. government assumed control of Fannie Mae and Freddie Mac and placed both companies into a government conservatorship under the Federal Housing Finance Agency. In December 2009, the U.S. Department of the Treasury increased its financial support for these conservatorships. In February 2011, the Obama administration released its blueprint for winding down Fannie Mae and Freddie Mac and for reforming the system of housing finance. Since that time, members of Congress have introduced and Congressional committees have considered a substantial number of bills that include comprehensive or incremental approaches to winding down Fannie Mae and Freddie Mac or changing their purposes, businesses, or operations. A decision by the U.S. government to eliminate or downscale Fannie Mae or Freddie Mac or to reduce government support for multi-family housing more generally may adversely affect interest rates, capital availability, development of multi-family communities and the value of multi-family properties and, as a result, may adversely affect our future growth and operations.

We may be unable to renew our commercial leases, lease vacant space or re-lease space as leases expire, thereby increasing or prolonging vacancies.

We cannot assure you that leases will be renewed or that our investment properties will be re-leased on terms equal to or better than the current terms, or at all. We also may not be able to lease space which is currently not occupied on acceptable terms and conditions, if at all. Certain of our investment properties are special-use, single-tenant or build-to-suit; are in undesirable locations or weak markets or sub-markets; and/or are aging or functionally obsolete. As a result, these investment properties may be very difficult to lease. In addition, some of our tenants have leases that include early termination provisions that permit the lessee to terminate all or a portion of its lease with us after a specified date or upon the occurrence of certain events with little or no liability to us. We may be required to offer substantial rent abatements, tenant improvements, early termination

rights or below-market renewal options to retain these tenants or attract new ones. It is possible that, in order to lease currently vacant space, or space that may become vacant, we will be required to make rent or other concessions to tenants, accommodate requests for renovations, make tenant improvements or other improvements or provide additional services to our tenants. Portions of our investment properties may remain vacant for extended periods of time. If the rental rates for our investment properties decrease, our existing tenants do not renew their leases or we do not re-lease a significant portion of our available space and space for which leases will expire, our financial condition, cash flows and results of operations could be adversely affected.

We may be unable to lease or dispose of our correctional facility on acceptable terms or at all.

The lease with GEO on our correctional facility expired in January of 2020 and GEO has vacated the facility. We expect the investment property to remain vacant for years to come. We cannot assure you that we will be able to lease or dispose of the Hudson correctional facility on acceptable terms or at all. Correctional facilities are unique, specific-purpose properties that have a limited market, and we face competition in this market from both government entities and private operators, many of which have a longer track record and more experience and greater financial resources than us. Additionally, the market for leasing or selling correctional facilities is subject to a number of unique factors, including the level of government appropriations and acceptance of privatization of correctional facilities among the government and the general public. Namely, on January 26, 2021, President Biden issued an executive order directing the U.S. Attorney General to not renew U.S. Department of Justice contracts with privately operated criminal detention facilities. This executive order or similar government actions could limit the number of potential tenants or buyers for our Hudson correctional facility. Further, if we are unable to lease or sell our Hudson correctional facility on acceptable terms or at all, we may be required to make significant capital expenditures to reposition, finance or sell this investment property. If we are unable to lease or sell our Hudson correctional facility on acceptable terms or at all, our financial condition, cash flows and results of operations may be adversely affected.

We depend on tenants for our revenue, and accordingly, lease terminations, vacancies, tenant defaults and bankruptcies could adversely affect the income produced by our investment properties.

Our business and financial condition depends on the financial stability of our tenants. Certain economic conditions, may adversely affect one or more of our tenants. For example, business failures and downsizing can affect the tenants of our office and industrial investment properties. As a result, our tenants may delay lease commencements, decline to extend or renew their leases upon expiration, fail to make rental payments, or declare bankruptcy. Individual tenants may lease more than one investment property or space at more than one investment property. As a result, the financial failure of one tenant could increase vacancy at more than one investment property or cause more than one lease to become non-performing. Any of these actions could result in the termination of the tenants' leases, the expiration of existing leases without renewal or the loss of rental income attributable to the terminated or expired leases, any of which could make our investment properties difficult to sell and could have a material adverse effect on our financial condition, cash flows and results of operations.

In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment and re-leasing our investment property. Specifically, a bankruptcy filing by, or relating to, one of our tenants or a lease guarantor would bar efforts by us to collect pre-bankruptcy debts from that tenant or lease guarantor, or its assets, unless we receive an order permitting us to do so from the bankruptcy court. In addition, we cannot evict a tenant solely because of bankruptcy. The bankruptcy of a tenant or lease guarantor could delay our efforts to collect past-due balances under the relevant leases, and could ultimately preclude collection of these sums. If a lease is rejected by a tenant in bankruptcy, we would have only a general, unsecured claim for damages. An unsecured claim would only be paid to the extent that funds are available and only in the same percentage as is paid to all other holders of general, unsecured claims. Restrictions under the bankruptcy laws further limit the amount of any other claims that we can make if a lease is rejected. As a result, it is likely that we would recover substantially less than the full value of the remaining rent during the term, and may not recover any balances at all.

Additionally, various federal, state and local governments previously enacted, and may in the future enact, laws, regulations and moratoriums or take other actions which could limit our ability to evict tenants until such laws, regulations or moratoriums are reversed or lifted. In particular, many state and local governments previously implemented eviction moratoriums as a result of the COVID-19 pandemic which generally applied to both residential and commercial tenants.

Our legacy portfolio includes investment properties that are special use, single-tenant and/or build-to-suit; face unresolved legal issues; are aging or functionally obsolete; or have sub-optimal leasing metrics, which may make them difficult to lease, finance or sell.

Our legacy portfolio includes investment properties that are special use, single-tenant and/or build-to-suit; face unresolved legal issues; are aging or functionally obsolete; or have sub-optimal leasing metrics, which may make them relatively illiquid compared to other types of real estate properties. With these investment properties, if the current lease is terminated or not renewed, we may be required to make significant capital expenditures to reposition the investment property or make rent concessions in order to lease the investment property to another tenant, finance or sell the investment property.

Many of our investment properties are located in weak markets or submarkets, which may adversely affect our ability to rent such investment properties, increase rental rates and/or sell such investment properties.

Certain of our investment properties are located in weak markets or submarkets. These markets may be experiencing economic slowdowns, little or no job growth, and/or high numbers of vacancies. Also, with respect to our retail investment properties, a shift toward increased e-commerce sales could adversely impact the demand for our retail investment properties if retail tenants reduce the number of their brick-and-mortar locations. The weakness of an investment property's market or submarket may adversely affect our ability to rent such investment properties, increase rental rates and/or sell such investment properties, which could have a material adverse effect on our financial condition, cash flows or results of operations.

Economic and market conditions could negatively impact our business, results of operations and financial condition.

Our business may be affected by market and economic challenges experienced by the United States or global economies or the real estate industry as a whole or by the local economic conditions in the markets in which our investment properties are located, including any dislocations in the credit markets. Global credit and financial markets have experienced extreme volatility and disruptions over the past several months, including declines in consumer confidence, concerns about declines in economic growth, increases in the rate of inflation, increases in borrowing rates and changes in liquidity and credit availability, and uncertainty about economic stability, including in connection with actions undertaken by the U.S. Federal Reserve Board to address inflation, the military conflicts in Ukraine and Israel, the continuing effects of the COVID-19 pandemic and supply chain disruptions. There can be no assurance that further deterioration in credit and financial markets and confidence in economic conditions will not occur. These conditions may materially affect our tenants, the value and performance of our investment properties and our ability to sell investment properties, as well as our ability to make principal and interest payments on, or refinance, any outstanding debt when due. Challenging economic conditions may also impact the ability of certain of our tenants to enter into new leasing transactions or satisfy rental payments under existing leases. Specifically, these conditions may have the following consequences:

- the financial condition of our tenants may be adversely affected, which may result in us having to increase concessions, reduce rental rates or make capital improvements in order to maintain occupancy levels or to negotiate for reduced space needs, which may result in a decrease in our occupancy levels;
- significant job loss may occur, which may decrease demand for space and result in lower occupancy levels, which will result in decreased revenues and which could diminish the value of investment properties, which depend, in part, upon the cash flow generated by our investment properties;
- an increase in the number of bankruptcies or insolvency proceedings of our tenants and lease guarantors, which could delay our efforts to collect rent and any past due balances under the relevant leases and ultimately could preclude collection of these sums;
- our ability to borrow on terms and conditions that we find acceptable may be limited;
- the amount of capital that is available to finance investment properties could diminish, which, in turn, could lead to a decline in investment properties values generally, slow investment property transaction activity, and reduce the loan to value ratio upon which lenders are willing to lend; and
- the value of certain of our investment properties may decrease below the amounts we paid for them, which would limit our ability to dispose of investment properties at attractive prices or for potential buyers to obtain debt financing secured by these investment properties and could reduce our ability to finance our business.

The uncertainty and economic impact of pandemics, epidemics or other public health emergencies or fear of such events, could adversely affect our and our tenants' financial condition and operations.

We are subject to risks associated with public health crises and government measures to prevent the spread of infectious diseases. The COVID-19 pandemic has caused, and another pandemic in the future, or a resurgence of the COVID-19

pandemic, could cause, disruptions to regional and global economies and significant volatility and negative pressure in the financial markets. A local, regional, national or international outbreak of a contagious disease could also have a material and adverse effect on our ability to successfully operate and on our financial condition, results of operations and cash flows because, among other factors, such outbreak could decrease the willingness of customers to patronize our tenants' retail facilities, discourage residents from renting in our multi-family communities, cause shortages of employees to staff our tenants' operations, interrupt supplies from third parties upon which our tenants rely, cause us or our tenants to temporarily close one or more of our investment properties, result in governmental regulation adversely impacting our or our tenants' businesses and otherwise have a material adverse effect on our business, financial condition and results of operations. Such adverse effect could be rapid and unexpected.

The extent to which the COVID-19 pandemic, or other future health crises, may impact our business, results of operations, cash flows and financial condition depends on many factors which are highly uncertain and are difficult to predict. These factors include, but are not limited to, the duration and spread of any outbreak, the timing, distribution and efficacy of vaccines and other treatments, Unites States and foreign government actions to respond to the outbreak, and how quickly and to what extent normal operation conditions can resume.

Our ongoing business strategy involves the selling of investment properties; however, we may be unable to sell an investment property at acceptable terms and conditions, if at all.

We intend to hold our investment properties until such time as we determine that a sale or other disposition appears to be advantageous to achieve our investment objectives. The determination of when a particular investment property should be sold or otherwise disposed of will be made after consideration of all of the relevant factors, including whether such disposition will better position the portfolio for a potential future liquidity event, prevailing and projected economic and market conditions, the cash flow being generated by a particular investment property, tax implications of a disposition, debt characteristics of the investment property, and whether the value of the investment property or other investment is anticipated to decline or increase investment opportunities for any proceeds. Even if we do determine to sell an investment property, market conditions or individual investment property characteristics may negatively affect the value of our investment properties and therefore reduce our return on the investment or prevent us from selling the investment property on acceptable terms or at all. Some of our leases contain provisions giving the tenant a right to purchase the investment property, such as a right of first offer or right of first refusal, which may lessen our ability to freely control the sale of the investment property. Debt levels may exceed the value of our investment properties in the future, making it more difficult for us to rent, refinance or sell the investment properties. In addition, real estate investments are relatively illiquid and often cannot be sold quickly, limiting our ability to sell our investment properties when we decide to do so, or in response to such changing economic or property-specific issues. Further, economic conditions may prevent potential purchasers from obtaining financing on acceptable terms, if at all, thereby delaying or preventing our ability to sell our investment properties.

We may not successfully implement our strategy, in which case you may have to hold your investment for an indefinite period.

We are under no obligation to complete our strategy within a specified time period, and market and economic conditions and other factors beyond our control could delay the execution of our strategy. Our investment objectives are to preserve, protect and maximize the total value of our portfolio with the long term objective of providing stockholders with a return of their investment. Given the nature of the investment properties in our portfolio, we expect that this turnaround strategy could take multiple years to execute. We may not be able to control the timing of the sale of our investment properties, and there can be no assurance that we will be able to sell our investment properties so as to return any portion of our stockholders' invested capital, particularly our "non-core" investment properties, or fully satisfy our debt obligations. Our ability to sell our investment properties may also be limited by our need to avoid a 100% penalty tax that is imposed on gain recognized by a REIT from the sale of investment properties characterized as dealer property, which may cause us to forego or defer sales of investment properties that otherwise would be in our best interests.

If we are not successful in implementing our strategy in a timely manner, your shares may continue to be illiquid and you may, for an indefinite period of time, be unable to convert your investment into cash easily, if at all, and could suffer losses on your investment.

Real estate is a competitive business.

We compete with numerous developers, owners and operators of commercial real estate in the leasing market, many of which own properties similar to, and in the same market areas as, our investment properties. In addition, some of these competitors may be willing to accept lower returns on their investments than we are, and many have greater resources than we have and

may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. Principal factors of competition include rents charged, attractiveness of location, the quality of the investment property and breadth and quality of services provided. Our success depends upon, among other factors, trends affecting national and local economies, the financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation, job creation and population trends.

We also face competition from other real estate investment programs for buyers. We perceive there to be a smaller universe of potential buyers for many of the types of investment properties that comprise our portfolio in comparison to investment properties in more core real estate sectors, which will likely make it challenging for us to sell our investment properties.

Any difficulties in obtaining capital necessary to make tenant improvements, pay leasing commissions and make capital improvements at our investment properties could materially and adversely affect our financial condition and results of operations.

Ownership of real estate is a capital intensive business that requires significant capital expenditures to operate, maintain and renovate investment properties. Access to the capital that we need to lease, maintain and renovate existing investment properties is critical to the success of our business. We may not be able to fund tenant improvements, pay leasing commissions or fund capital improvements at our existing investment properties solely from cash provided from our operating activities. As a result, our ability to fund tenant improvements, pay leasing commissions or fund capital improvements through retained earnings may be restricted. Consequently, we may have to rely upon the availability of debt, net proceeds from the dispositions of our investment properties or equity capital to fund tenant improvements, pay leasing commissions or fund capital improvements. Our ability to obtain debt on favorable terms or at all may be further limited by the fact that certain investment properties previously owned by the Company were foreclosed upon. The inability to access capital could impair our ability to compete effectively and harm our business.

There are inherent risks with investments in real estate, including the relative illiquidity of such investments.

Investments in real estate are subject to varying degrees of risk. For example, an investment in real estate cannot generally be quickly sold, and we cannot predict whether we will be able to sell any investment property we desire to on the terms set by us or acceptable to us, or the length of time needed to find a willing purchaser and to close the sale of such property. Moreover, the Internal Revenue Code of 1986, amended (the “Code”) imposes restrictions on a REIT’s ability to dispose of investment properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs require that we hold our investment properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of investment properties that otherwise would be in our best interests. Therefore, we may not be able to vary our portfolio promptly in response to changing economic, financial, investment and market conditions and dispose of investment properties at opportune times, on favorable terms or at all, which may adversely affect our cash flows and our ability to make distributions to stockholders.

Investments in real estate are also subject to adverse changes in general economic conditions. Among the factors that could impact our investment properties and the value of an investment in us are:

- risks associated with the possibility that cost increases will outpace revenue increases and that in the event of an economic slowdown, the high proportion of fixed costs will make it difficult to reduce costs to the extent required to offset declining revenues;
- changes in tax laws and property taxes, or an increase in the assessed valuation of an investment property for real estate tax purposes;
- adverse changes in the U.S. federal, state or local laws and regulations applicable to us, including those affecting zoning, fuel and energy consumption, water and environmental restrictions, and the related costs of compliance;
- changing market demographics;
- an inability to finance real estate investment properties on favorable terms, if at all;
- the ongoing need for owner-funded capital improvements and expenditures to maintain or upgrade investment properties;
- fluctuations in real estate values or potential impairments in the value of our investment properties;
- pandemics, natural disasters, such as earthquakes, floods or other insured or uninsured losses;
- war, political conditions or civil unrest, terrorist activities or threats heightened travel security measures instituted in response to these events; and

- changes in interest rates and availability, cost and terms of financing.

Our investment properties may be subject to impairment charges that may materially affect our financial results.

Economic and other conditions may adversely impact the valuation of our investment properties, resulting in impairment charges that could have a material adverse effect on our results of operations and earnings. On a regular basis, we evaluate our investment properties for impairments based on various triggers, including changes in the projected cash flows of such investment properties and market conditions. If we determine that an impairment has occurred, then we would be required to make an adjustment to the net carrying value of the investment property, which could have a material adverse effect on our results of operations in the accounting period in which the adjustment is made. During the years ended December 31, 2023 and 2022, we were not required to make any impairment adjustments. Furthermore, changes in estimated future cash flows due to a change in our plans, policies, or views of market and economic conditions could result in the recognition of additional impairment losses for already impaired investment properties, which, under the applicable accounting guidance, could be substantial.

Many real estate costs and certain operating costs are fixed, even if revenue from our investment properties decreases.

Many real estate costs, such as real estate taxes, insurance premiums, maintenance costs and certain operating costs generally are more fixed than variable and, as a result, are not reduced even when an investment property is not fully occupied, rents decrease or other circumstances cause a reduction in revenues. If we are unable to offset these fixed costs with sufficient revenues across our portfolio, it could materially and adversely affect our results of operations and profitability. This risk is particularly acute at our net lease investment properties.

Operating and other expenses may increase in the future, which may cause our cash flow and our operating results to decrease.

Certain operating expenses and certain general and administrative expenses are not fixed and may increase in the future. Any increases would cause our cash flow and our operating results to decrease. If we are unable to offset these decreases with sufficient revenues across our portfolio, our financial condition, cash flows and results of operations may be materially adversely affected.

Our revenue from our retail investment properties will be impacted by the success and economic viability of our anchor retail tenants. Our reliance on single or significant tenants in certain buildings may decrease our ability to lease vacated space and adversely affect our financial condition, cash flows and results of operations.

In the retail sector, a tenant occupying all or a large portion of the gross leasable area of a retail center, commonly referred to as an anchor tenant, may become insolvent, may suffer a downturn in business or may decide not to renew its lease. Any of these events would result in a reduction or cessation in rental payments to us and would adversely affect our financial condition. A lease termination by an anchor tenant also could result in lease terminations or reductions in rent by other tenants whose leases may permit cancellation or rent reduction if another tenant's lease is terminated. Similarly, the leases of some anchor tenants may permit the anchor tenant to transfer its lease to another retailer. The transfer to a new anchor tenant could reduce customer traffic in the retail center and thereby reduce the income generated by that retail center. A transfer of a lease to a new anchor tenant could also allow other tenants to make reduced rental payments or to terminate their leases in accordance with lease terms. If we are unable to re-lease the vacated space to a new anchor tenant, we may incur additional expenses in order to remodel the space to be able to re-lease the space to more than one tenant.

Government or public resistance to privatization of correctional facilities could negatively impact our future tenants, if any, and our ability to dispose of this investment property, which could have an adverse impact on our business, financial condition or results of operations.

The management and operation of correctional facilities by private entities has not achieved acceptance by either government agencies or the public and, more recently, has been opposed by the Biden administration. Namely, on January 26, 2021, President Biden issued an executive order that directs the U.S. Attorney General to not renew U.S. Department of Justice contracts with privately operated criminal detention facilities. Further, some governmental agencies have historically had limitations on their ability to delegate their traditional management responsibilities for such facilities to private companies, and additional executive actions, legislative changes or prohibitions could occur that further increase these limitations. In addition, privatization of such facilities has historically encountered resistance from groups, and activists, that believe that correctional facilities should only be operated by governmental agencies. Negative publicity about poor conditions, an escape, riot or other disturbance at a privately-managed facility may result in adverse publicity to the private corrections industry. Any of these

occurrences or continued trends may make it more difficult for future tenants, if any, of our correctional facility to obtain new contracts. Changes in governing political parties could also result in significant changes to previously established views of privatization. Increased government or public resistance to the privatization of correctional facilities, including actions taken by federal, state and local governments, could have a material adverse effect on our future tenants, if any, who operate in this industry, which could adversely impact the value of our correctional facility, our ability to re-lease such investment property and our results of operations.

The land underlying a portion of one of our investment properties is subject to a ground lease, which could limit our use of the investment property, and a breach or termination of the ground lease could materially and adversely affect us.

We lease a portion of the land underlying Sherman Plaza from a third party through a ground lease covering such land. As a lessee under a ground lease, we are exposed to the possibility of losing the right to use the portion of our investment property covered by the ground lease upon termination, or an earlier breach by us, of the ground lease. The ground lease may also restrict our use of the investment property, which may limit our flexibility in renting the investment property and may impede our ability to sell it.

Uninsured and underinsured losses at our investment properties could materially and adversely affect our business, financial condition or results of operations.

We intend to maintain comprehensive insurance on each of our current investment properties, including liability, fire and extended coverage, of the type and amount we believe are customarily obtained for or by property owners. There are no assurances that coverage will be available at reasonable rates. Various types of catastrophic losses, like windstorms, earthquakes and floods, environmental events and losses from foreign terrorist activities may not be insurable or may not be economically insurable. Even when insurable, these policies may have high deductibles and/or high premiums. Lenders may require such insurance. Our failure to obtain such insurance could constitute a default under loan agreements, and/or our lenders may force us to obtain such insurance at unfavorable rates, which could materially and adversely affect our profitability and revenues.

In the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in an investment property, as well as the anticipated future revenues. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the investment property. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate an investment property after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed property, which could materially and adversely affect our profitability.

In addition, insurance risks associated with potential terrorist acts could sharply increase the premiums we pay for coverage against property and casualty claims. With the enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2007, United States insurers cannot exclude conventional, chemical, biological, nuclear and radiation terrorism losses. These insurers must make terrorism insurance available under their property and casualty insurance policies; however, this legislation does not regulate the pricing of such insurance. In many cases, mortgage lenders have begun to insist that commercial property owners purchase coverage against terrorism as a condition of providing mortgage loans. Such insurance policies may not be available at a reasonable cost, which could inhibit our ability to finance or refinance our investment properties In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We may not have adequate coverage for such losses, which could materially and adversely affect our business, financial condition or results of operations.

We could incur significant, material costs related to government regulation and litigation with respect to environmental matters, which could materially and adversely affect our business, financial condition or results of operations.

Our investment properties are subject to various U.S. federal, state and local environmental laws that impose liability for contamination. Under these laws, governmental entities have the authority to require us, as the current owner of an investment property, to perform or pay for the clean-up of contamination (including hazardous substances, asbestos and asbestos-containing materials, waste or petroleum products) at, on, under or emanating from the investment property and to pay for natural resource damages arising from such contamination. Such laws often impose liability without regard to whether the owner or operator or other responsible party knew of, or caused such contamination, and the liability may be joint and several. Because these laws also impose liability on persons who owned an investment property at the time it became contaminated, it is possible we could incur cleanup costs or other environmental liabilities even after we sell investment properties. Contamination

at, on, under or emanating from our investment properties also may expose us to liability to private parties for costs of remediation and/or personal injury or property damage. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. If contamination is discovered on our investment properties, environmental laws also may impose restrictions on the manner in which the investment properties may be used or businesses may be operated, and these restrictions may require substantial expenditures. Moreover, environmental contamination can affect the value of an investment property and, therefore, an owner's ability to borrow funds using the investment property as collateral or to sell the investment property on favorable terms or at all. Furthermore, persons who sent waste to a waste disposal facility, such as a landfill or an incinerator, may be liable for costs associated with cleanup of that facility.

In addition, our investment properties are subject to various U.S. federal, state, and local environmental, health and safety laws and regulations that address a wide variety of issues, including, but not limited to, storage tanks, air emissions from emergency generators, storm water and wastewater discharges, lead-based paint, mold and mildew, and waste management. Some of our investment properties may handle and use hazardous or regulated substances and wastes as part of their operations, which substances and wastes are subject to regulation. Our investment properties incur costs to comply with these environmental, health and safety laws and regulations and could be subject to fines and penalties for non-compliance with applicable requirements.

Environmental laws in the U.S. also require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, adequately inform or train those who may come into contact with asbestos and undertake special precautions, including removal or other abatement, if that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos. Some of our investment properties may contain asbestos-containing building materials.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our investment properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected investment property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability to third parties if property damage or personal injury occurs.

Liabilities and costs associated with environmental contamination at, on, under or emanating from our investment properties, defending against claims related to alleged or actual environmental issues, or complying with environmental, health and safety laws could be material and could materially and adversely affect us. We can make no assurances that changes in current laws or regulations or future laws or regulations will not impose additional or new material environmental liabilities or that the current environmental condition of our investment properties will not be affected by our operations, the condition of the properties in the vicinity of our investment properties, or by third parties unrelated to us. The discovery of material environmental liabilities at our investment properties could subject us to unanticipated significant costs, which could significantly reduce or eliminate our profitability and the cash available for distribution to our stockholders.

The costs of compliance with laws and regulations relating to our investment properties may adversely affect our business, financial condition or results of operations.

Various laws, ordinances, and regulations affect our investment properties. Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations, stricter interpretation of existing laws or the future discovery of environmental contamination may require material expenditures by us. Future laws, ordinances or regulations may impose material environmental liabilities, and the current environmental condition of our investment properties might be affected by the operations of the tenants, by the existing condition of the land, by operations in the vicinity of the properties, such as the presence of underground storage tanks, or by the activities of unrelated third parties.

Any newly acquired or developed multi-family residential properties must comply with Title II of the Americans with Disabilities Act (the "ADA") to the extent that such properties are "public accommodations" and/or "commercial facilities" as defined by the ADA. Compliance with the ADA requires removal of structural barriers to handicapped access in certain public areas of the properties where such removal is "readily achievable." Our investment properties may not comply in all material

respects with all present requirements under the ADA and applicable state laws. When acquiring investment properties, we may not succeed in placing the burden on the seller to ensure compliance with the ADA. Noncompliance with the ADA could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages to private litigants. The cost of defending against any claims of liability under the ADA or the payment of any fines or damages could adversely affect our financial condition and affect cash available to return capital and the amount of distributions to you.

Under the ADA and the Accessibility Guidelines promulgated thereunder; all public accommodations must meet various U.S. federal requirements related to access and use by disabled persons. Compliance with the ADA's requirements could require removal of access barriers, and non-compliance could result in the U.S. government imposing fines or in private litigants winning damages.

Our investment properties are also subject to various U.S. federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We do not know whether existing requirements will change or whether compliance with future requirements would require significant unanticipated expenditures that would affect our cash flow and results of operations. If we incur substantial costs to comply with the ADA requirements or other safety regulations and requirements, it could materially and adversely affect our business, financial condition or results of operations.

Adverse judgments or settlements resulting from legal proceedings in which we may be involved in the normal course of our business could reduce our profits or limit our ability to operate our business.

In the normal course of our business, we are involved in various legal proceedings. The outcome of these proceedings cannot be predicted. If any of these proceedings were to be determined adversely to us or a settlement involving a payment of a material sum of money were to occur, it could materially and adversely affect our profits or ability to operate our business. Additionally, we could become the subject of future claims by third parties, including current or former tenants, our employees, our investors or regulators. Any significant adverse judgments or settlements would reduce our profits and could limit our ability to operate our business. Further, we may incur costs related to claims for which we have appropriate third-party indemnity, but such third parties fail to fulfill their contractual obligations.

If we fail to maintain an effective system of disclosure controls and procedures and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

We are subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more time-consuming and costly, and may place a strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are also required to make a formal assessment and provide an annual management report on the effectiveness of our internal control over financial reporting. In order to maintain the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and management oversight.

Current controls and any new controls that we develop may become inadequate due to changes in conditions of our business. Further, weaknesses in our disclosure controls and procedures and internal control over financial reporting may be discovered in the future. Any failure to maintain or develop effective controls or any difficulties encountered in their implementation or improvement could harm our operating results or cause us to fail to meet reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations.

We are increasingly dependent on information technology, and potential cyber-attacks, security problems, or other disruptions present risks and could disrupt our operations, result in the loss of confidential information or damage our business relationships and reputation.

Cybersecurity incidents and cyber-attacks have been occurring globally at a more frequent and severe level and may continue to increase in frequency in the future. Our reliance on computer systems to manage our business is extensive, and our business is at risk from and may be impacted by cybersecurity attacks, security breaches and failure to maintain critical information technology systems and effective internal controls. Our three primary risks that could directly result from the occurrence of a

cyber incident include operational interruption, damage to our relationships with our tenants and private data exposure. Our financial results and reputation may be negatively impacted by such an incident.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include an intruder gaining unauthorized access to systems to disrupt operations, corrupt data or steal confidential information. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. While we and our business partners have implemented measures to help mitigate these threats, these measures cannot guarantee that we will be successful in preventing a cyber incident.

Moreover, our information technology networks and related systems are essential to our ability to perform day-to-day operations of our business, and a cyber incident could result in a data center outage, disrupting our systems and operations or the operations of our business partners, compromise the confidential information of our employees or tenants, and damage our business relationships and reputation. Although we have implemented various measures to manage risks relating to these types of events, these measures and the systems supporting them could prove to be inadequate and, if compromised, could become inoperable for extended periods of time, cease to function properly or fail to adequately secure private information. Further, although we maintain some of our own critical information technology systems, we also depend on third parties to provide important information technology services relating to, for instance, payroll, electronic communications and certain finance functions. The security measures employed by such third party service providers may prove to be ineffective at preventing breaches of their systems.

Risks Related to Debt Financing

If we are unable to repay or refinance our existing debt as it comes due, we may need to sell the underlying investment property sooner than anticipated or the lender may foreclose, in which case our financial condition, cash flows and results of operations could be materially adversely affected.

Our debt is secured by certain of our investment properties, and, if our subsidiaries are unable to repay or refinance the debt as it becomes due, we may need to sell the underlying investment property sooner than anticipated or the lender may foreclose.

While most of the mortgages on our investment properties do not mature in the near term, due to the near-term expiration of tenant leases at certain of these investment properties, we may be unable to make mortgage payments and may default under the applicable loan agreement. This may force us to dispose of those investment properties on disadvantageous terms, or the lender under such mortgages may foreclose, resulting in losses materially adversely affecting our cash flow, results of operations and financial condition. Generally, a borrower in foreclosure proceedings has limited or no control over the timing and speed of such proceedings, and the ultimate resolution of such proceedings may take years. The Company may provide customary, non-recourse carve-out guarantees in connection with obtaining mortgage loans.

Our special-purpose property-owning subsidiaries may default under non-recourse mortgage loans.

All of our investment properties are held in special-purpose property-owning subsidiaries. In the future, such special-purpose property-owning subsidiaries may default and/or send notices of imminent default on non-recourse mortgage loans where the relevant investment property is or will be suffering from cash shortfalls on operating expenses, leasing costs and/or debt service obligations. If tenants at certain of our investment properties, fail to renew their leases and we are unable to find new tenants, we may be unable to make mortgage payments and may default under the loan agreement. Additionally, in connection with our separation from InvenTrust, certain lenders under such non-recourse mortgage loans may allege that a default has been deemed to occur under such loans.

Any default by our special-purpose property-owning subsidiaries under non-recourse mortgage loans would give the special servicers the right to accelerate the payment on the loans and the right to foreclose on the investment property underlying such loans. There are several potential outcomes on the default of a non-recourse mortgage loan, including foreclosure, a deed-in-lieu of foreclosure, a cooperative short sale, or a negotiated modification to the terms of the loan. There is no assurance that we will be able to achieve a favorable outcome on a cooperative or timely basis on any defaulted mortgage loan.

Our failure to comply with the covenants in our debt agreements could materially and adversely affect us.

Our mortgage loans require compliance with certain debt covenants, such as minimum debt service coverage ratios and minimum net worth. Any other debt agreement that we enter into may place additional restrictions on us and may also require us to meet certain financial ratios and tests. In addition, any future debt agreements may contain, cross-default provisions that

trigger an event of default if we fail to make payments or otherwise fail to comply with our obligations with respect to certain of our other indebtedness.

Our failure to comply with these covenants, as well as our inability to make required payments could result in the acceleration of the debt and, in the case of secured debt, the lenders taking possession of the investment property or properties securing such debt. If repayment of any of our indebtedness is accelerated, we cannot provide assurance that we would be able to borrow sufficient funds to refinance such indebtedness or that we would be able to sell sufficient investment properties to repay such indebtedness. Even if we were able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to us.

In addition, in connection with certain of our debt agreements we have entered, and in the future may enter, into lockbox and cash management agreements pursuant to which all or substantially all of the income generated by our investment properties will be deposited directly into lockbox accounts and then swept into cash management accounts for the benefit of our lenders and from which cash may not be distributed to us or will be distributed to us only after funding of certain items, which may include payment of principal and interest on our debt, insurance and tax reserves or escrows and other expenses. As a result, we may be forced to borrow additional funds in order to make distributions to our stockholders necessary to allow us to continue to qualify as a REIT.

We are subject to obligations under certain "non-recourse carve-out" indemnity agreements and guarantees that may be deemed to be triggered in the future.

As of December 31, 2023, certain of our investment properties are encumbered by traditional non-recourse debt obligations. In connection with obtaining these loans, we entered into indemnity agreements and "non-recourse carve-out" guarantees, which provide for these otherwise non-recourse loans to become partially or fully recourse against us if certain triggering events occur. Although these events differ from loan to loan, some of the common events include:

- Our filing of a voluntary petition for bankruptcy or commencing similar insolvency proceedings;
- Subject to certain conditions, our failure to obtain the lender's written consent prior to any subordinate financing or other voluntary lien encumbering the associated investment property; and
- Subject to certain conditions, our failure to obtain the lender's written consent prior to a transfer or conveyance of the associated investment property.

In addition, other items that are customarily recourse to a non-recourse carve-out guarantor include, but are not limited to, the payment of real property taxes, the breach of representations related to environmental issues or hazardous substances, physical waste of the property, liens which are senior to the mortgage loan and outstanding security deposits.

In the event that any of these triggering events occur and such loans become partially or fully recourse against us, our business, financial condition, results of operations, and the value of our common stock would be materially adversely affected, and we may be forced to sell other investment properties and/or our insolvency could result. Additionally, in connection with our separation from InvenTrust, certain lenders under such non-recourse mortgage loans may allege that a default has been deemed to occur under such loans and may seek to recover from us and/or our subsidiaries the full extent of their losses with respect to such loans. Any allegations may create a distraction for our management, result in significant liability, or subject us to litigation that could be costly or otherwise materially adversely affect us.

We may be unable to satisfy our debt obligations upon a change of control.

Under the documents that govern our indebtedness, if we experience a change of control, we could be required to incur certain penalties, fees and other expenses, which may include repayment of the entire principal balance of some of our outstanding indebtedness plus additional fees and interest. We might not have sufficient funds to repay such amounts. Any of these events could have a material adverse impact on our liquidity, business, results of operations and financial condition.

Volatility in the financial markets and challenging economic conditions, could adversely affect our ability to secure debt financing on attractive terms and our ability to service any future indebtedness that we may incur.

The domestic and international commercial real estate debt markets could become very volatile as a result of, among other things, the tightening of underwriting standards by lenders and credit rating agencies. This could result in less availability of credit and increasing costs for what is available. If the overall cost of borrowing increases, either by increases in the index rates or by increases in lender spreads, the increased costs may result in lower overall economic returns and potentially reducing future cash flow available for distribution. If these disruptions in the debt markets were to persist, our ability to borrow funds to

finance activities related to real estate investment properties could be negatively impacted. In addition, we may find it difficult, costly or impossible to refinance indebtedness that is maturing.

Further, economic conditions could negatively impact commercial real estate fundamentals and result in declining values in our real estate portfolio and in the collateral securing any loan investments we may make, which could have various negative impacts. Specifically, the value of collateral securing any loan we hold could decrease below the outstanding principal amounts of such loans.

Borrowings may reduce the funds available for distribution and increase the risk of loss since defaults may cause us to lose the investment properties securing the loans.

We may from time to time borrow money for other purposes to, among other things, satisfy the requirement that we distribute at least 90% of our "REIT annual taxable income," subject to certain adjustments, or as is otherwise necessary or advisable to assure that we qualify as a REIT for U.S. federal income tax purposes. Over the long term, however, payments required on any amounts we borrow reduce the funds available for, among other things, capital expenditures for existing investment properties or distributions to our stockholders because cash otherwise available for these purposes is used to pay principal and interest on this debt.

If there is a shortfall between the cash flow from an investment property and the cash flow needed to service the related mortgage debt, then the amount of cash flow from operations available for distributions to stockholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by an investment property may result in lenders initiating foreclosure actions. In such a case, we could lose the investment property securing the loan that is in default, thus reducing the value of your investment. For tax purposes, a foreclosure is treated as a sale of the property or properties for a purchase price equal to the outstanding balance of the debt secured by the property or properties. If the outstanding balance of the debt exceeds our tax basis in the property or properties we would recognize taxable gain on the foreclosure action and we would not receive any cash proceeds. We also may fully or partially guarantee any funds that subsidiaries borrow to operate investment properties. In these cases, we may be responsible to the lender for repaying the loans if the subsidiary is unable to do so.

Due to distressed investment properties within our portfolio and our relatively small size as compared with the size of InvenTrust, our former parent, it may be difficult for us to obtain debt financing or refinancing on favorable terms, or at all, which may adversely affect our business, financial condition and results of operations.

We may require debt financing from time to time for investment property improvements, tenant improvements, acquisition financing, leasing commissions, general corporate purposes and other working capital needs. There are a number of distressed investment properties in our portfolio that are in danger of becoming subject to foreclosure proceedings. Lenders may consider the fact that such distressed investment properties exist within our portfolio when determining whether to advance credit to us in the future, even though each investment property is owned by a separate subsidiary. Additionally, due to our reduced size in comparison to InvenTrust, it may be difficult to refinance our existing debt on favorable terms. If we are unable to obtain debt financing on favorable terms, or at all, or if the ability to obtain financing is restricted by indebtedness we may incur in the future, our business, financial condition and results of operations may be adversely affected.

If we are unable to borrow at favorable rates, we may not be able to refinance existing loans at maturity.

If we are unable to borrow money at favorable rates, or at all, we may be unable to refinance existing loans at maturity. Further, we may enter into loan agreements or other credit arrangements that require us to pay interest on amounts we borrow at variable or "adjustable" rates. Increases in interest rates will increase our interest costs. If interest rates are higher when we refinance our loans, our expenses will increase. Any increases in our operating costs due to increased interest costs would reduce our cash flow, which could reduce the amount we are able to distribute to our stockholders. Further, during periods of rising interest rates, we may be forced to sell one or more of our investment properties earlier than anticipated in order to repay existing loans, which may not permit us to maximize the return on the particular investment properties being sold.

Covenants applicable to current or future debt could restrict our ability to make distributions to our stockholders and, as a result, we may be unable to make distributions necessary to qualify as a REIT, which could materially and adversely affect us and the value of our common stock.

We intend to operate in a manner so as to maintain our qualification as a REIT for U.S. federal income tax purposes. In order to maintain our qualification as a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding net capital gain, each year to our stockholders. To the

extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we distribute to our stockholders in a calendar year is less than a minimum amount specified under the Code. If, as a result of covenants applicable to our current or future debt, we are restricted from making distributions to our stockholders, we may be unable to make distributions necessary for us to avoid U.S. federal corporate income and excise taxes and maintain our qualification as a REIT, which could materially and adversely affect us.

Our organizational documents have no limitation on the amount of indebtedness we may incur. As a result, we may become highly leveraged in the future, which could materially and adversely affect us.

Our organizational documents contain no limitations on the amount of debt that we may incur, and our board of directors may change our financing policy at any time without stockholder notice or approval. As a result, we may be able to incur substantial additional debt, including secured debt, in the future. Incurring debt could subject us to many risks, including the risks that:

- our cash flows from operations may be insufficient to make required payments of principal and interest;
- our debt and resulting maturities may increase our vulnerability to adverse economic and industry conditions;
- we may be required to dedicate a substantial portion of our cash flows from operations to payments on our debt, thereby reducing cash available for distribution to our stockholders, funds available for operations and capital expenditures, future business opportunities or other purposes;
- the terms of any refinancing may not be in the same amount or on terms as favorable as the terms of the existing debt being refinanced, or we may not be able to refinance our debt at all;
- we may be obligated to repay the debt pursuant to guarantee obligations; and
- the use of leverage could adversely affect our ability to raise capital from other sources or to make distributions to our stockholders and could adversely affect the value of our common stock.

Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to make distributions to our stockholders.

We may in the future borrow money bearing interest at variable rates, which would expose us to increases in costs in a rising interest rate environment. Increases in future interest rates would increase our interest expense for any existing variable rate debt, as well as any debt that must be refinanced at higher interest rates at the time of maturity. Our future earnings and cash flows could be adversely affected due to the increased requirement to service our debt and could reduce the amount we are able to distribute to our stockholders.

Risks Related to Our Status as a REIT

Failure to remain qualified as a REIT would cause us to be taxed as a regular corporation, which would substantially reduce funds available for distributions to our stockholders.

Our qualification as a REIT depends on our ability to meet requirements regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets as well as other tests imposed by the Code. We cannot assure you that our actual operations for any one taxable year will satisfy these requirements. Further, new legislation, regulations, administrative interpretations or court decisions could significantly affect our ability to qualify as a REIT or the federal income tax consequences of our qualification as a REIT. If we fail to qualify as a REIT in any taxable year, we will face serious tax consequences that will substantially reduce the funds available for distributions to our stockholders because:

- we would not be allowed a deduction for dividends paid to stockholders in computing our taxable income and would be subject to U.S. federal income tax on our taxable income;
- we could be subject to increased state and local taxes; and
- unless we are entitled to relief under certain U.S. federal income tax laws, we could not re-elect REIT status until the fifth calendar year in which we failed to qualify as a REIT.

In addition, if we fail to qualify as a REIT, we will no longer be required to make distributions. As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and it could adversely affect the value of our common stock.

Even if we continue to qualify as a REIT for tax purposes, we may face other tax liabilities that reduce our cash flows.

Even if we continue to qualify as a REIT for tax purposes, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, any taxable REIT subsidiary ("TRS") that we may form will be subject to regular corporate U.S. federal, state and local taxes. Any of these taxes would decrease cash available for distributions to stockholders.

Failure to make required distributions would subject us to U.S. federal corporate income tax.

In order to maintain our qualification as a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain, each year to our stockholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to U.S. federal, state and local corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under the Code.

REIT distribution requirements could adversely affect our liquidity and may force us to borrow funds or sell investment properties during unfavorable market conditions.

To satisfy the REIT distribution requirements, we may need to borrow funds on a short-term basis or sell investment properties sooner than anticipated, even if the then-prevailing market conditions are not favorable for these borrowings or sales. Our cash flows from operations may be insufficient to fund required distributions as a result of differences in timing between the actual receipt of income and the recognition of income for U.S. federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt service or amortization payments. In addition, we may recognize significant cancellation of indebtedness income or gain from the workout of our debt or the disposition of our assets in foreclosure or deed-in-lieu transactions, which will result in the receipt of taxable income in excess of the cash received, if any, from those transactions. The insufficiency of our cash flows to cover our distribution requirements could have an adverse impact on our ability to raise short- and long-term debt or sell equity securities in order to fund distributions required to maintain our qualification as a REIT.

The prohibited transactions tax may limit our ability to dispose of our investment properties and we could incur a material tax liability if the Internal Revenue Service ("IRS") successfully asserts that the 100% prohibited transaction tax applies to some of or all our dispositions.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of investment properties, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. We may be subject to the prohibited transactions tax equal to 100% of net gain upon a disposition of an investment property. As part of our plan to liquidate our portfolio, we intend to make dispositions of our investment properties in the future. Although a safe harbor to the characterization of the sale of property by a REIT as a prohibited transaction is available, some or all of our future dispositions may not qualify for that safe harbor. We intend to avoid disposing of property that may be characterized as held primarily for sale to customers in the ordinary course of business. To avoid the prohibited transaction tax, we may choose not to engage in certain sales of our investment properties or may conduct such sales through a TRS, which would be subject to U.S. federal, state and local income taxation. Moreover, no assurance can be provided that the IRS will not assert that some or all of our future dispositions are subject to the 100% prohibited transactions tax. If the IRS successfully imposes the 100% prohibited transactions tax on some or all of our dispositions, the resulting tax liability could be material.

The stock ownership limit imposed by the Code for REITs and our charter may restrict our business combination opportunities and you may be restricted from acquiring or transferring certain amounts of our common stock.

The stock ownership restrictions of the Code for REITs and the 9.8% stock ownership limit in our charter may restrict our business combination opportunities and restrict your ability to acquire or transfer certain amounts of our common stock.

In order to maintain our qualification as a REIT for each taxable year, five or fewer individuals, as defined in the Code, may not own, beneficially or constructively, more than 50% in value of our issued and outstanding capital stock at any time during the last half of a taxable year. Attribution rules in the Code determine if any individual or entity beneficially or constructively owns our capital stock under this requirement. Additionally, at least 100 persons must beneficially own our capital stock during at least 335 days of a taxable year for each taxable year. To help ensure that we meet these tests, our charter restricts the

acquisition and ownership of shares of our capital stock. However, these ownership limits might delay or prevent a transaction or a change in our control or other business combination opportunities.

Our charter authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors (prospectively or retroactively), our charter prohibits any person from beneficially or constructively owning more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock. Our board of directors may not grant an exemption from these restrictions to any proposed transferee whose ownership in excess of 9.8% of the value of our outstanding shares would result in our failing to qualify as a REIT. These restrictions on transferability and ownership will not apply, however, if our board of directors determines that it is no longer in our best interest to attempt to, or continue to, qualify as a REIT or that compliance is no longer required in order for us to maintain our qualification as a REIT.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to "qualified dividend income" payable to U.S. stockholders that are taxed at individual rates is 20%. Under the federal tax legislation enacted in December 2017, commonly known as the Tax Cuts and Jobs Act (the "2017 Tax Legislation"), U.S. stockholders that are individuals, trusts and estates generally may deduct up to 20% of the ordinary dividends (e.g., dividends not designated as capital gain dividends or qualified dividend income) received from a REIT for taxable years beginning after December 31, 2017 and before January 1, 2026. Although this deduction reduces the effective tax rate applicable to certain dividends paid by REITs (generally to 29.6% assuming the shareholder is subject to the 37% maximum rate), such tax rate is still higher than the tax rate applicable to corporate dividends that constitute qualified dividend income. Accordingly, investors who are individuals, trusts or estates may perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends treated as qualified dividend income, which could adversely affect the value of the shares of REITs, including our common stock.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Code may limit our ability to hedge the risks inherent to our operations. Under current law, any income that we generate from derivatives or other transactions intended to hedge our interest rate risk with respect to borrowings made, or to be made, to acquire or carry real estate assets generally will not constitute gross income for purposes of the 75% and 95% income tests applicable to REITs. In addition, any income from certain other qualified hedging transactions would generally not constitute gross income for purposes of both the 75% and 95% income tests. As a result of these rules, we may be required to limit the use of hedging techniques that might otherwise be advantageous, which could result in greater risks associated with interest rate or other changes than we would otherwise incur.

We may be subject to adverse legislative or regulatory tax changes that could reduce the value of our common stock.

At any time, the U.S. federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation, or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation. In addition, the law relating to the tax treatment of other entities, or an investment in other entities, could change, making an investment in such other entities more attractive relative to an investment in a REIT.

The ability of our board of directors to revoke our REIT qualification without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to attempt to, or continue to qualify as a REIT. If we cease to be a REIT, we would become subject to U.S. federal income tax on our taxable income and would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on our total return to our stockholders.

Risks Related to Ownership of Our Common Stock and Our Corporate Structure

There is no established public market for our shares and you may not be able to sell your shares.

Presently, we have no plans to list our shares of common stock on any securities exchange or other market, there is no established trading market for our shares, nor is there any assurance that one may develop. Our charter also prohibits the ownership of more than 9.8% (in value or number of shares, whichever is more restrictive) of the aggregate of the outstanding shares of any class or series of our capital stock by any person unless exempted prospectively or retroactively by our board. This may inhibit investors from purchasing a large portion of our shares. Our charter also does not require us to seek stockholder approval to liquidate our assets by a specified date, nor does our charter require us to list our shares for trading on a securities exchange or other market by a specified date or provide any other type of liquidity to our stockholders. Therefore, it will be difficult for you to sell your shares promptly or at all, including in the event of an emergency, and if you are able to sell your shares, you may have to sell them at a substantial discount from the estimated value per share.

The estimated value per share of our common stock is based on a number of assumptions and estimates that may not be accurate or complete and is also subject to a number of limitations.

On December 19, 2023, we announced an estimated value of our common stock equal to $0.32 per share. Our board of directors engaged Real Globe Advisors, LLC ("Real Globe"), an independent third-party real estate advisory firm, to estimate the per share value of our common stock on a fully diluted basis as of December 15, 2023. As with any methodology used to estimate value, the methodology employed by Real Globe and the recommendations made by us were based upon a number of estimates and assumptions that may not be accurate or complete. Further, different parties using different assumptions and estimates could derive a different estimated value per share, which could be significantly different from our estimated value per share. The estimated per share value does not represent (i) the amount at which our shares would trade at a national securities exchange, (ii) the amount a stockholder would obtain if he or she tried to sell his or her shares (iii) the amount per share that stockholders would receive in a sale of the entire Company in a single transaction or (iv) the amount stockholders would receive if we liquidated our assets and distributed the proceeds after paying all of our expenses and liabilities. Accordingly, with respect to the estimated value per share, we can give no assurance that:

- a stockholder would be able to resell his or her shares at this estimated value;
- a stockholder would ultimately realize distributions per share equal to our estimated value per share upon liquidation of our assets and settlement of our liabilities or a sale of the Company;
- our shares would trade at a price equal to or greater than the estimated value per share if we listed them on a national securities exchange;
- the certain estimated corporate-level transaction costs that we would expect to incur in connection with a future potential liquidity event reflected in our estimated value will be incurred at the level estimated by us; or
- the methodology used to estimate our value per share would be acceptable to FINRA or that the estimated value per share will satisfy the applicable annual valuation requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the Code, with respect to employee benefit plans subject to ERISA and other retirement plans or accounts subject to Section 4975 of the Code.

Our cash available for distribution to stockholders may not be sufficient to pay distributions at expected or required levels, and we may need external sources in order to make such distributions, or we may not be able to make such distributions at all.

We generally intend over time to make annual distributions in an amount at least equal to the amount that will allow us to qualify as a REIT and to avoid current entity-level U.S. federal income taxes, however, we may not have sufficient cash from operations to make a distribution required to maintain our qualification as a REIT. All distributions will be made at the discretion of our board of directors and will depend on our historical and projected results of operations, liquidity and financial condition, REIT qualification, debt service requirements, capital expenditures and operating expenses, prohibitions and other restrictions under financing arrangements and applicable law and other factors as our board of directors may deem relevant from time to time. No assurance can be given that our projections will prove accurate or that any level of distributions will be made or sustained or achieve a market yield.

We may pay distributions from sources other than cash flow from operations or funds from operations, including funding such distributions from external financing sources, which may be available only at commercially unattractive terms, if at all. To the extent that the aggregate amount of cash distributed in any given year exceeds the amount of our current and accumulated earnings and profits for the same period, the excess amount will be deemed a return of capital for U.S. federal income tax

purposes, rather than a return on capital. Furthermore, in the event that we are unable to fund future distributions from our cash flows from operating activities, the value of your shares, the sale of our investment properties or any other liquidity event may be materially adversely affected.

At any time that we are not generating cash flow from operations sufficient to cover the current distribution rate, we may determine to pay lower distributions, or to fund all or a portion of our future distributions from other sources. If we utilize borrowings for the purpose of funding all or a portion of our distributions, we will incur additional interest expense. We have not established any limit on the extent to which we may use alternate sources of cash for distributions, except that, in accordance with the law of the State of Maryland and our organizational documents, generally, we may not make distributions that would: (i) cause us to be unable to pay our debts as they become due in the usual course of business, (ii) cause our total assets to be less than the sum of our total liabilities, or (iii) jeopardize our ability to maintain our qualification as a REIT for so long as the board of directors determines that it is in our best interests to continue to qualify as a REIT. Distributions that exceed cash flow from operations may not be sustainable at current levels, or at all.

Future issuances of debt securities, which would rank senior to our common stock upon our liquidation, and future issuances of equity securities, which would dilute the holdings of our existing common stockholders and may be senior to our common stock for the purposes of making distributions, periodically or upon liquidation, may negatively affect the value of our common stock.

In the future, we may issue debt or equity securities or incur other borrowings. Upon our liquidation, holders of our debt securities and other loans and preferred stock will receive a distribution of our available assets before common stockholders. If we incur debt in the future, our future interest costs could increase, and adversely affect our liquidity and results of operations. We are not required to offer any additional equity securities to existing common stockholders on a preemptive basis. Therefore, additional common stock issuances, directly or through convertible or exchangeable securities, warrants or options, will dilute the holdings of our existing common stockholders and such issuances, or the perception of such issuances, may reduce the value of our common stock. Our preferred stock, if issued, would likely have a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to common stockholders. Because our decision to issue debt or equity securities or incur other borrowings in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, nature or success of our future capital raising efforts. Thus, common stockholders bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the value of our common stock.

Your percentage ownership in us may be diluted in the future.

Your percentage ownership in us may be diluted in the future because of new equity issuances, capital market transactions or otherwise, including, without limitation, equity awards that may be granted to our directors, officers and employees.

Increases in market interest rates may reduce demand for our common stock and result in a decline in the value of our common stock.

The value of our common stock may be influenced by the dividend yield on our common stock (i.e., the amount of our annual distributions as a percentage of the fair market value of our common stock) relative to market interest rates. An increase in market interest rates, which are currently low compared to historical levels, may lead prospective purchasers of our common stock to expect a higher distribution yield, which we may not be able, or may choose not, to provide. Higher interest rates would also likely increase our borrowing costs and decrease our operating results and cash available for distribution. Thus, higher market interest rates could cause the value of our common stock to decline.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Under Maryland law generally, a director is required to perform his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Under Maryland law, directors are presumed to have acted in accordance with this standard of conduct. In addition, our charter eliminates the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our charter authorizes us to obligate ourselves and our bylaws obligate us, to the maximum extent permitted by Maryland law in effect from time to time, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to any present or former director or officer who is made or threatened to be made a party to the proceeding by reason of his or her service to us in that capacity and certain other capacities. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist absent the current provisions in our charter and bylaws.

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law ("MGCL") may have the effect of deterring a third party from making a proposal to acquire us or of impeding a change in our control under circumstances that otherwise could provide the holders of our common stock with the opportunity to benefit from a sale of our common stock, including:

- "business combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns, directly or indirectly, 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our then outstanding voting stock at any time within the two-year period immediately prior to the date in question) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose fair price and/or supermajority stockholder voting requirements on these combinations; and
- "control share" provisions that provide that "control shares" of our company (defined as voting shares that, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding control shares) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

As permitted by Maryland law, we have elected, by resolution of our board of directors, to opt out of the business combination provisions of the MGCL, with respect to business combinations that have been approved by our board of directors (including a majority of directors who are not affiliated with the interested stockholder), and, pursuant to a provision in our bylaws, to exempt any acquisition of our stock from the control share provisions of the MGCL. However, our board of directors may by resolution elect to repeal the exemption from the business combination provisions of the MGCL and may by amendment to our bylaws opt into the control share provisions of the MGCL at any time in the future.

If we have a class of equity securities registered under the Exchange Act and at least three independent directors, certain provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to adopt certain governance provisions, some of which (for example, a classified board) we do not have. These provisions may have the effect of limiting or precluding a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in our control under circumstances that otherwise could provide the holders of our common stock with the opportunity to benefit from a sale of our common stock. Our charter contains a provision whereby we elect, at such time as we become eligible to do so, to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our board of directors.

If our board of directors were to elect to be subject to the provision of Subtitle 8 providing for a classified board or the business combination provisions of the MGCL or if the provision of our bylaws opting out of the control share acquisition provisions of the MGCL were amended or rescinded, these provisions of the MGCL could have anti-takeover effects.

All of our investment properties are owned by subsidiaries. We depend on dividends and distributions from these subsidiaries. The creditors of these subsidiaries are entitled to amounts payable to them by the subsidiaries before the subsidiaries may pay any dividends or other distributions to us.

All of our investment properties are held through subsidiaries. We depend on cash distributions from our subsidiaries for substantially all of our cash flow. The creditors of each of our subsidiaries are entitled to payment of that subsidiary's obligations to them when due and payable before that subsidiary may make distributions or dividends to us. Thus, our ability to pay dividends, if any, to our stockholders depends on our subsidiaries' ability to first satisfy their obligations to their creditors and our ability to satisfy our obligations, if any, to our creditors.

In addition, our participation in any distribution of the assets of any of our subsidiaries upon the liquidation, reorganization or insolvency of the subsidiary, is only after the claims of the creditors, including trade creditors and preferred stockholders, if any, of the applicable direct or indirect subsidiaries are satisfied.

Our charter places limits on the amount of common stock that any person may own.

In order for us to maintain our qualification as a REIT under the Code, no more than 50% of the outstanding shares of our common stock may be beneficially owned, directly or indirectly, by five or fewer individuals at any time during the last half of each taxable year (other than the first taxable year for which an election to be a REIT has been made). Unless exempted by our board of directors, prospectively or retroactively, our charter prohibits any person or group from owning more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock. These provisions may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction such as a merger, tender offer or sale of all or substantially all of our assets that might involve a premium price for holders of our common stock.

If anyone transfers shares in a way that would violate the ownership limit, or prevent us from maintaining our qualification as a REIT under the U.S. federal income tax laws, those shares instead will be transferred to a trust for the benefit of a charitable beneficiary and will be either purchased by us or sold to a person whose ownership of the shares will not violate the ownership limit. If this transfer to a trust fails to prevent such a violation or our continued qualification as a REIT, then the initial intended transfer shall be null and void from the outset. The intended transferee of those shares will be deemed never to have owned the shares. Anyone who acquires shares in violation of the ownership limit or the other restrictions on transfer in our charter bears the risk of suffering a financial loss when the shares are sold if the value of our shares falls between the date of purchase and the date of redemption or sale.

Our charter permits our board of directors to authorize the issuance of preferred stock on terms that may subordinate the rights of the holders of our current common stock or discourage a third party from acquiring us.

Our board may classify or reclassify any unissued shares of common or preferred stock into other classes or series of stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms or conditions of redemption of the stock and may amend our charter from time to time to increase or decrease the aggregate number of shares or the number of shares of any class or series that we have authority to issue without stockholder approval. Thus, our board of directors could authorize us to issue shares of preferred stock with terms and conditions that could subordinate the rights of the holders of our common stock or shares of preferred stock or common stock that could have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction such as a merger, tender offer or sale of all or substantially all of our assets, that might provide a premium price for holders of our common stock.

Our conflict of interest policy may not be successful in eliminating the influence of future conflicts of interest that may arise between us and our directors, officers and employees.

We have adopted a policy that any transaction, agreement or relationship in which any of our directors, officers or employees has a material direct or indirect pecuniary interest must be approved by a majority of our disinterested directors. Other than this policy, however, we may not adopt additional formal procedures for the review and approval of conflict of interest transactions generally. As such, our policies and procedures may not be successful in eliminating the influence of conflicts of interest.

Our board of directors may change our investment strategy without stockholder approval, which could alter the nature of your investment.

Our investment strategy may change over time. The methods of implementing our investment strategy may also vary, as new investment techniques are developed. Our investment strategy, the methods for implementing them, and our other objectives, policies and procedures may be altered by a majority of the directors without the approval of our stockholders. As a result, the nature of your investment could change without your consent. A change in our investment strategy may, among other things, increase our exposure to interest rate risk, default risk and commercial real property market fluctuations, all of which could materially and adversely affect our ability to achieve our investment objectives.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

Cybersecurity Risk Management and Strategy

We have developed and implemented a cybersecurity risk management program intended to protect the confidentiality, integrity, and availability of our critical systems and information. We designed our program based on the National Institute of Standards and Technology Cybersecurity Framework (NIST CSF). This does not imply that we meet any particular technical standards, specifications, or requirements, only that we used the NIST CSF as a guide to help us create our cybersecurity policy.

Our cybersecurity risk management program forms a part of our overall enterprise risk management program, and shares reporting channels and governance processes that apply across the enterprise risk management program to other legal, compliance, strategic, operational, and financial risk areas. There can be no assurance that our cybersecurity risk management program and processes, including our policies, controls or procedures, will be fully implemented, complied with or effective in protecting our systems and information.

Our cybersecurity risk management program is dependent on the use of external service providers to assist with our information technology security controls. Our cybersecurity policy includes a cybersecurity incident response plan that includes procedures for responding to cybersecurity incidents and a third-party risk management process for relevant third-party service providers.

We have not identified risks from cybersecurity threats, including as a result of any prior cybersecurity incidents, that have materially affected us, including our operations, business strategy, results of operations, or financial condition. However, we face risks from cybersecurity threats that, if realized, are reasonably likely to materially affect us, including our operations, business strategy, results of operations, or financial condition. See “Risk Factors - We are increasingly dependent on information technology, and potential cyber-attacks, security problems, or other disruptions present risks and could disrupt our operations, result in the loss of confidential information or damage our business relationships and reputation.”

Cybersecurity Governance

Our Board considers cybersecurity risk as part of its risk oversight function and our Audit Committee is responsible for the oversight of cybersecurity and other information technology risks. The Audit Committee also oversees management’s implementation of our cybersecurity policy. Management will update the Audit Committee, as necessary, regarding any material cybersecurity incidents.

Our management team, including our Chief Executive Officer, Chief Operating Officer and Chief Accounting Officer, is responsible for assessing and managing our material risks from cybersecurity threats. The team has primary responsibility for our overall cybersecurity risk management program and retaining external information technology providers. The members of our management team do not have specialized cybersecurity backgrounds but have general experience managing financial, insurance, legal and operational risks. Our management team utilizes a third-party outsourced information technology service provider to monitor security events and actively respond to potential security incidents. If a security incident is identified, management in conjunction with the outsourced information technology service provider will take the appropriate actions to mitigate and remediate the security incident in a timely manner. Either during the incident, or post remediation, management will determine the materiality of the incident and if deemed material, will inform the Audit Committee and disclose the incident pursuant to SEC rules and regulations.

Item 2. Properties

As of December 31, 2023, the Company owned 20 investment properties and one parcel of unimproved land.

General

The following is a list of the investment properties in the Highlands portfolio as of December 31, 2023.

Investment Property Name	Location	Segment	Classification	Total Gross Leasable Area (GLA) (in square feet)	Percentage of Economic Occupancy [1]	Annualized Base Rent [2] (in thousands)	Annualized Base Rent per Leased Square Foot [3]	Significant Tenants [4]
1620 Central	Evanston, IL	Multi-Family	Multi-Family	51,808	92.8 %	$ 1,570	$ 32.64	N/A
Buerger Brothers Lofts	Denver, CO	Multi-Family	Multi-Family	39,961	69.4 %	544	19.62	N/A
Chamber Lofts	Denver, CO	Multi-Family	Multi-Family	39,259	93.9 %	874	23.71	N/A
Kenilworth Court	Denver, CO	Multi-Family	Multi-Family	16,611	96.8 %	461	28.65	N/A
Tennyson44	Denver, CO	Multi-Family	Multi-Family	35,280	98.3 %	1,060	30.57	N/A
The Detroit and Detroit Terraces	Denver, CO	Multi-Family	Multi-Family	41,594	95.7 %	1,280	32.16	N/A
The Lafayette	Denver, CO	Multi-Family	Multi-Family	25,575	98.0 %	663	26.44	N/A
The Locale	Allendale, MI	Multi-Family	Multi-Family	240,824	99.2 %	4,352	18.22	N/A
The Muse	Denver, CO	Multi-Family	Multi-Family	103,628	98.6 %	3,064	29.98	N/A
The Q Lofts	San Diego, CA	Multi-Family	Multi-Family	44,160	94.7 %	2,165	51.76	N/A
The Sterling	San Diego, CA	Multi-Family	Multi-Family	11,514	97.3 %	551	49.18	N/A
The View at Point Loma	San Diego, CA	Multi-Family	Multi-Family	37,745	93.5 %	1,195	33.88	N/A
Buckhorn Plaza	Bloomsburg, PA	Other	Retail	86,835	100.0 %	1,277	14.70	Marshalls; Dollar Tree
Hudson Correctional Facility	Hudson, CO	Other	Correctional Facility	301,029	— %	—	—	N/A
Market at Hilliard	Hilliard, OH	Other	Retail	115,283	100.0 %	1,809	15.69	Aldi; Michaels; Office Max; Old Navy
Palazzo Land	Orlando, FL	Other	Unimproved Land	—	— %	—	—	N/A
Sherman Plaza	Evanston, IL	Other	Retail	151,752	55.6 %	2,331	27.63	Northwestern Medical; Target
Trimble	San Jose, CA	Other	Office/R&D	176,905	100.0 %	2,045	11.56	Veeco Instruments, Inc., XP Power, LLC
Versacold USA - St. Paul [6]	St. Paul, MN	Other	Industrial	219,664	100.0 %	1,250	5.69	Versacold USA, Inc.
Versacold USA - New Ulm [6]	New Ulm, MN	Other	Industrial	269,985	100.0 %	922	3.41	Versacold USA, Inc.
Total				2,009,412	80.2 %	$ 27,413	$ 17.02	

(1) Economic occupancy is defined as the percentage of total gross leasable area for which a tenant is obligated to pay rent under the terms of its lease agreement, regardless of the actual use or occupation by that tenant of the area being leased.

(2) Annualized base rent per leased square foot is computed as revenue for the last month of the period multiplied by twelve months. Annualized rent includes the effect of rent abatements, lease inducements, and straight-line rent GAAP adjustments.

(3) Annualized base rent per leased square foot is computed as annualized base rent divided by the total occupied square footage at the end of the period.

(4) Several of our investment properties have one or more tenants occupying more than 10% of the investment property's gross leasable area.

(5) A portion of the land underlying this investment property is subject to a ground lease. The term of the lease expires in October 2042.

(6) Investment property was sold subsequent to year-end. See Note 15 to the accompanying consolidated financial statements for more details.

Significant Assets

The following table sets forth our total gross leasable area ("GLA") in square feet, percentage of economic occupancy and average annual base rent per leased square foot for our portfolio as of December 31 for the last three years:

As of	Total GLA (Sq. Ft.)	Percentage of Economic Occupancy	Average Annual Base Rent per Leased Square Foot
December 31, 2023	2,009,412	80.2%	$ 17.02
December 31, 2022	1,965,252	75.3%	$ 15.18
December 31, 2021	2,158,909	72.5%	$ 15.98

For the year ended December 31, 2023, The Muse, The Locale, Sherman Plaza and Trimble each accounted for 10% or more of our total revenues and The Muse and Trimble each accounted for 10% or more of our total assets. For the year ended December 31, 2022, The Muse, The Locale, Sherman Plaza and Trimble each accounted for 10% or more of our total revenues and The Muse and Sherman Plaza each accounted for 10% or more of our total assets.

The following table sets forth the GLA in square feet, percentage of economic occupancy and average annual base rent per leased square foot for The Muse, The Locale, Sherman Plaza and Trimble as of December 31 for the last three years:

As of	Total GLA (Sq. Ft.)	Percentage of Economic Occupancy	Average Annual Base Rent per Leased Square Foot
The Muse			
December 31, 2023	103,628	98.6%	$ 29.98
December 31, 2022	103,628	92.7%	$ 29.74
December 31, 2021	103,628	94.7%	$ 28.52
The Locale			
December 31, 2023	240,824	99.2%	$ 18.22
December 31, 2022	240,824	98.8%	$ 17.10
December 31, 2021	240,824	97.5%	$ 16.83
Sherman Plaza			
December 31, 2023	151,752	55.6%	$ 27.63
December 31, 2022	151,752	55.1%	$ 27.33
December 31, 2021	151,752	89.1%	$ 31.86
Trimble			
December 31, 2023	176,905	100.0%	$ 11.56
December 31, 2022	176,905	54.7%	$ —
December 31, 2021	176,905	—%	$ —

For Sherman Plaza, significant tenants, based on occupying 10% or more of our gross leasable area, were Northwestern Medical and Target, at December 31, 2023. The significant decrease in economic occupancy and average base rent per square foot during the year ended December 31, 2022 is the result of the lease with Fitness International expiring in April 2022 and the tenant vacating the premise.

For Trimble, the Company executed a lease with XP Power, LLC in November 2022, effective as of July 1, 2023. Pursuant to the lease, the tenant was entitled to six months of base rent abatement, therefore, the base rent per square foot for 2023 was zero for this tenant. Additionally, the Company executed a lease with Veeco Instruments, Inc. in February 2021, effective as of January 1, 2022. Pursuant to the lease, the tenant was entitled to 12 months of base rent abatement, therefore, the base rent per square foot for 2022 was zero. The base rent per square foot for 2023 is $21.13, excluding XP Power, but appears lower in the table above due to the XP Power rent being at zero.

Lease Expirations

The following table sets forth lease expirations for all of our investment properties, excluding multi-family residential leases, as of December 31, 2023, assuming none of the tenants exercise renewal options:

Lease Expiration Year	Number of Expiring Leases	GLA of Expiring Leases (Sq. Ft.)	Annualized Rent of Expiring Leases (in thousands)	Percent of Total Leased Area	Percent of Total Annualized Rent	Expiring Rent/Square Foot
2024	6	38,250	$ 648	3.9 %	6.2 %	$ 16.94
2025	17	102,622	1,447	10.6 %	13.8 %	14.10
2026	4	11,041	344	1.1 %	3.3 %	31.13
2027	5	502,032	2,487	51.8 %	23.6 %	4.95
2028	8	31,402	650	3.2 %	6.2 %	20.70
2029	8	61,300	1,324	6.3 %	12.6 %	21.60
2030	2	4,493	147	0.5 %	1.4 %	32.63
2031	—	—	—	— %	— %	—
2032	2	8,800	179	0.9 %	1.7 %	20.29
2033	1	815	26	0.1 %	0.2 %	32.00
Month to Month	1	2,875	42	0.3 %	0.4 %	14.61
Thereafter	3	206,238	3,227	21.3 %	30.6 %	15.65
	57	969,868	$ 10,521	100.0 %	100.0 %	$ 10.85

Mortgage Financing

The table below sets forth all mortgages or other liens or encumbrances against any of our investment properties as of December 31, 2023. As of such date, the Company guaranteed one mortgage loan up to $4 million and the remaining mortgage debt was non-recourse to the Company, although we have provided certain customary, non-recourse carve-out guarantees in connection with obtaining mortgage loans on certain of our investment properties.

Investment Property	Current Principal amount (in thousands)	Interest and Amortization Provisions	Interest Rate	Prepayment Provisions	Maturity Date
Trimble	$ 20,000	Variable Interest, Swapped to Fixed	5.86%	Prepayable at par; borrower would pay swap breakage cost	4/6/2025
Buckhorn Plaza	9,357	Fixed Interest-Only for first 12 months	4.35%	If prior to 8/6/2026 must be in full, with penalty	11/6/2026
Market at Hilliard	14,385	Fixed Interest-Only for first 12 months	4.70%	If prior to 9/6/2026 must be in full, with penalty	12/6/2026
The Detroit and Detroit Terraces	11,203	Interest-Only until 10/1/2022	3.99%	If prior to 9/1/2027 must be in full, with penalty	9/1/2027
Tennyson	10,250	Interest-Only	4.84%	If prior to 7/31/2029 must be in full, with penalty	2/1/2030
The Locale	17,700	Interest-Only	6.49%	If prior to 11/30/27 must in in full, with penalty	12/1/2030
Kenilworth Court	3,784	Interest-Only	4.74%	If prior to 4/1/2032, must be in full, with penalty	7/1/2032
The Lafayette	5,481	Interest-Only	4.74%	If prior to 4/1/2032, must be in full, with penalty	7/1/2032
The Muse	19,496	Interest-Only until 12/1/2028; Variable Rate with Cap	7.39%	No prepayment prior to 10/31/24, thereafter without penalty	11/1/2033
The Q Lofts	11,184	Principal and Interest	4.61%	Open to prepayment starting 10/2/2035, with 60-day notice	1/1/2036
The Q Lofts	1,977	Principal and Interest	4.50%	Open to prepayment starting 10/3/2035, with 60-day notice	1/1/2036
Debt, gross	$ 124,817				

Item 3. Legal Proceedings

We are subject, from time to time, to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of these matters cannot be predicted with certainty, management believes, based on currently available information, that the final outcome of such matters will not have a material adverse effect on the financial statements of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

Part II.

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our shares of common stock are not listed on a national securities exchange and there is not otherwise an established public trading market for our shares. We publish an estimated per share value of our common stock to assist broker dealers to comply with the rules published by the Financial Industry Regulatory Authority (“FINRA”). On December 19, 2023, we announced an estimated value of our common stock as of December 15, 2023 equal to $0.32 per share on a fully diluted basis.

Our board of directors (the "Board") engaged Real Globe Advisors, LLC ("Real Globe"), an independent third-party real estate advisory firm, to estimate the per share value of our common stock on a fully diluted basis as of December 15, 2023. Real Globe has extensive experience estimating the fair values of commercial real estate. The report furnished to the Board and the audit committee of the Board (the "Audit Committee") by Real Globe complies with the reporting requirements set forth under Standard Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice and is certified by a member of the Appraisal Institute with the MAI designation. The Real Globe report, dated as of December 15, 2023, reflects values as of December 15, 2023. Real Globe does not have any material direct or indirect interests in any transaction with us or in any currently proposed transaction to which we are a party, and there are no conflicts of interest between Real Globe, on one hand, and the Company or any of our directors, on the other.

To estimate our per share value, Real Globe utilized the "net asset value" or "NAV" method which is based on the fair value of real estate, and all other assets, less the fair value of total liabilities, and also included certain estimated corporate-level transaction costs that the Company would expect to incur in connection with a future potential liquidity event, further described below. The fair value estimate of our real estate assets is equal to the sum of its individual real estate values.

Generally, Real Globe estimated the value of the Company's wholly owned real estate and real estate-related assets, using a discounted cash flow, or "DCF", of projected net operating income, less capital expenditures, for the ten-year period ending December 31, 2033, and applying a market-supported discount rate and capitalization rate. In the unique instances that a discounted cash flow methodology was not deemed to be the most appropriate valuation methodology, including, but not limited to, the valuation of the land and the Company's correctional facility, a sales comparison approach was primarily utilized. For all other assets, comprised of working capital (which includes cash and other current assets net of current liabilities), fair value was determined separately. Real Globe also estimated the fair value of the Company's long-term debt obligations by comparing market interest rates to the contract rates on the Company's long-term debt and discounting to present value the difference in future payments.

The estimate of certain corporate-level transaction costs was provided to Real Globe by the Company. Given that the Company's strategy involves a potential future liquidity option for current stockholders in addition to the tender offer described below, management and the Board determined that the deduction of certain estimated corporate-level transaction costs in connection therewith was appropriate in determining its new estimated per share value. However, there are no assurances that such costs will be incurred at the level estimated by the Company or at all. Given the nature and quality of the "non-core" investment properties in our portfolio as well as current market conditions as described further below, the Company cannot predict the timing or form of any future potential liquidity event. As described above, on October 24, 2023, we launched a modified "Dutch Auction" self-tender offer in an effort to provide a liquidity option for certain of our stockholders who elected to tender their stock while at the same time balancing the best interests of the Company and of those stockholders who wished to remain invested in the Company. We will evaluate the results of this tender offer when considering the manner and timing of potential future liquidity options. Additionally, our ability to execute on future liquidity events and the timing of any such event will be influenced by external and macroeconomic factors and market conditions, including, among others, interest rate movements, inflation, local, regional, national and global economic performance and real estate markets, government policy changes and competitive factors and we may be unable to execute such a transaction on terms we find attractive for our stockholders. As a result, the actual fees and expenses incurred by the Company in connection with the execution of its strategy could differ materially from the amount provided to Real Globe.

Real Globe determined NAV in a manner consistent with the definition of fair value under U.S. generally accepted accounting principles ("GAAP") set forth in FASB's Topic ASC 820. Other than the deduction of certain estimated corporate-level transaction costs that the Company would expect to incur in connection with a future potential liquidity event, the net asset valuation performed by Real Globe complies with the Investment Program Association Practice Guideline 2013-01 "Valuation of Publicly Registered Non-Listed REITS", dated April 29, 2013.

Generally, net asset value per share was estimated by subtracting the fair value of our total liabilities from the fair value of our total assets and dividing the result by the number of common shares outstanding on a fully diluted basis as of December 15, 2023. Real Globe then applied a discount rate and terminal capitalization rate sensitivity analysis by adding and subtracting 50 basis points to the terminal capitalization rate and discount rate for investment properties where the concluded value was solely derived based on the discounted cash flow methodology, resulting in a value range equal to $0.32 - $0.40 per share on a fully diluted basis after deducting the $0.05 of certain estimated corporate level transaction costs that were provided to Real Globe by the Company. The mid-point in the final range was $0.36 per share. For reporting purposes, all per share numbers are rounded to the nearest cent.

On December 19, 2023, the Audit Committee met to review and discuss Real Globe's report. Following this review, and considering management's support of Real Globe's analysis, the Audit Committee unanimously adopted a resolution accepting

the Real Globe analysis. The Audit Committee also unanimously adopted a resolution recommending an estimate of per share value as of December 15, 2023 equal to $0.32 per share on a fully diluted basis. At a full meeting of our Board held on December 19, 2023, the Board unanimously adopted this recommendation of estimated per share value, which falls within the range of per share net asset values for the Company's common stock that Real Globe provided in its report. In establishing the estimated per share value below the midpoint of the range, the Audit Committee and Board considered many factors, including inflation, interest rate movements, tightening capital markets, difficulties the Company has encountered in liquidating particular investment properties, unfavorable market conditions and trends affecting the Company's retail investment properties, the effects of any future pandemics, significant leasing risk associated with certain investment properties in the portfolio, and the lack of sufficient comparable sales for certain of the Company's investment properties.

The terminal capitalization rate and discount rate have a significant impact on the estimated value under the net asset value method. The following chart presents the impact of changes to our share price based on variations in the terminal capitalization and discount rates within the range of values determined by Real Globe:

	Range of Value and Rates		
	Not Including Certain Estimated Corporate-Level Transaction Costs		
	Low	Midpoint	High
Share Price	$ 0.37	$ 0.41	$ 0.45
Terminal Capitalization Rate	7.17 %	6.67 %	6.17 %
Discount Rate	8.01 %	7.51 %	7.01 %

In order to estimate the final range of value, Real Globe deducted the $0.05 of certain estimated corporate-level transaction costs that were provided by the Company from the range of value above. The following chart presents the resulting final range of values, net of certain estimated corporate-level transaction costs that the Company would expect to incur in connection with a future potential liquidity event.

	Final Range of Value
	Share Price
Low	$ 0.32
Midpoint	$ 0.36
High	$ 0.40

As with any methodology used to estimate value, the methodology employed by Real Globe and the recommendations made by the Company were based upon a number of estimates and assumptions that may not be accurate or complete. Further, different parties using different assumptions and estimates could derive a different estimated value per share, which could be significantly different from our estimated value per share. The estimated per share value does not represent (i) the amount at which our shares would trade at a national securities exchange, (ii) the amount a stockholder would obtain if he or she tried to sell his or her shares (iii) the amount per share that stockholders would receive in a sale of the entire Company in a single transaction or (iv) the amount stockholders would receive if we liquidated our assets and distributed the proceeds after paying all of our expenses and liabilities. Accordingly, with respect to the estimated value per share, we can give no assurance that:

- a stockholder would be able to resell his or her shares at this estimated value;
- a stockholder would ultimately realize distributions per share equal to our estimated value per share upon liquidation of our assets and settlement of our liabilities or a sale of the Company;
- our shares would trade at a price equal to or greater than the estimated value per share if we listed them on a national securities exchange;
- the certain estimated corporate-level transaction costs that the Company would expect to incur in connection with a future potential liquidity event reflected in our estimated value will be incurred at the level estimated by the Company; or
- the methodology used to estimate our value per share would be acceptable to FINRA or that the estimated value per share will satisfy the applicable annual valuation requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the Internal Revenue Code of 1986, as amended (the "Code"), with respect to employee benefit plans subject to ERISA and other retirement plans or accounts subject to Section 4975 of the Code.

The estimated value per share was accepted by our Board on December 19, 2023, with an effective date of December 15, 2023 and reflects the fact that the estimate was calculated at a moment in time. The value of our shares will likely change over time and will be influenced by changes to the value of our individual assets as well as changes and developments in the real estate

and capital markets. We currently anticipate publishing a new estimated share value within approximately one year. Nevertheless, stockholders should not rely on the estimated value per share in making a decision to buy or sell shares of our common stock.

Stockholders

As of March 13, 2024, we had 143,354 stockholders of record.

Distributions

During the years ended December 31, 2023 and 2022, Highlands did not make any cash distributions.

We generally intend over time to make annual distributions in an amount at least equal to the amount that will allow us to qualify as a REIT and to avoid current entity-level U.S. federal income taxes. To qualify as a REIT, we must distribute to our stockholders an amount at least equal to:

i. 90% of our REIT taxable income, determined before the deduction for dividends paid and excluding any net capital gain (which does not necessarily equal net income as calculated in accordance with GAAP); plus
ii. 90% of the excess of our net income from foreclosure property over the tax imposed on such income by the Code; less
iii. any excess non-cash income (as determined under the Code).

Distributions made by us will be authorized and determined by our board of directors, in its sole discretion, out of legally available funds, and will be dependent upon a number of factors, including our actual and projected results of operations, financial condition, cash flows and liquidity, our qualification as a REIT and other tax considerations, capital expenditures and other obligations, debt covenants, contractual prohibitions or other limitations under applicable law and other such matters as our board of directors may deem relevant from time to time. We cannot assure you that our distribution policy will remain the same in the future, or that any estimated distributions will be made or sustained.

Our ability to make distributions to our stockholders will depend upon the performance of our portfolio and our ability to successfully execute on our disposition strategy. Distributions will be made in cash to the extent cash is available for distribution. We may not be able to generate sufficient cash flows to pay distributions to our stockholders. To the extent that our cash available for distribution is less than the amount required to be distributed under the REIT provisions of the Code, we may consider funding sources other than cash flow from operations or funds from operations, which may reduce the amount of capital available for operations, may have negative tax implications, and may have a negative effect on the value of your shares under certain conditions. In addition, our board of directors could change our distribution policy in the future. See “Risk Factors - Risks Related to Our Status as a REIT.”

Issuer Purchases of Equity Securities

Common share repurchases during the year ended December 31, 2023 were as follows:

Date	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
December 8, 2023	169,391	$ 0.14	—	—
December 15, 2023	1,960	$ 0.32		
Total	171,351	$ 0.14	—	—

In an effort to provide a liquidity option for certain of our stockholders who elected to tender their stock while at the same time balancing the best interests of the Company and of those stockholders who wished to remain invested in the Company, on October 24, 2023, we launched a modified “Dutch Auction” self-tender offer. Our Board approved the repurchase of up to $25 million of common stock. On December 8, 2023, the tender offer closed with the repurchase of 169.4 million shares of common stock at a price per share of $0.14. Total cash required to complete the tender offer was $25.2 million, including all costs and fees of the tender.

On December 15, 2023, we withheld 1,960 shares from employees to satisfy estimated statutory income tax obligations related to the annual employee stock grant. The value of the common shares withheld was based on the estimated share value as determined effective December 15, 2023.

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

References to "Highlands," "the Company," "we" or "us" are to Highlands REIT, Inc., as well as all of Highlands' wholly-owned and consolidated subsidiaries.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Part I-Item 1A. Risk Factors," "Part I-Item 1. Business," "Part I-Item 2. Investment Properties" and the historical consolidated financial statements, and accompanying notes, which appear elsewhere in this Annual Report. The following discussion and analysis contains forward-looking statements based upon our current expectations, estimates and assumptions that involve risks and uncertainties. Our actual results could differ materially from those discussed in these forward-looking statements due to a variety of risks, uncertainties and other factors, including but not limited to, factors discussed in "Part I-Item 1A. Risk Factors" and "Disclosure Regarding Forward-Looking Statements."

Overview

We are a self-advised and self-administered real estate investment trust ("REIT") created to own and manage substantially all of the "non-core" investment properties previously owned and managed by our former parent, InvenTrust Properties Corp., a Maryland corporation ("InvenTrust"). On April 28, 2016, we were spun-off from InvenTrust through a pro rata distribution (the "Distribution") by InvenTrust of 100% of the outstanding shares of our common stock to holders of InvenTrust's common stock. Prior to or concurrent with the separation, we and InvenTrust engaged in certain reorganization transactions that were designed to consolidate substantially all of InvenTrust's remaining "non-core" investment properties in Highlands.

This inherited portfolio of "non-core" investment properties, which were acquired by InvenTrust between 2005 and 2008, included investment properties that are special use, single tenant or build to suit; face unresolved legal issues; are in undesirable locations or in weak markets or submarkets; are aging or functionally obsolete; and/or have sub-optimal leasing metrics. Certain of our investment properties are retail properties located in tertiary markets, which are particularly susceptible to the negative trends affecting retail real estate. As a result of these characteristics, such investment properties are difficult to lease, finance and refinance and are relatively illiquid compared to other types of real estate properties. These factors also significantly limit our investment property disposition options, impact the timing of such dispositions and restrict the viable options available to the Company for future potential liquidity options.

Our strategy is focused on preserving, protecting and maximizing the total value of our portfolio with the long-term objective of providing stockholders with a return of their investment. We engage in rigorous asset management, seek to sustain and enhance our portfolio, and improve the quality and income-producing ability of our portfolio by engaging in selective dispositions, acquisitions, capital expenditures, financing, refinancing and enhanced leasing. We are also focused on cost containment efforts across our portfolio, improving our overall capital structure and making select investments in our existing "non-core" investment properties to maximize their value. To the extent we are able to generate cash flows from operations or dispositions of investment properties, in addition to the cash uses outlined above, our board of directors has determined that it is in the best interest of the Company to seek to reinvest in investment properties that are more likely to generate more reliable and stable cash flows, such as multi-family investment properties, as part of the Company's overall strategy to optimize the value of the portfolio, enhance our options for future potential liquidity options and maximize shareholder value. Given the nature and quality of the "non-core" investment properties in our portfolio as well as current market conditions, a definitive timeline for execution of our strategy cannot be made.

With this strategy in mind, on October 24, 2023, we launched a modified "Dutch Auction" self-tender offer in an effort to provide a liquidity option for certain of our stockholders who elected to tender their stock while at the same time balancing the best interests of the Company and of those stockholders who wished to remain invested in the Company. We believe that the tender offer provided an efficient mechanism to provide our stockholders who desired immediate liquidity with the opportunity to tender shares, while also providing a benefit to those stockholders who did not participate, as such stockholders automatically increased their relative percentage ownership interest in the Company and our future operations, including any liquidity events that we may have in the future. On December 8, 2023, the tender offer closed with the repurchase of 169,391 shares of common stock at a price per share of $0.14. Total cash required to complete the tender offer was $25.2 million, including all costs and fees of the tender offer. We will evaluate the results of this tender offer when considering the manner and timing of potential future liquidity options. Our ability to execute on future liquidity events will be influenced by external and macroeconomic factors, including, among others, interest rate movements, inflation, local, regional, national and global economic performance and real estate markets, government policy changes and competitive factors and we may be unable to execute such a transaction on terms we find attractive for our stockholders.

As of December 31, 2023, our portfolio of investment properties consisted of thirteen multi-family, three retail, one office, two industrial properties, one correctional facility and one parcel of unimproved land. We currently have two business segments, consisting of multi-family and other. We may have additional or fewer segments in the future to the extent we enter into additional real property sectors, dispose of investment properties, or change the character of our investment properties. For the complete presentation of our reportable segments, see Note 11 to our consolidated financial statements for the years ended December 31, 2023 and 2022.

Basis of Presentation

The accompanying consolidated financial statements reflect the accounts of Highlands and its consolidated subsidiaries (collectively, the "Company"). Highlands consolidates its wholly-owned subsidiaries and any other entities which it controls (i) through voting rights or similar rights or (ii) by means other than voting rights if Highlands is the primary beneficiary of a variable interest entity ("VIE"). The portions of the equity and net income of consolidated subsidiaries that are not attributable to the Company are presented separately as amounts attributable to non-controlling interests in our consolidated financial statements. Entities which Highlands does not control and entities which are VIEs in which Highlands is not a primary beneficiary, if any, are accounted for under appropriate GAAP. Highlands' subsidiaries generally consist of limited liability companies. The effects of all significant intercompany transactions have been eliminated.

Our Revenues and Expenses

Revenues

Our revenues are primarily derived from rental income and expense recoveries we receive from our tenants under leases with us, including monthly rent and other property income pursuant to tenant leases. Tenant recovery income primarily consists of reimbursements for real estate taxes, common area maintenance costs, management fees and insurance costs.

Expenses

Our expenses consist of property operating expenses, real estate taxes, depreciation and amortization expense, general and administrative expenses, interest expense and provision for asset impairment. Property operating expenses primarily consist of repair and maintenance, management fees, utilities and insurance (in each case, some of which are recoverable from the tenant).

Key Indicators of Operating Performance

In evaluating our financial condition and operating performance, management focuses on the following financial and non-financial indicators, discussed in further detail herein:

- Cash flow from operations as determined in accordance with GAAP;
- Economic and physical occupancy and rental rates;
- Leasing activity and lease rollover;
- Management of operating expenses;
- Management of general and administrative expenses;
- Debt maturities and leverage ratios;
- Liquidity levels;
- Funds From Operations ("FFO"), a supplemental non-GAAP measure; and
- Adjusted Funds From Operations ("AFFO"), a supplemental non-GAAP measure.

Acquisition and Disposition Activity

During the year ended December 31, 2023, we continued to invest in multi-family investment properties with the following acquisition:

Investment Property	Location	Acquisition Date	Acquisition Price
The Q Lofts	San Diego, CA	September 20, 2023	$ 34,497

There were no investment property acquisitions during the year ended December 31, 2022.

During the year ended December 31, 2023, there were no investment property dispositions.

During the year ended December 31, 2022, we continued to execute on our strategy of disposing of legacy "non-core" investment properties by selling the following:

			(in thousands)		
Investment Property	**Location**	**Disposition Date**	**Gross Disposition Price**	**Sale Proceeds, Net**	**Loss on Sale**
State Street Market	Rockford, IL	March 10, 2022	$ 9,000	$ 8,938	$ (6)

Results of Operations

Comparison of the years ended December 31, 2023 and 2022

Key performance indicators are as follows:

	As of December 31,	
	2023	**2022**
Economic occupancy (1)	80.2 %	75.3 %
Rent per square foot (2)	$ 17.02	$ 15.18

(1) Economic occupancy is defined as the percentage of total gross leasable area for which a tenant is obligated to pay rent under the terms of its lease agreement, regardless of the actual use or occupation by the tenant of the area being leased. Actual use may be less than economic square footage.

(2) Rent per square foot is computed as annualized base rent divided by the total occupied square footage at the end of the period. Annualized rent is computed as revenue for the last month of the period multiplied by twelve months. Annualized rent includes the effect of rent abatements, lease inducements and straight-line rent GAAP adjustments.

Consolidated Results of Operations

The following section describes and compares our consolidated results of operations for the years ended December 31, 2023 and 2022.

	(in thousands) For the Year ended December 31,			
	2023	**2022**	**Increase/(Decrease)**	
Net loss	$ (10,298)	$ (7,650)	$ (2,648)	(34.6)%

Net loss during the year ended December 31, 2023 was $10.3 million compared to $7.7 million during the year ended December 31, 2022. Factors contributing to the change in net loss include increased compensation, depreciation and amortization and interest expenses and decreased revenues, partially offset by increased interest income.

Details of these changes are provided below.

The following table presents the changes in our revenues for the years ended December 31, 2023 and 2022.

	(in thousands) For the Year ended December 31,			
	2023	**2022**	**Increase/(Decrease)**	
Revenues:				
Rental income	$ 30,046	$ 30,436	$ (390)	(1.3)%
Other property income	935	920	15	1.6 %
Total revenues	$ 30,981	$ 31,356	$ (375)	(1.2)%

Total revenues decreased $0.4 million during the year ended December 31, 2023 compared to the same period in 2022 due primarily to the sale of State Street Market in March 2022, the expiration of the Fitness International lease at Sherman Plaza in April 2022 and to lower recovery revenue due to lower expenses at certain investment properties. Partially offsetting this decrease was the acquisition of The Q Lofts in September 2023 and increased occupancy and rental rates at our multi-family investment properties.

The following table presents the changes in our expenses for the years ended December 31, 2023 and 2022.

	(in thousands) For the Year ended December 31,			
	2023	2022	Increase/(Decrease)	
Expenses:				
Property operating expenses	$ 8,910	$ 8,794	$ 116	1.3 %
Real estate taxes	5,353	5,597	(244)	(4.4)%
Depreciation and amortization	10,758	10,413	345	3.3 %
General and administrative expenses	12,513	11,656	857	7.4 %
Total expenses	$ 37,534	$ 36,460	$ 1,074	2.9 %

Property operating expenses increased $0.1 million in the year ended December 31, 2023 compared to the same period in 2022 primarily as a result of the acquisition of The Q in September 2023. Property operating expenses otherwise remained relatively consistent.

Real estate taxes decreased $0.2 million for the year ended December 31, 2023 compared to the same period in 2022 due to a decrease in the assessed valuation of Sherman Plaza. Partially offsetting this decrease in real estate taxes was adjustments that decreased the real estate tax estimate as a result of the sale of State Street Market in March 2022, increased valuation of Trimble and the acquisition of The Q Lofts in September 2023.

Depreciation and amortization increased $0.3 million for the year ended December 31, 2023 compared to the same period in 2022 primarily as a result of the acquisition of The Q Lofts in September 2023.

General and administrative expenses increased $0.9 million for the year ended December 31, 2023, primarily due to an increase in total compensation due to annual increases.

The following table presents the changes in our other income and expenses for the years ended December 31, 2023 and 2022.

	(in thousands) For the Year ended December 31,			
	2023	2022	Increase/(Decrease)	
Other income and (expenses):				
Interest income	$ 1,347	$ 140	$ 1,207	862.1 %
Interest expense	(5,092)	(2,680)	2,412	90.0 %
Loss on sale of investment properties	—	(6)	6	(100.0)%

Interest income increased $1.2 million during the year ended December 31, 2023 compared to the same period in 2022 due to higher cash balances maintained and increased interest rates.

Interest expense increased $2.4 million to $5.1 million for the year ended December 31, 2023 compared to the same period in 2022 due to interest on seven new mortgage loans entered into during the periods. Partially offsetting this increase is a decrease in expense resulting from the sale of State Street Market in March 2022.

During the year ended December 31, 2023, there were no investment property dispositions. During the year ended December 31, 2022, the loss on sale of investment properties of $0.01 million was attributed to the sale of State Street Market.

Leasing Activity

Our primary source of funding for our property-level operating activities and debt payments is rent collected pursuant to our tenant leases. The following table represents lease expirations, excluding multi-family residential leases, as of December 31, 2023, assuming none of the tenants exercise renewal options:

Lease Expiration Year	Number of Expiring Leases	Gross Leasable Area (GLA) of Expiring Leases (Sq. Ft.)	Annualized Rent of Expiring Leases (in thousands)	Percent of Total GLA	Percent of Total Annualized Rent	Expiring Rent/Square Foot
2024	6	38,250	$ 648	3.9 %	6.2 %	$ 16.94
2025	17	102,622	1,447	10.6 %	13.8 %	14.10
2026	4	11,041	344	1.1 %	3.3 %	31.13
2027	5	502,032	2,487	51.8 %	23.6 %	4.95
2028	8	31,402	650	3.2 %	6.2 %	20.70
2029	8	61,300	1,324	6.3 %	12.6 %	21.60
2030	2	4,493	147	0.5 %	1.4 %	32.63
2031	—	—	—	— %	— %	—
2032	2	8,800	179	0.9 %	1.7 %	20.29
2033	1	815	26	0.1 %	0.2 %	32.00
Month to Month	1	2,875	42	0.3 %	0.4 %	14.61
Thereafter	3	206,238	3,227	21.3 %	30.6 %	15.65
	57	969,868	$ 10,521	100.0 %	100.0 %	$ 10.85

The following table represents new and renewed leases that commenced (not including multi-family residential leases) in the year ended December 31, 2023 and 2022.

	For the year ended December 31, 2023				For the year ended December 31, 2022			
	# of Leases	Gross Leasable Area	Rent per square foot	Weighted Average Lease Term	# of Leases	Gross Leasable Area	Rent per square foot	Weighted Average Lease Term
New	2	80,940	$ 30.61	15.45	3	105,580	$ 25.09	15.52
Renewals	6	35,980	$ 15.13	3.00	4	12,704	$ 29.12	3.28
Total	8	116,920	$ 25.85	11.62	7	118,284	$ 25.52	14.21

Critical Accounting Estimates

General

The accompanying consolidated financial statements have been prepared in accordance with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates, judgments, and assumptions are required in a number of areas, including, but not limited to, evaluating the collectability of accounts receivable, allocating the purchase price of acquired investment properties, and evaluating the impairment of real estate assets. We base these estimates, judgments and assumptions on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

Acquisition of Real Estate

We evaluate the inputs, processes and outputs of each investment property acquired to determine if the transaction is a business combination or asset acquisition. If an acquisition qualifies as a business combination, the related transaction costs are recorded as an expense in the consolidated statements of operations and comprehensive loss. If an acquisition qualifies as an asset acquisition, the related transaction costs are generally capitalized and amortized over the useful life of the acquired assets. Generally, acquisition of real estate qualifies as an asset acquisition.

We allocate the purchase price of real estate to land, building, other building improvements, tenant improvements, and intangible assets and liabilities (such as the value of above- and below-market leases and in-place leases). The values of above-

and below-market leases are recorded as intangible assets, net, and other liabilities, respectively, in the consolidated balance sheets, and are amortized as either a decrease (in the case of above-market leases) or an increase (in the case of below-market leases) to rental income over the remaining term of the associated tenant lease. The values associated with in-place leases are recorded in intangible assets, net in the consolidated balance sheets and are amortized to depreciation and amortization expense in the consolidated statements of operations and comprehensive loss over the remaining lease term.

The difference between the contractual rental rates and our estimate of market rental rates is measured over a period equal to the remaining non-cancelable term of the leases, including below-market renewal options for which exercise of the renewal option appears to be reasonably assured. The remaining term of leases with renewal options at terms below market reflect the assumed exercise of such below-market renewal options and assume the amortization period would coincide with the extended lease term.

Impairment of Real Estate

The Company assesses the carrying values of the respective long-lived investment properties, whenever events or changes in circumstances indicate that the carrying amounts of these investment properties may not be fully recoverable, such as a reduction in the expected holding period of the investment property. If it is determined that the carrying value is not recoverable because the undiscounted cash flows do not exceed carrying value, the Company records an impairment loss to the extent that the carrying value exceeds fair value. The valuation and possible subsequent impairment of investment properties is a significant estimate that can and does change based on the Company's continuous process of analyzing each investment property and reviewing assumptions about uncertain inherent factors, as well as the economic condition of the investment property at a particular point in time.

The use of projected future cash flows and related holding period is based on assumptions that are consistent with the estimates of future expectations and the strategic plan the Company uses to manage its underlying business. However, assumptions and estimates about future cash flows and capitalization rates are complex and subjective. Changes in economic and operating conditions and the Company's ultimate investment intent that occur subsequent to the impairment analyses could impact these assumptions and result in future impairment charges of the real estate properties.

Liquidity and Capital Resources

As of December 31, 2023, we had $17.1 million of cash and cash equivalents, and $2.4 million of restricted cash and escrows.

Our primary sources and uses of capital are as follows:

Sources

- cash flows from our investment properties;
- proceeds from sales of investment properties; and
- proceeds from debt.

Uses:

- to pay the operating expenses of our investment properties;
- to pay our general and administrative expenses;
- to pay for acquisitions;
- to pay for capital commitments;
- to pay for short-term obligations;
- to service or pay-down our debt; and
- to fund capital expenditures and leasing related costs.

Certain of our investment properties have lease maturities within the next two years that we expect to reduce our cash flows from operations if they are not renewed or replaced. Significant lease maturities include Old Navy at Market at Hilliard expiring in August 2024, Michaels at Market at Hilliard expiring in February 2025, Office Max at Market at Hilliard expiring in March 2025 and Marshalls at Buckhorn Plaza expiring in May 2025.

We may, from time to time, repurchase our outstanding equity and/or debt securities, if any, through cash purchases or via other transactions. Such repurchases or transactions, if any, will depend on our liquidity requirements, contractual restrictions, and other factors. The amounts involved may be material.

Material Cash Requirements

In February 2021, the Company executed a lease with Veeco Instruments, Inc. for approximately 97,000 square feet at Trimble. The lease required a significant tenant allowance, which is being accounted for as lessor-owned improvements, and leasing commission. The total cost commitment was estimated to be approximately $9.1 million. As of December 31, 2023, we estimate that remaining costs to be paid under this commitment are approximately $0.7 million. The tenant began paying cash rent on January 1, 2023. The remainder of the tenant allowance will be paid by the Company upon final request by the tenant.

In November 2022, the Company executed a lease with XP Power, LLC for approximately 80,000 square feet at Trimble. Rental payments under this lease commenced January 1, 2024. The lease required significant landlord work, a tenant allowance, which will be accounted for as lessor-owned improvements, and leasing commission. The total cost commitment is estimated to be approximately $13.2 million. As of December 31, 2023, we estimate remaining costs under this commitment are approximately $3.8 million.

The Company expects to use cash on hand, cash flows from operations and proceeds from financings to fund the above commitments.

Borrowings

Total debt outstanding as of December 31, 2023 and 2022 was $124.8 million and $62.4 million, respectively, with a weighted average interest rate of 5.47% and 4.12% per annum, respectively.

The table below presents, on a consolidated basis, the principal amount, weighted average interest rates and maturity date (by year) on our mortgage debt, as of December 31, 2023 (dollar amounts are stated in thousands).

Fixed and variable rate debt maturing during the year ended December 31,	As of December 31, 2023	Weighted average interest rate
2024	$ —	— %
2025	20,000	5.86 % (1)
2026	23,742	4.56 %
2027	11,203	3.99 %
2028	—	— %
Thereafter	69,872	5.91 % (1)
Total	$ 124,817	5.47 %

(1) See Note 8 in the accompanying consolidated financial statements for discussion of the derivative agreements entered into with the mortgage loans obtained on Trimble and The Muse. For Trimble (2025), the interest rate in the table above is the fixed rate. For The Muse (thereafter), the interest rate is the rate in effect at December 31, 2023.

The Company obtained a loan on November 9, 2023 which was secured by a mortgage encumbering The Muse, one of the Company's multi-family investment properties. The loan has a principal balance of $19.5 million, matures on November 1, 2033 and requires interest-only payments through December 1, 2028 and principal and interest payments thereafter. The interest rate is variable and was 7.39% at December 31, 2023. In conjunction with the loan closing, the Company purchased an interest rate cap contract to cap the interest at 7.44% through its November 1, 2026 expiration at which point the Company is required to purchase a new cap contract.

The Company’s mortgage and the related swap agreement on The Locale had an initial maturity date of September 1, 2023. Prior to the initial maturity date, the Company exercised the one-year extension option provided for in the loan documents and entered into a new swap agreement to fix the interest rate at 7.34% and extend the maturity date to September 1, 2024. On November 8, 2023, the Company placed permanent financing on The Locale and simultaneously repaid the $17.1 million outstanding balance on the extended loan and terminated the swap agreement. The new loan matures on December 1, 2030, has a principal balance of $17.7 million, bears interest at a fixed rate of 6.49% and requires interest-only payments for the duration of its 7-year term.

On September 20, 2023, the Company assumed two mortgage loans in the total principal amount of $11.3 million, net of a debt discount of $2.0 million in connection with the acquisition of The Q Lofts. The carrying value of the assumed debt was marked to fair value as of the acquisition date. According to the terms of the loan agreements, the contractual fixed rates are 4.61% and 4.50%, require payments of principal and interest and the maturity date of both loans is January 1, 2036. The debt discount will be amortized to interest expense over the life of the loans.

The Company obtained a loan on April 6, 2023 which was secured by a mortgage encumbering one of the buildings comprising the Trimble office investment property. The building is approximately 97,000 square feet and is currently occupied by Veeco Instruments, Inc. The loan secured by a mortgage on this Trimble building has a principal amount of $20.0 million, $4.0 million of which is guaranteed by the Company. The loan matures on April 6, 2025, with a 12-month extension option, provided certain criteria are met at the time of extension. Simultaneously with the loan closing, we entered into a swap agreement to fix the interest rate at 5.86% for the term of the loan.

The Company obtained a loan on January 24, 2023 which was secured by a mortgage encumbering Tennyson, one of the Company's multi-family investment properties. The loan has a principal balance of $10.3 million. The loan matures on February 1, 2030, bears interest at a fixed rate of 4.84% and requires interest-only payments for the duration of its 7-year term.

The Company obtained two loans on June 30, 2022 which were secured by mortgages on Kenilworth Court and The Lafayette. The loan secured by a mortgage on Kenilworth Court has a principal amount of $3.8 million and the loan secured by a mortgage on The Lafayette has a principal amount of $5.5 million. Both loans mature on July 1, 2032, bear interest at a fixed rate of 4.74% and require interest-only payments for the duration of their 10-year term.

Our ability to pay off our mortgages when they become due is, in part, dependent upon our ability either to refinance the related mortgage debt or to sell the related investment property. With respect to each loan, if we are unable to refinance or sell the related investment property, or in the event that the estimated value of the investment property is less than the mortgage balance, we may, if appropriate, satisfy a mortgage obligation by transferring title of the investment property to the lender or permitting a lender to foreclose. As of December 31, 2023, the Company guaranteed one mortgage loan up to $4.0 million and as of December 31, 2022, none of our mortgage debt was recourse to the Company. However we have provided certain customary, non-recourse carve-out guarantees in connection with obtaining mortgage loans on certain of our investment properties.

Capital Expenditures and Reserve Funds

During the year ended December 31, 2023, we made total capital expenditures of $9.0 million and during the year ended December 31, 2022, capital expenditures totaled $2.6 million.

Summary of Cash Flows

Comparison of the years ended December 31, 2023 and 2022:

	(in thousands) For the Year ended December 31,	
	2023	**2022**
Net cash flows provided by operating activities	$ 2,269	$ 2,493
Net cash flows provided by (used in) investing activities	(31,247)	4,665
Net cash flows provided by (used in) financing activities	20,544	(1,250)
Net increase (decrease) in cash and cash equivalents and restricted cash and escrows	(8,434)	5,908
Cash and cash equivalents and restricted cash and escrows, at beginning of year	27,918	22,010
Cash and cash equivalents and restricted cash and escrows, at end of year	$ 19,484	$ 27,918

Cash provided by operating activities was $2.3 million and $2.5 million for the years ended December 31, 2023 and 2022, respectively. The decrease in cash provided by operating activities is the result of lower revenue from tenants, caused by the March 2022 sale of State Street Market and the April 2022 expiration of the Fitness International lease at Sherman Plaza, partially offset by net revenues generated at The Q Lofts, acquired in September 2023.

Cash used in investing activities was $31.2 million for the year ended December 31, 2023, compared to cash provided by investing activities of $4.7 million for the year ended December 31, 2022. Cash used in investing activities increased $35.9 million compared to the same period in 2022 as a result of the acquisition of The Q Lofts totaling $21.3 million and higher cash spend for capital expenditures and tenant improvements. Partially offsetting this increase in cash used was the decreased payments for leasing fees.

Cash provided by financing activities was $20.5 million for the year ended December 31, 2023, compared to cash used in financing activities of $1.3 million for the year ended December 31, 2022. Cash provided by financing activities for the year ended December 31, 2023 included proceeds from new mortgages totaling $67.4 million. Partially offsetting these loan

proceeds was $25.2 million to repurchase shares of our common stock through our recently completed tender offer, payoff of the Locale loan that was replaced with permanent financing, in the amount of $17.1 million, principal payments on mortgage debt in the amount of $1.1 million, payment of debt issue costs totaling $1.6 million, payment of tax withholding for share-based compensation in the amount of $0.6 million and a return of equity distribution totaling $1.1 million to our partner in the Corvue joint venture. Cash used in financing activity during the year ended December 31, 2022 included repayment of the State Street mortgage in conjunction with the sale, in the amount of $8.7 million, principal payments on mortgage debt in the amount of $1.0 million, the payment of debt issue costs of $0.2 million related to the two new mortgage loans closed during the second quarter of 2022 and payment of tax withholding for share-based compensation in the amount of $0.6 million. Partially offsetting this cash used in financing activities was the receipt of $9.3 million of mortgage debt proceeds.

We consider all demand deposits, money market accounts and investments in certificates of deposit and repurchase agreements with a maturity of three months or less, at the date of purchase, to be cash equivalents. We maintain our cash and cash equivalents at financial institutions. The combined account balances at one or more institutions exceed the Federal Depository Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage.

Funds From Operations and Adjusted Funds From Operations

The National Association of Real Estate Investment Trusts ("NAREIT"), an industry trade group, has promulgated a non-GAAP financial measure known as Funds From Operations, or FFO. As defined by NAREIT, FFO is net income (loss) in accordance with GAAP excluding gains (or losses) resulting from dispositions of investment properties, plus depreciation and amortization and impairment charges on depreciable property. We have adopted the NAREIT definition in our calculation of FFO as management considers FFO a widely accepted and appropriate measure of performance for REITs. FFO is not equivalent to our net income or loss as determined under GAAP.

Since the definition of FFO was promulgated by NAREIT, management and many investors and analysts have considered the presentation of FFO alone to be insufficient. Accordingly, in addition to FFO, we also use Adjusted Funds From Operations, or AFFO as a measure of our operating performance. We define AFFO, a non-GAAP financial measure, to exclude from FFO adjustments for gains or losses related to early extinguishment of debt instruments as these items are not related to our continuing operations. By excluding these items, management believes that AFFO provides supplemental information related to sustainable operations that will be more comparable between other reporting periods and to other public, non-traded REITs. AFFO is not equivalent to our net income or loss as determined under GAAP.

In calculating FFO and AFFO, impairment charges of depreciable real estate are added back even though the impairment charge may represent a permanent decline in value due to decreased operating performance of the applicable investment property. Further, because gains and losses from sales of investment property are excluded from FFO and AFFO, it is consistent and appropriate that impairments, which are often early recognition of losses on prospective sales of investment property, also be excluded.

We believe that FFO and AFFO are useful measures of our investment properties' operating performance because they exclude noncash items from GAAP net income. Neither FFO nor AFFO is intended to be an alternative to "net income" nor to "cash flows from operating activities" as determined by GAAP as a measure of our capacity to pay distributions. Other REITs may use alternative methodologies for calculating similarly titled measures, which may not be comparable to our calculation of FFO and AFFO.

The following table presents our calculation of FFO to net loss (in thousands):

	Year Ended December 31,	
	2023	2022
Net loss attributable to Highlands REIT, Inc. common stockholders	$ (10,301)	$ (7,662)
Depreciation and amortization related to investment properties [1]	10,601	10,256
Loss on sale of investment properties, net	—	6
Funds From Operations	$ 300	$ 2,600
Funds From Operations per weighted average common shares, basic and diluted	$ —	$ —
Weighted average number of common shares outstanding, basic and diluted	$ 876,958	$ 885,540

(1) The depreciation and amortization add-back excludes the portion of expense attributable to the non-controlling interest.

Use and Limitations of Non-GAAP Financial Measures

FFO and AFFO do not represent cash generated from operating activities under GAAP and should not be considered as an alternative to net income or loss, operating profit, cash flows from operations or any other operating performance measure prescribed by GAAP. Although we present and use FFO and AFFO because we believe they are useful to investors in evaluating and facilitating comparisons of our operating performance between periods and between REITs that report similar measures, the use of this non-GAAP measure has certain limitations as an analytical tool. This non-GAAP financial measure is not a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to fund capital expenditures, contractual commitments, working capital, service debt or make cash distributions. This measurement does not reflect cash expenditures for long-term assets and other items that we have incurred and will incur. This non-GAAP financial measure may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures, investment property acquisitions and other commitments and uncertainties. This non-GAAP financial measure, as presented, may not be comparable to non-GAAP financial measures as calculated by other real estate companies.

We compensate for these limitations by separately considering the impact of these excluded items to the extent they are material to operating decisions or assessments of our operating performance. Our reconciliation to the most comparable GAAP financial measures, and our consolidated statements of operations and comprehensive loss and cash flows, include interest expense, capital expenditures and other excluded items, all of which should be considered when evaluating our performance, as well as the usefulness of our non-GAAP financial measure. This non-GAAP financial measure reflects an additional way of viewing our operations that we believe, when viewed with our GAAP results and the reconciliation to the corresponding GAAP financial measure, provides a more complete understanding of factors and trends affecting our business than could be obtained absent this disclosure. We strongly encourage investors to review our financial information in its entirety and not to rely on a single financial measure.

Distributions

For the years ended December 31, 2023 and 2022, no cash distributions were paid by Highlands.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risk associated with changes in interest rates both in terms of variable-rate debt and the price of new fixed-rate debt upon maturity of existing debt and for acquisitions.

Interest Rate Risk

Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. As of December 31, 2023, our debt included a variable rate mortgage loan of $20.0 million, which has been swapped to a fixed rate of 5.86% and a variable rate mortgage loan of $19.5 million, with an interest rate cap, capping the rate at 7.44%. The interest rate in effect on the variable rate mortgage loan at December 31, 2023 was 7.39%.

With regard to our variable-rate financing, we assess interest rate cash flow risk by identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. We maintain risk management control systems to monitor interest rate cash flow risk attributable to both outstanding or forecasted debt obligations.

We may use financial instruments to hedge exposures to changes in interest rates on loans. To the extent we do, we are exposed to credit risk and market risk. Credit risk is the risk of failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates a credit risk for us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, it does not pose credit risk. We seek to minimize the credit risk in derivative instruments by entering into transactions with what we believe are high-quality counterparties. Market risk is the adverse effect on the value of a financial instrument resulting from a change in interest rates.

As of December 31, 2023, we had two derivative financial instruments designated as cash flow hedges, with original notional amounts of $20.0 million and $19.5 million and maturity dates of April 6, 2026 and November 1, 2026, respectively. The combined fair value of the derivatives was $0.10 million as of December 31, 2023 and is included in deferred costs and other assets, net in the accompanying consolidated balance sheets. The gains or losses resulting from marking-to-market our derivative financial instruments during the periods presented are recognized as an increase or decrease in comprehensive loss on our consolidated statements of operations and comprehensive loss.

Item 8. Consolidated Financial Statements and Supplementary Data

HIGHLANDS REIT, INC.
Index

	Page
Report of Independent Registered Public Accounting Firm (PCAOB ID Number 248)	47
Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 2023 and 2022	49
Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2023 and 2022	50
Consolidated Statements of Equity for the years ended December 31, 2023 and 2022	51
Consolidated Statements of Cash Flows for the years ended December 31, 2023 and 2022	52
Notes to Consolidated Financial Statements	54
Real Estate and Accumulated Depreciation (Schedule III)	69

All schedules other than those listed in the Index have been omitted, as the required disclosure is inapplicable or the information is presented in the financial statements or related notes.

See accompanying notes to consolidated financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Highlands REIT, Inc.

Opinion on the financial statements
We have audited the accompanying consolidated balance sheets of Highlands REIT, Inc. (a Maryland corporation) and subsidiaries (the “Company”) as of December 31, 2023 and 2022, the related consolidated statements of operations and comprehensive loss, equity, and cash flows for each of the two years in the period ended December 31, 2023, and the related notes and financial statement schedules included under Item 15(a) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years ended December 31, 2023 and 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion
These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matters
The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Impairment of Net investment properties
At December 31, 2023, the Company’s Net investment properties total $309 million. As described further in Note 2 and Note 9 to the consolidated financial statements, the Company’s investment properties are reviewed for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of the property may not be fully recoverable, such as a decline in occupancy, changes in events or intent, uncertainties related to debt maturities, reduction in expected holding period, or a significant decline in market value.

In the event that impairment triggers are present, the Company prepares a cost recoverability test comparing the property’s estimated undiscounted cash flow with its net carrying value. If the Company determines that an investment property is impaired, then the carrying value is reduced to the estimated fair value as determined by cash flow models and discount rates or comparable sales in accordance with the Company’s fair value measurement policy. These fair value measurements require management to make estimates and assumptions about significant variables, such as the probabilities of potential outcomes, estimated holding periods, the amount and timing of revenues, operating expenses, and capital expenditures during the holding period, capitalization rates, and potential disposal proceeds to be received upon sale. We identified impairment of Net investment properties as a critical audit matter.

The principal considerations for our determination that that impairment of Net investment properties is a critical audit matter is that it involves a high degree of subjectivity in evaluating management's judgments not only regarding impairment triggers but also regarding estimates and assumptions utilized in forecasting cash flows for cost recoverability.

Our audit procedures related to the evaluation of impairment of investment properties included the following, among others. We obtained an understanding and evaluated the design and implementation of relevant controls over the evaluation of potential impairments of Net investment properties. We evaluated the appropriateness of management's qualitative impairment indicator analysis, including triggering factors such as decline in occupancy, changes in events or intent, uncertainties related to debt maturities, reduction in expected holding period, or a significant decline in market value on a property-by-property basis. Additionally, we evaluated the completeness of the population of properties for which triggering events were identified. We examined the Company's undiscounted cash flow analyses utilized to assess cost recoverability. We evaluated the reasonableness of the methods and significant inputs and assumptions used in the undiscounted cash flow analyses including the probability of outcomes, reasonableness of projections including leasing revenues and operating costs, estimated holding periods, and potential disposal proceeds to be received upon a sale. We evaluated these inputs and assumptions by comparing them to a combination of observable market data and historical performance of the identified properties. Our assessment included sensitivity analyses over these significant assumptions, and we considered whether such assumptions were consistent with evidence obtained in other areas of the audit.

Fair value measurements used in the purchase price allocation of real estate acquisitions
As described further in Notes 2 and 3 to the consolidated financial statements, the acquisition of real estate generally qualifies as an asset acquisition. The Company allocates the purchase price of real estate to land, building, other building improvements, tenant improvements, and intangible assets and liabilities. The Company records identifiable assets and liabilities acquired at fair value. During the year ended December 31, 2023, the Company acquired one multi-family investment property for a gross acquisition price of $34.5 million. We identified the fair value measurements used in the purchase price allocation of real estate acquisitions as a critical audit matter.

The principal considerations for our determination that the fair value measurements used in the purchase price allocation of real estate acquisitions are a critical audit matter is that auditing management's determination of fair value is challenging due to the high degree of auditor judgment necessary in evaluating certain key valuation inputs and capital market assumptions made by management.

Our audit procedures related to the fair value measurements used in the purchase price allocation of real estate acquisitions included the following, among others. We obtained an understanding and evaluated the design and implementation of relevant controls over the purchase price allocation of the real estate acquisition, including controls over the review of inputs and assumptions used to estimate fair value. Our real estate valuation professionals evaluated the reasonableness of key inputs and assumptions used by Management to determine fair value of land, buildings, tenant improvements, other real estate intangible assets, and the overall purchase price by sourcing various independent data from industry transaction databases and published industry reports. Our procedures included evaluating the appropriateness of the projected forecasted information including the forecasted rental growth rate by assessing the reasonableness of management's forecasts compared to historical results and forecasted industry trends for comparable real estate properties.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2020.

Chicago, Illinois
March 14, 2024

HIGHLANDS REIT, INC.

Consolidated Balance Sheets

(Amounts in thousands, except per share amounts)

	As of December 31,	
	2023	**2022**
Assets		
Investment properties		
Land	$ 88,582	$ 79,726
Building and other improvements	296,786	272,232
Construction in progress	10,850	484
Total	396,218	352,442
Less accumulated depreciation	(87,216)	(76,888)
Net investment properties	309,002	275,554
Cash and cash equivalents	17,078	26,025
Restricted cash and escrows	2,406	1,893
Accounts receivable (net of allowance of $125 and $104 as of December 31, 2023 and 2022, respectively)	6,255	6,265
Intangible assets, net	537	—
Deferred costs and other assets, net	5,874	5,377
Total assets	$ 341,152	$ 315,114
Liabilities		
Debt, net	$ 120,931	$ 61,658
Accounts payable and accrued expenses	13,335	11,084
Other liabilities	2,674	2,015
Total liabilities	136,940	74,757
Commitments and contingencies (See note 14)		
Stockholders' Equity		
Common stock, $0.01 par value, 1,000,000 shares authorized, 721,671 and 888,243 shares issued and outstanding as of December 31, 2023 and 2022, respectively	7,217	8,882
Additional paid-in capital	1,389,951	1,412,637
Accumulated distributions in excess of net income	(1,191,868)	(1,181,567)
Accumulated other comprehensive income	20	326
Total Highlands REIT, Inc. stockholders' equity	205,320	240,278
Non-controlling interests	(1,108)	79
Total equity	204,212	240,357
Total liabilities and equity	$ 341,152	$ 315,114

See accompanying notes to consolidated financial statements.

HIGHLANDS REIT, INC.

Consolidated Statements of Operations and Comprehensive Loss
(Amounts in thousands, except per share amounts)

	Year Ended December 31,	
	2023	2022
Revenues		
Rental income	$ 30,046	$ 30,436
Other property income	935	920
Total revenues	30,981	31,356
Expenses		
Property operating expenses	8,910	8,794
Real estate taxes	5,353	5,597
Depreciation and amortization	10,758	10,413
General and administrative expenses	12,513	11,656
Total expenses	37,534	36,460
Loss on sale of investment properties	—	(6)
Loss from operations	(6,553)	(5,110)
Interest income	1,347	140
Interest expense	(5,092)	(2,680)
Net loss	(10,298)	(7,650)
Net income attributable to non-controlling interests	(3)	(12)
Net loss attributable to Highlands REIT, Inc. common stockholders	$ (10,301)	$ (7,662)
Net loss per common share, basic and diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding, basic and diluted	876,958	885,540
Comprehensive loss		
Net loss	$ (10,298)	$ (7,650)
Unrealized gain (loss) on derivatives	(369)	621
Total other comprehensive income (loss)	(369)	621
Comprehensive loss	(10,667)	(7,029)
Comprehensive (income) loss attributable to non-controlling interests	60	(105)
Comprehensive loss attributable to Highlands REIT, Inc. common stockholders	$ (10,607)	$ (7,134)

See accompanying notes to consolidated financial statements.

HIGHLANDS REIT, INC.

Consolidated Statements of Equity
(Amounts in thousands)

For the years ended December 31, 2023 and 2022

	Common Stock		Additional Paid-in Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income	Total Company Stockholders' Equity	Non-controlling interests	Total
	Shares	Amount						
Balance at January 1, 2022	885,222	$ 8,852	$ 1,411,818	$ (1,173,905)	$ (202)	$ 246,563	$ (26)	$ 246,537
Net income (loss)	—	—	—	(7,662)	—	(7,662)	12	(7,650)
Other comprehensive income	—	—	—	—	528	528	93	621
Share-based compensation, net	3,021	30	819	—	—	849	—	849
Balance at December 31, 2022	888,243	8,882	1,412,637	(1,181,567)	326	240,278	79	240,357
Net income (loss)	—	—	—	(10,301)	—	(10,301)	3	(10,298)
Other comprehensive loss	—	—	—	—	(306)	(306)	(63)	(369)
Non-controlling interest equity distributions	—	—	—	—	—	—	(1,127)	(1,127)
Share-based compensation, net	2,819	29	859	—	—	888	—	888
Repurchase of common stock	(169,391)	(1,694)	(23,545)	—	—	(25,239)	—	(25,239)
Balance at December 31, 2023	721,671	$ 7,217	$ 1,389,951	$ (1,191,868)	$ 20	$ 205,320	$ (1,108)	$ 204,212

See accompanying notes to consolidated financial statements.

HIGHLANDS REIT, INC.
Consolidated Statements of Cash Flows
(Amounts in thousands)

	Year ended December 31,	
	2023	**2022**
Cash flows from operating activities:		
Net loss	$ (10,298)	$ (7,650)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,758	10,413
Amortization of above and below market leases, net	(7)	(24)
Amortization of debt discounts and financing costs	456	160
Straight-line rental income	(706)	(2,840)
Loss on sale of investment properties, net	—	6
Stock-based compensation expense	1,537	1,467
Changes in assets and liabilities:		
Accounts receivable, net	716	(686)
Deferred costs and other assets, net	(45)	24
Accounts payable and accrued expenses	(791)	1,558
Other liabilities	649	65
Net cash flows provided by operating activities	$ 2,269	$ 2,493
Cash flows from investing activities:		
Capital expenditures and tenant improvements	(9,004)	(2,624)
Proceeds from sale of investment properties, net	—	8,938
Acquisition of investment properties	(21,288)	—
Payment of leasing fees	(955)	(1,649)
Net cash flows provided by (used in) investing activities	$ (31,247)	$ 4,665
Cash flows from financing activities:		
Payment of debt issuance costs	(1,638)	(222)
Proceeds from debt	67,446	9,265
Payoff of debt	(17,112)	(8,677)
Principal payments of debt	(1,137)	(998)
Common stock repurchased	(25,239)	—
Payment for tax withholding for share-based compensation	(649)	(618)
Distributions to noncontrolling interest	(1,127)	—
Net cash flows provided by (used in) financing activities	$ 20,544	$ (1,250)
Net increase (decrease) in cash and cash equivalents and restricted cash and escrows	(8,434)	5,908
Cash and cash equivalents and restricted cash and escrows, at beginning of year	27,918	22,010
Cash and cash equivalents and restricted cash and escrows, at end of year	$ 19,484	$ 27,918
Cash and cash equivalents and restricted cash and escrows, at end of year		
Cash and cash equivalents	$ 17,078	$ 26,025
Restricted cash and escrows	2,406	1,893
Total cash and cash equivalents and restricted cash and escrows, at end of year	$ 19,484	$ 27,918

See accompanying notes to consolidated financial statements.

HIGHLANDS REIT, INC.
Consolidated Statements of Cash Flows
(Amounts in thousands)

	Year Ended December 31,	
	2023	2022
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,274	$ 2,526
Supplemental schedule of non-cash activities:		
Non-cash accruals for capital expenditures and tenant improvements	$ 4,198	$ 1,155
Assumption of mortgage debt on acquired investment properties, net of debt discount	$ 11,258	$ —

See accompanying notes to consolidated financial statements.

HIGHLANDS REIT, INC.

Notes to Consolidated Financial Statements
(Amounts in thousands, except per share amounts)
December 31, 2023

1. Organization

Highlands REIT, Inc. ("Highlands"), which was formed in December 2015, is a Maryland corporation with a portfolio of investment properties including multi-family, retail, office and industrial properties, a correctional facility and unimproved land. Prior to April 28, 2016, Highlands was a wholly-owned subsidiary of InvenTrust Properties Corp. ("InvenTrust" and formerly known as Inland American Real Estate Trust, Inc.), its former parent. Unless stated otherwise or the context otherwise requires, the terms "we," "our" and "us" and references to the "Company" refer to Highlands and its consolidated subsidiaries.

On April 28, 2016, Highlands spun-off from InvenTrust through a pro rata distribution by InvenTrust of 100% of the outstanding shares of common stock, $0.01 par value per share (the "Common Stock"), of Highlands to holders of record of InvenTrust's common stock as of the close of business on April 25, 2016 (the "Record Date"). Each holder of record of InvenTrust's common stock received one share of Common Stock for every one share of InvenTrust's common stock held at the close of business on the Record Date (the "Distribution"). As a result, Highlands became an independent, self-advised, non-traded public company. Highlands has elected to be taxed, and currently qualifies, as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code") for U.S. federal income tax purposes commencing with Highlands' short taxable year ending December 31, 2016.

Each investment property is owned by a separate legal entity, which maintains its own books and financial records, and each entity's assets are not available to satisfy the liabilities of other affiliated entities. With the exception of one investment property we own through a variable interest entity with a third-party partner (the "Corvue Venture"), we are the sole owner of each of these separate legal entities. As of December 31, 2023, we have an approximate 95% interest in the Corvue Venture and have funded equity contributions to the Corvue Venture in the approximate amount of $10,200. See Note 2 for additional information regarding the basis of presentation of the Corvue Venture, which is consolidated in the accompanying consolidated financial statements.

As of December 31, 2023 and 2022, the Company owned 20 and 19 investment properties, respectively and one parcel of unimproved land.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The accompanying consolidated financial statements include the accounts of Highlands and its consolidated subsidiaries. Highlands consolidates its wholly-owned subsidiaries and any other entities which it controls (i) through voting rights or similar rights or (ii) by means other than voting rights if Highlands is the primary beneficiary of a variable interest entity ("VIE"). The portions of the equity and net income of consolidated subsidiaries that are not attributable to the Company are presented separately as amounts attributable to non-controlling interests in our consolidated financial statements. Entities which Highlands does not control and entities which are VIEs in which Highlands is not a primary beneficiary, if any, are accounted for under appropriate GAAP. Highlands' subsidiaries generally consist of limited liability companies ("LLCs"). The effects of all significant intercompany transactions have been eliminated.

Consolidation

A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support, or (ii) has equity investors who lack the characteristics of a controlling financial interest. Under Accounting Standards Codification ("ASC") 810 - Consolidation, an entity that holds a variable interest in a VIE and meets certain requirements is considered the primary beneficiary of the VIE and is required to consolidate the VIE in its consolidated financial statements. In order to be considered the primary beneficiary of a VIE, an entity must hold a variable interest in the

VIE and have both the power to direct the activities that most significantly impact the economic performance of the VIE, and the right to receive benefits from, or the obligation to absorb losses of, the VIE that could be potentially significant to the VIE.

As of December 31, 2023 and 2022, we have determined we are the primary beneficiary of one VIE, the Corvue Venture, and have consolidated the operations of this entity in the accompanying consolidated financial statements. We reviewed the operating agreement of the Corvue Venture in order to determine our rights and the rights of our third-party partner, including whether those rights are protective or participating. We have determined we are the primary beneficiary of the Corvue Venture because we have (a) the power to direct the activities that most significantly impact the economic performance of the Corvue Venture, (b) the obligation to absorb the losses that could be significant to the Corvue Venture and (c) the right to receive the benefits that could be significant to the Corvue Venture. Included in total assets and liabilities on the Company's consolidated balance sheets as of December 31, 2023 is $23,740 and $18,116, respectively, related to the Corvue Venture. Included in total assets and liabilities on the Company's consolidated balance sheets as of December 31, 2022 is $24,926 and $18,028, respectively, related to the Corvue Venture. The assets of the Corvue Venture may only be used to settle obligations of the Corvue Venture and the creditors of the Corvue Venture have no recourse to the general credit of the Company.

Revenue Recognition

The Company accounts for leases under the provisions of ASC 842. The Company commences revenue recognition on leases when the lessee takes possession of, or controls the physical use of, the leased asset, unless the lessee is constructing improvements for which we are deemed to be the owner for accounting purposes. If we are deemed the owner for accounting purposes, the leased asset is the finished space and revenue recognition commences when the lessee takes possession of it, typically when the improvements are substantially complete. Alternatively, if the lessee is deemed to be the owner of the improvements for accounting purposes, then the leased asset is the unimproved space, and any tenant improvement allowances funded under the lease are treated as lease incentives which reduce rental income recognized over the lease term, and we commence revenue recognition when the lessee takes possession of the unimproved space.

The determination of who owns the tenant improvements, for accounting purposes, is based on contractual rights and is subject to significant judgment. In making that determination, we consider all of the following factors. No one factor, however, necessarily establishes its determination.

- whether the lease stipulates how and on what a tenant improvement allowance may be spent;
- whether the tenant or landlord retains legal title to the improvements;
- the uniqueness of the improvements;
- the expected economic life of the tenant improvements relative to the length of the lease; and
- who constructs or directs the construction of the improvements.

Rental income is recognized on a straight-line basis over the term of each lease. The difference between rental income earned on a straight-line basis and the cash rent due under the provisions of the lease agreements is recorded as deferred rent receivable and is included as a component of accounts receivable in the accompanying consolidated balance sheets.

We recognize cost reimbursement income from pass-through expenses on an accrual basis over the periods in which the expenses were incurred. Pass-through expenses are comprised of real estate taxes, operating expenses and common area maintenance costs which are reimbursed by tenants in accordance with specific allowable costs per tenant lease agreements.

Upon adoption of ASU 2016-02, we elected not to bifurcate lease contracts into lease and non-lease components, since the timing and pattern of revenue is not materially different and the non-lease components are not the primary component of the lease. Accordingly, both lease and non-lease components are presented in rental income in our consolidated financial statements. The adoption of ASU 2016-02 did not result in a material change to our recognition of real estate rental revenue.

The Company reviews the collectability of amounts due from its tenants on a regular basis. Such reviews consider the tenant's financial condition and payment history and other economic conditions impacting the tenant. Changes in collectability occur when the Company no longer believes it is probable that substantially all the lease payments will be collected over the term of the lease. If collection is not probable, the lease payments will be accounted for on a cash basis, and revenue will be recorded as

cash is received. If reassessed, and the collection of substantially all of the lease payments from the tenant becomes probable, the accrual basis of revenue recognition is reestablished.

The Company records lease termination income if there is a signed termination agreement, all of the conditions of the agreement have been met and amounts due are considered collectible.

Acquisition of Real Estate

We evaluate the inputs, processes and outputs of each investment property acquired to determine if the transaction is a business combination or asset acquisition. If an acquisition qualifies as a business combination, the related transaction costs are recorded as an expense in the consolidated statements of operations and comprehensive loss. If an acquisition qualifies as an asset acquisition, the related transaction costs are generally capitalized and amortized over the useful life of the acquired assets. Generally, acquisition of real estate qualifies as an asset acquisition.

We allocate the purchase price of real estate to land, building, other building improvements, tenant improvements, and intangible assets and liabilities (such as the value of above- and below-market leases and in-place leases). The values of above- and below-market leases are recorded as intangible assets, net, and other liabilities, respectively, in the consolidated balance sheets, and are amortized as either a decrease (in the case of above-market leases) or an increase (in the case of below-market leases) to rental income over the remaining term of the associated tenant lease. The values associated with in-place leases are recorded in intangible assets, net in the consolidated balance sheets and are amortized to depreciation and amortization expense in the consolidated statements of operations and comprehensive loss over the remaining lease term.

The difference between the contractual rental rates and our estimate of market rental rates is measured over a period equal to the remaining non-cancelable term of the leases, including below-market renewal options for which exercise of the renewal option appears to be reasonably assured. The remaining term of leases with renewal options at terms below market reflect the assumed exercise of such below-market renewal options and assume the amortization period would coincide with the extended lease term.

Real Estate Capitalization and Depreciation

Real estate is reflected at cost less accumulated depreciation. Ordinary repairs and maintenance are expensed as incurred. Depreciation expense is computed using the straight line method. Building and other improvements are depreciated based upon estimated useful lives of 30 years for building and improvements and 5-15 years for furniture, fixtures and equipment and site improvements. Tenant improvements are amortized on a straight line basis over the lesser of the life of the tenant improvement or the lease term as a component of depreciation and amortization expense. Leasing fees are amortized on a straight-line basis over the life of the related lease as a component of depreciation and amortization expense. Loan fees are amortized on a straight-line basis, which approximates the effective interest method, over the life of the related loan as a component of interest expense.

Direct and indirect costs that are clearly related to the construction and improvements of investment properties are capitalized. Costs incurred for property taxes and insurance are capitalized during periods in which activities necessary to get the asset ready for its intended use are in progress. Interest costs are also capitalized during such periods. Once the improvements are ready for their intended use, the amounts are reclassified to the appropriate fixed asset accounts. Depreciation begins when the improvement is placed in service.

Sale of Real Estate

We recognize gains and losses from sales of investment properties and land in accordance with FASB ASC 610-20, “Gains and Losses From the Derecognition of Nonfinancial Assets”. We recognize gains and losses from sales of investment properties and land when we transfer control of an investment property and when it is probable that we will collect substantially all of the related consideration.

Assets Held for Sale

A long-lived asset (disposal group) to be sold shall be classified as held for sale in the period in which all of the following criteria are met:

- Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group);
- The asset (disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal groups);
- An active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated;
- The sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale, within one year, except as permitted by paragraph 360-10-45-11;
- The asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value. The price at which a long-lived asset (disposal group) is being marketed is indicative of whether the entity currently has the intent and ability to sell the asset (disposal group). A market price that is reasonable in relation to fair value indicates that the asset (disposal group) is available for immediate sale, whereas a market price in excess of fair value indicates that the asset (disposal group) is not available for immediate sale; and
- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

If all of the above criteria are met, the Company classifies the investment property as held for sale. The Company does not consider the probability of sale criteria to be met when a contract is within the due diligence period and the earnest money is refundable. On the day that these criteria are met, the Company suspends depreciation on the investment properties held for sale, including depreciation for tenant improvements and additions, as well as on the amortization of acquired in-place leases. The assets and liabilities associated with those investment properties that are held for sale are classified separately on the consolidated balance sheets for the most recent reporting period and recorded at the lesser of the carrying value or fair value less costs to sell.

There were no assets held for sale on the consolidated balance sheets as of December 31, 2023 and 2022.

If the sale represents a strategic shift that has (or will have) a major effect on the Company's results of operations, the income and expenses for the period are classified as discontinued operations on the consolidated statement of operations and comprehensive income for all periods presented.

Impairment of Real Estate

The Company assesses the carrying values of the respective long-lived assets, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable, such as a reduction in the expected holding period of the asset. If it is determined that the carrying value is not recoverable because the undiscounted cash flows do not exceed the carrying value, the Company records an impairment loss to the extent that the carrying value exceeds the investment property's fair value. The valuation and possible subsequent impairment of investment properties is a significant estimate that can and does change based on the Company’s continuous process of analyzing each asset and reviewing assumptions about uncertain inherent factors, as well as the economic condition of the asset at a particular point in time.

The use of projected future cash flows and related holding period is based on assumptions that are consistent with the estimates of future expectations and the strategic plan the Company uses to manage its underlying business. However, assumptions and estimates about future cash flows and capitalization rates are complex and subjective. Changes in economic and operating conditions and the Company’s ultimate investment intent that occur subsequent to the impairment analyses could impact these assumptions and result in future impairment charges of the real estate assets.

The Company did not record impairments during the years ended December 31, 2023 and 2022. See Note 9 to the consolidated financial statements for additional information.

Earnings Per Share

Basic earnings per common share is calculated by dividing net income attributable to Highlands REIT, Inc. common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income attributable to Highlands REIT, Inc. common stockholders by the weighted-average number of common shares outstanding during the period, plus any additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

Going Concern Basis of Accounting

When preparing financial statements for each annual and interim reporting period, management has the responsibility to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. In making its evaluation, the Company considers, but is not limited to, any risks and/or uncertainties to its results of operations, contractual obligations in the form of near-term debt maturities, dividend requirements, or other factors impacting the Company's liquidity and capital resources. No conditions or events that raised substantial doubt about the ability to continue as a going concern within one year were identified as of the issuance date of the financial statements contained in this Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

In November 2023, the FASB issued ASU No. 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures". The amendments in this update require additional detailed and enhanced information about reportable segments' expense, including significant segment expenses and other segment items that bridge segment revenue, significant expenses to segment profit or loss. The ASU also requires disclosure of the title and position of the Chief Operating Decision Maker ("CODM") on an annual basis as well as an explanation of how the CODM uses the reported measures and other disclosures. The amendments in this update do not change how a public entity identifies its operating segments, aggregates those operating segments, or applies the quantitative thresholds to determine its reportable segments. The guidance is effective for fiscal years beginning after December 15, 2023 with early adoption permitted. The Company is continuing to evaluate this guidance, but expects the standard to impact our disclosures around our segments and is not anticipated to have an impact on the Company's consolidated financial statements.

Recently issued accounting standards or pronouncements not discussed herein have been excluded because they are either not relevant to the Company, or are not expected to have, or did not have, a material effect on the consolidated financial statements of the Company.

3. Acquired Investment Properties

The Company records identifiable assets and liabilities acquired at fair value. During the year ended December 31, 2023, the Company acquired one multi-family investment property for a gross acquisition price of $34,497. Under ASU No. 2017-01, the Company determined this transaction should be accounted for as an asset acquisition. Accordingly, the Company capitalized transaction costs of approximately $297.

During the year ended December 31, 2022, there were no asset acquisitions.

The following table reflects the investment property acquired during the year ended December 31, 2023.

Investment Property	Location	Acquisition Date	Acquisition Price
The Q Lofts	San Diego, CA	September 20, 2023	$ 34,497

The purchase price was allocated as follows:

		Total
Land	$	8,856
Buildings and other improvements		22,876
Intangible assets, net		645
Deferred costs and other assets		190
Total assets	$	32,567
Intangible liabilities, net	$	(21)
Debt discount on mortgage assumption		1,951
Total liabilities	$	1,930
Total acquisition price	$	34,497

4. Disposed Investment Properties

There were no investment property dispositions during the year ended December 31, 2023.

The following table reflects the investment property dispositions during the year ended December 31, 2022.

Investment Property	Location	Disposition Date	Gross Disposition Price		Sale Proceeds, Net		Loss on Sale	
State Street Market	Rockford, IL	March 10, 2022	$	9,000	$	8,938	$	(6)

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	Year ended December 31,			
	2023		2022	
Accrued real estate taxes	$	6,300	$	6,430
Accrued compensation		979		742
Accrued interest payable		570		208
Other accrued expenses		5,486		3,704
Total accounts payable and accrued expenses	$	13,335	$	11,084

6. Leases

Leasing as a lessor

We lease multi-family investment properties under operating leases with terms of generally one year or less. We lease commercial investment properties under operating leases with remaining lease terms that range from less than one year to fifteen years as of December 31, 2023 and 2022.

HIGHLANDS REIT, INC.

Notes to Consolidated Financial Statements
(Amounts in thousands, except per share amounts)
December 31, 2023

Rental income related to the Company's operating leases is comprised of the following:

	Year ended December 31,		
	2023		2022
Rental income related to fixed lease payments	$ 26,051		$ 25,603
Rental income related to variable lease payments	3,995		4,833
Other property income	935		920
Total revenues	$ 30,981	30981000	$ 31,356

Future Minimum Rental Income

As of December 31, 2023, commercial operating leases provide for future minimum rental income, assuming no expiring leases are renewed, as follows. Multi-family residential leases are not included as the terms are generally for one year or less.

2024	$ 12,810
2025	11,897
2026	11,650
2027	10,888
2028	8,826
Thereafter	74,211
Total	$ 130,282

Leasing as a lessee

We lease a portion of the land underlying Sherman Plaza, from a third party through a ground lease covering such land with a lease term expiring in October 2042.

Upon adoption of ASU 2016-02, we recognized a right of use asset (included in deferred costs and other assets, net) and lease liability (included in other liabilities). At December 31, 2023, the balances were $265 and were recorded in the consolidated balance sheets. We used a discount rate of approximately 4.5%, reflecting the Company's incremental borrowing rate.

The following table sets forth the undiscounted cash flows of our scheduled obligations for future minimum payments on our operating ground lease at December 31, 2023 and a reconciliation of those cash flows to the operating lease liability.

2024	$ 21
2025	21
2026	21
2027	21
2028	21
Thereafter	289
Total	$ 394
Imputed interest	(129)
Lease liability	$ 265

7. Intangible Assets and Liabilities

The following table summarizes the Company's identified intangible assets and intangible liabilities, included in intangible assets, net and other liabilities on the accompanying consolidated balance sheets as of December 31, 2023 and 2022.

	As of December 31,	
	2023	2022
Intangible Assets:		
Acquired in-place lease	$ 548	$ —
Acquired above market lease	97	—
Accumulated amortization	(108)	—
Intangible assets, net	$ 537	$ —
Intangible liabilities:		
Acquired below market leases	$ 929	$ 908
Accumulated amortization	(894)	(883)
Intangible liabilities, net	$ 35	$ 25

The portion of the purchase price allocated to acquired above market lease costs and acquired below market lease costs are amortized on a straight-line basis over the life of the related lease, including the respective renewal period for below market lease costs with fixed rate renewals, as an adjustment to rental income. Amortization pertaining to the above market lease costs is applied as a reduction to rental income. Amortization pertaining to the below market lease costs is applied as an increase to rental income. The portion of the purchase price allocated to acquired in-place lease intangibles is amortized on a straight line basis over the life of the related lease and is recorded as amortization expense.

The following table summarizes the amortization related to acquired above and below market lease costs and acquired in-place lease intangibles for the years ended December 31, 2023 and 2022.

	Year ended December 31,	
	2023	2022
Amortization of:		
Acquired above market lease	$ (4)	$ —
Acquired below market lease	11	24
Net revenues increase	$ 7	$ 24
Acquired in-place lease intangibles	$ 103	$ —

The following table presents the amortization during the next five years and thereafter related to intangible assets and liabilities as of December 31, 2023.

	2024	2025	2026	2027	2028	Thereafter	Total
Amortization of:							
Acquired above market lease	$ (15)	$ (15)	$ (15)	$ (15)	$ (15)	$ (17)	$ (92)
Acquired below market lease	14	9	4	4	4	—	35
Net revenues increase	$ (1)	$ (6)	$ (11)	$ (11)	$ (11)	$ (17)	$ (57)
Acquired in-place lease intangibles	$ 317	$ 26	$ 26	$ 26	$ 26	$ 24	$ 445

8. Debt

Total debt outstanding as of December 31, 2023 and 2022 was as follows:

	2023	2022
Debt, gross	$ 124,817	$ 62,411
Mortgage discount	(2,074)	(212)
Deferred financing costs, net	(1,812)	(541)
Total Debt, net	$ 120,931	$ 61,658

As of December 31, 2023, the Company's outstanding mortgage indebtedness included 11 mortgage loans with various maturities through January 2036, as follows:

For the year ended December 31,	As of December 31, 2023	Weighted average interest rate
2024	$ —	— %
2025	20,000	5.86 % (1)
2026	23,742	4.56 %
2027	11,203	3.99 %
2028	—	— %
Thereafter	69,872	5.91 % (1)
Total	$ 124,817	5.47 %

(1) See below for discussion of the derivative agreements entered into with the mortgage loans obtained on Trimble and The Muse. For Trimble (2025), the interest rate in the table above is the fixed rate. For The Muse (thereafter), the interest rate is the rate in effect at December 31, 2023

The Company obtained a loan on November 9, 2023 which was secured by a mortgage encumbering The Muse, one of the Company's multi-family investment properties. The loan has a principal balance of $19,496, matures on November 1, 2033 and requires interest-only payments through December 1, 2028 and principal and interest payments thereafter. The interest rate is variable and was 7.39% at December 31, 2023. In conjunction with the loan closing, the company purchased an interest rate cap contract to cap the interest at 7.44% through its November 1, 2026 expiration at which point the Company is required to purchase a new cap contract.

The Company’s mortgage and the related swap agreement on The Locale had an initial maturity date of September 1, 2023. Prior to the initial maturity date, the Company exercised the one-year extension option provided for in the loan documents and entered into a new swap agreement to fix the interest rate at 7.34% and extend the maturity date to September 1, 2024. On November 8, 2023, the Company placed permanent financing on The Locale and simultaneously repaid the $17,112 outstanding balance on the extended loan and terminated the swap agreement. The new loan matures on December 1, 2030, has a principal balance of $17,700, bears interest at a fixed rate of 6.49% and requires interest-only payments for the duration of its 7-year term.

On September 20, 2023, the Company assumed two mortgage loans in the total principal amount of $11,258, net of a debt discount of $1,951 in connection with the acquisition of The Q Lofts. The carrying value of the assumed debt was marked to fair value as of the acquisition date. According to the terms of the loan agreements, the contractual fixed rates are 4.61% and 4.50%, require payments of principal and interest and the maturity date of both loans is January 1, 2036. The debt discount will be amortized to interest expense over the life of the loans.

The Company obtained a loan on April 6, 2023 which was secured by a mortgage encumbering one of the buildings comprising the Trimble office investment property. The building is approximately 97,000 square feet and is currently occupied by Veeco Instruments, Inc. The loan secured by a mortgage on this Trimble building has a principal amount of $20,000, $4,000 of which is guaranteed by the Company. The loan matures on April 6, 2025, with a 12-month extension option, provided certain criteria are met at the time of extension. Simultaneously with the loan closing, we entered into a swap arrangement to fix the interest rate at 5.86% for the term of the loan.

The Company obtained a loan on January 24, 2023 which was secured by a mortgage encumbering Tennyson, one of the Company’s multi-family investment properties. The loan has a principal balance of $10,250. The loan matures on February 1, 2030, bears interest at a fixed rate of 4.84% and requires interest-only payments for the duration of its 7-year term.

The Company obtained two loans on June 30, 2022 which were each secured by a mortgage encumbering one of the Company's multi-family investment properties. The loan secured by a mortgage on Kenilworth Court has a principal amount of $3,784, and the loan secured by a mortgage on The Lafayette has a principal amount of $5,481. Both loans mature on July 1, 2032, bear interest at a fixed rate of 4.74% and require interest-only payment for the duration of their 10-year term.

The Company's ability to pay off the mortgages when they become due is dependent upon the Company's ability either to refinance the related mortgage debt or to sell the related investment property. With respect to each mortgage loan, if the applicable wholly-owned property-owning subsidiary is unable to refinance or sell the related investment property, or in the event that the estimated value is less than the mortgage balance, the applicable wholly-owned property-owning subsidiary may, if appropriate, satisfy a mortgage obligation by transferring title of the investment property to the lender or permitting a lender to foreclose. As of December 31, 2023, the Company guaranteed one mortgage loan up to $4,000 and as of December 31, 2022, none of our mortgage debt was recourse to the Company. However, Highlands or its subsidiaries may act as guarantor under customary, non-recourse, carve-out guarantees in connection with obtaining mortgage loans on certain of our investment properties.

The loan documents governing the mortgage that encumbered State Street Market included a “cash trap” provision that was triggered when DICK'S Sporting Goods, which was an anchor tenant at the investment property, failed to renew its lease agreement. The lender exercised its right to trigger this “cash trap” provision, and, beginning in the fourth quarter of 2020, all of the cash flows from State Street Market which would otherwise have been available for our use were trapped into a blocked account controlled by the lender pending approval of a substitute lease or repayment of the loan. The Company sold State Street Market on March 10, 2022 and the mortgage, with an outstanding principal balance of $8,677 at the time of sale, was simultaneously repaid. The funds previously trapped and held by the lender, along with all required lender escrows, totaling $2,000, were returned to the Company in April 2022.

Some of the mortgage loans require compliance with certain covenants, such as debt service coverage and net worth ratios. As of December 31, 2023 and 2022, the Company is in compliance with such covenants.

9. Fair Value Measurements

In accordance with ASC 820, Fair Value Measurement and Disclosures, the Company defines fair value based on the price that would be received upon sale of an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy consists of three broad levels, which are described below:

- Level 1 - Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 - Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company has estimated fair value using available market information and valuation methodologies the Company believes to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, accordingly, they are not necessarily indicative of amounts that would be realized upon disposition.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of debt funding and, to a limited extent, the use of derivative financial instruments. Specifically, the Company may enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments, described below, are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company may use interest rate swaps or caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. We do not enter into derivative financial instruments for speculative purposes. As of December 31, 2023, we had two derivative financial instruments designated as cash flow hedges. The interest rate swap on Trimble had an original notional amount of $20,000 and a maturity date of April 6, 2026. The interest rate cap on The Muse had an original notional amount of $19,496 and a maturity date of November 1, 2026. As of December 31, 2022, we had one derivative financial instrument designated as a cash flow hedge, with an original notional amount of $18,750 and a maturity date of September 1, 2023. These derivatives are measured at fair value on a recurring basis.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income on the consolidated balance sheets and is subsequently reclassified into interest expense in the same period during which the hedged transaction affects earnings. The amounts recorded as other comprehensive income related to our derivative financial instrument was $369 and $621 for the years ended December 31, 2023 and 2022, respectively. Realized gains and losses will be recognized as they accrue in interest expense.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate debt. The Company estimates that $150 will be reclassified as a decrease to interest expense over the next twelve months.

The table below presents the fair value of the Company's derivative financial instrument as well as its classification on the consolidated balance sheets as of December 31, 2023 and 2022, respectively.

	December 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Derivative financial instruments designated as cash flow hedges:				
Classified as "Deferred costs and other assets, net"	$ —	$ 97	$ —	$ 97
	December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Derivative financial instruments designated as cash flow hedges:				
Classified as "Deferred costs and other assets, net"	$ —	$ 383	$ —	$ 383

The fair value of our derivative financial instruments were determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of the derivative financial instrument. This analysis reflected the contractual terms of the derivative, including the period to maturity, and used observable market-based inputs, including interest

rate market data and implied volatilities in such interest rates. While it was determined that the majority of the inputs used to value the derivative fall within Level 2 of the fair value hierarchy under authoritative accounting guidance, the credit valuation adjustments associated with the derivative also utilized Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default. However, as of December 31, 2023, the significance of the impact of the credit valuation adjustments on the overall valuation of the derivative financial instrument was assessed, and it was determined that these adjustments were not significant to the overall valuation of the derivative financial instrument. As a result, it was determined that the derivative financial instrument in its entirety should be classified in Level 2 of the fair value hierarchy.

Non-Recurring Measurements

In accordance with ASC 360-10, the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. During the years ended December 31, 2023 and 2022, events and circumstances indicated that certain investment properties might be impaired. However, the Company's estimate of undiscounted cash flows indicated that such carrying values were expected to be recovered. Nonetheless, it is reasonably possible that the estimate of undiscounted cash flows may change in the future resulting in the need to write down assets to fair value.

Financial Liabilities Disclosed at Fair Value on a Recurring Basis

The table below presents the fair value of financial instruments presented at carrying values in the consolidated financial statements as of December 31, 2023 and 2022.

	December 31, 2023		December 31, 2022	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Debt, net	$ 124,817	$ 119,242	$ 62,411	$ 57,474

The Company estimates the fair value of its debt instruments using a weighted average market effective interest rate of 6.69% and 7.44% per annum as of December 31, 2023 and 2022, respectively. The Company estimates the fair value of its mortgage loans by discounting the anticipated future cash flows of each instrument at rates currently offered to the Company by its lenders for similar debt instruments of comparable maturities. The rates used are based on credit spreads observed in the marketplace during the quarter for similar debt instruments, and a floor rate that the Company has derived using its subjective judgment for each asset segment. Based on this, the Company determines the appropriate rate for each of its individual mortgage loans based upon the specific terms of the agreement, including the term to maturity, the quality and nature of the underlying investment property and its leverage ratio. The weighted average market effective interest rates used a range from 5.52% to 9.66% and 5.76% to 8.83% as of December 31, 2023 and 2022, respectively. The assumptions reflect the terms currently available on similar borrowing terms to borrowers with credit profiles similar to the Company's. The Company has determined that its debt instrument valuations are classified in Level 2 of the fair value hierarchy.

10. Income Taxes

The Company is taxed and operates in a manner that will allow the Company to continue to qualify as a REIT for U.S. federal income tax purposes. So long as it maintains its qualification as a REIT, the Company generally will not be subject to U.S. federal income tax on taxable income that is distributed to stockholders. A REIT is subject to a number of organizational and operational requirements, including a requirement that it distribute at least 90% of its REIT taxable income (subject to certain adjustments) to its stockholders each year. If the Company fails to continue to qualify as a REIT in any taxable year, without the benefit of certain relief provisions, the Company will be subject to U.S. federal and state income tax on its taxable income at regular corporate tax rates and would not be able to re-elect REIT status during the four years following the year of the failure. Although the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and U.S. federal income and excise taxes on its undistributed income.

MB REIT is currently disregarded as a separate entity from the Company for U.S. federal income tax purposes and is a Qualified REIT Subsidiary ("QRS") of the Company. All assets, liabilities and items of income, deduction and credit of MB REIT are treated for U.S. federal income tax purposes as those of the Company.

During the years ended December 31, 2023 and 2022, no income tax benefit or expense was included in the consolidated statements of operations and comprehensive loss.

Uncertain Tax Positions

The Company had no unrecognized tax benefits as of or for the years ended December 31, 2023 and 2022. The Company expects no significant increases or decreases in unrecognized tax benefits due to changes in tax positions within one year of December 31, 2023. The Company has no material interest or penalties relating to income taxes recognized in the consolidated statements of operations and comprehensive loss for the years ended December 31, 2023 and 2022 or in the consolidated balance sheets as of December 31, 2023 and 2022. As of December 31, 2023, the Company's, including its predecessors, 2022, 2021 and 2020 tax years remain subject to examination by U.S. and various state tax jurisdictions.

11. Segment Reporting

GAAP has established guidance for reporting information about a company's operating segments. The Company monitors and reviews its segment reporting structure in accordance with guidance under FASB ASC Topic 280, Segment Reporting ("ASC 280") to determine whether any changes have occurred that would impact its reportable segments. The Company currently has two business segments, consisting of multi-family and other.

The following table summarizes net operating income by segment for the years ended December 31, 2023 and 2022.

	For the year ended December 31, 2023			For the year ended December 31, 2022		
	Total	**Multi-family**	**Other**	**Total**	**Multi-family**	**Other**
Rental income	$ 30,046	$ 16,712	$ 13,334	$ 30,436	$ 15,727	$ 14,709
Other property income	935	935	—	920	905	15
Total revenues	30,981	17,647	13,334	31,356	16,632	14,724
Operating expenses	14,263	8,069	6,194	14,391	7,691	6,700
Net operating income	$ 16,718	$ 9,578	$ 7,140	$ 16,965	$ 8,941	$ 8,024
Non-allocated expenses (1)	(23,271)			(22,069)		
Other income and expenses (2)	(3,745)			(2,540)		
Loss on sale of investment properties (3)	—			(6)		
Net loss	$ (10,298)			$ (7,650)		
Balance Sheet Data						
Real estate assets, net	$ 309,539	$ 198,220	$ 111,319	$ 275,554	$ 171,457	$ 104,097
Non-segmented assets (4)	31,613			39,560		
Total assets	$ 341,152			$ 315,114		
Capital expenditures	$ 9,004	$ 643	$ 8,361	$ 2,624	$ 861	$ 1,763

(1) Non-allocated expenses consists of general and administrative expenses and depreciation and amortization.

(2) Other income and expenses consists of interest income and interest expense.

(3) Loss on the sale of investment properties is related to State Street Market.

(4) Non-segmented assets include cash and cash equivalents, restricted cash and escrows, accounts receivable and deferred costs and other assets, net.

12. Share Based Compensation

Incentive Award Plan

On April 28, 2016, the board of directors adopted, ratified and approved the Highlands REIT, Inc. 2016 Incentive Award Plan (the "Incentive Award Plan"), under which the Company may grant cash and equity-based incentive awards to eligible

employees, directors, and consultants. Prior to the Company's spin-off from InvenTrust, the board of directors of the Company (then a wholly-owned subsidiary of InvenTrust) adopted, and InvenTrust, as the sole stockholder of Highlands, approved, the Incentive Awards Plan.

For the year ended December 31, 2023, the Company granted 4,779 of fully vested shares of common stock with an aggregate value of $1,515 based on a weighted average estimated fair value per share of $0.32. During the year ended December 31, 2022, the Company granted 5,149 of fully vested shares of common stock with an aggregate value of $1,445 based on a weighted average estimated fair value per share of $0.28.

Under the Incentive Award Plan, the Company was initially authorized to grant up to 43,000 shares of the Company's common stock pursuant to awards under the plan. On August 12, 2021, the board of directors increased the authorized number of shares of its Common Stock under the Incentive Award Plan from 43,000 to 67,000 pursuant to that certain Second Amendment to Highlands REIT, Inc. 2016 Incentive Award Plan, dated as of August 12, 2021.
At December 31, 2023, 11,616 shares were available for future issuance under the Incentive Award Plan. A summary of the Company's stock awards activity as of December 31, 2023 is as follows:

Non-Vested stock awards	Stock Awards	Weighted Average Grant Date Fair Value
Balance at January 1, 2023	—	$ —
Granted	4,779	—
Vested	(4,779)	—
Other		—
Balance at December 31, 2023	—	$ —

The Company recognized stock-based compensation expense for the years ended December 31, 2023 and 2022 of $1,537 and $1,467, respectively, related to the Incentive Award Plan. For the years ended December 31, 2023 and 2022, the Company paid $649 and $618, respectively, related to tax withholding for share-based compensation.

13. Repurchase of Shares

On October 24, 2023, we launched a modified "Dutch Auction" self-tender offer in an effort to provide a liquidity option for certain of our stockholders who elected to tender their stock while at the same time balancing the best interests of the Company and of those stockholders who wished to remain invested in the Company. We believe that the tender offer provided an efficient mechanism to provide our stockholders who desired immediate liquidity with the opportunity to tender shares, while also providing a benefit to those stockholders who did not participate, as such stockholders automatically increased their relative percentage ownership interest in the Company and our future operations, including any liquidity events that we may have in the future.

On December 8, 2023, the tender offer closed with the repurchase of 169,391 shares of common stock at a price per share of $0.14. Total cash required to complete the tender offer was $25,239, including all costs and fees of the tender offer.

14. Commitments and Contingencies

The Company is subject, from time to time, to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of these matters cannot be predicted with certainty, management believes, based on currently available information, that the final outcome of such matters will not have a material adverse effect on the financial statements of the Company.

Highlands has also agreed to indemnify InvenTrust against all taxes related to the Company and its assets, including taxes attributable to periods prior to the separation and distribution. InvenTrust has agreed to indemnify the Company for any taxes attributable to the failure of InvenTrust's or MB REIT (Florida). Inc., a subsidiary of the Company, to maintain its qualification as a REIT for any taxable year ending on or before December 31, 2016.

In February 2021, the Company executed a lease with Veeco Instruments, Inc. for approximately 97,000 square feet at Trimble. The lease required a significant tenant allowance, which is being accounted for as lessor-owned improvements, and a broker commission. The total cost commitment was estimated to be approximately $9,100. As of December 31, 2023, we estimate that remaining costs to be paid under this commitment are approximately $673. The tenant began paying cash rent on January 1, 2023. The remainder of the tenant allowance will be paid by the Company upon final request by tenant.

In November 2022, the Company executed a lease with XP Power, LLC for approximately 80,000 square feet at Trimble. Rental payments under this lease commenced in January 2024. The lease required significant landlord work, a tenant allowance, which will be accounted for as lessor-owned improvements, and leasing commission. The total cost commitment is estimated to be approximately $13,200. As of December 31, 2023, we estimate that remaining costs to be paid under this commitment are approximately $3,775.

15. Subsequent Events

On February 5, 2024, the Company sold both industrial properties to the tenant. The St. Paul, Minnesota location was sold at a price of $13,325 and the New Ulm, Minnesota location was sold at a price of $7,175. After paying closing expenses, we received approximately $20,300 in proceeds from the sale of these properties.

HIGHLANDS REIT, INC.
Schedule III
Real Estate and Accumulated Depreciation
(Amounts in thousands)

		Initial Cost (A)				Gross amount at which carried at end of period				
	Encumbrance	Land	Buildings and Improvements	Adjustments to Land Basis (B)	Adjustments to Building Basis (B)	Land	Buildings and Improvements	Total (C)	Accumulated Depreciation (D,E)	Date of Completion of Construction or Acquisition
Multi-family										
1620 Central Street Evanston, IL	$ —	$ 3,075	$ 17,140	$ —	$ 161	$ 3,075	$ 17,301	$ 20,376	$ 3,441	2018
Buerger Brothers Lofts Denver, CO	—	3,117	7,114	—	671	3,117	7,785	10,902	1,760	2017
Chamber Lofts Denver, CO	—	2,797	6,388	—	515	2,797	6,903	9,700	1,561	2017
Kenilworth Court Denver, CO	3,784	2,496	3,203	—	39	2,496	3,242	5,738	615	2018
Tennyson Denver, CO	10,250	1,533	17,410	—	48	1,533	17,458	18,991	2,871	2019
The Detroit and Detroit Terraces Denver, CO	11,203	3,370	15,006	—	97	3,370	15,103	18,473	2,713	2019
The Lafayette Denver, CO	5,481	2,457	7,067	—	228	2,457	7,295	9,752	1,478	2018
The Locale Allendale, MI	17,700	4,294	22,461	—	720	4,294	23,181	27,475	4,462	2019
The Muse Denver, CO	19,496	5,303	42,809	—	166	5,303	42,975	48,278	6,274	2019
The Q Lofts San Diego, CA	13,161	8,856	22,877	—	—	8,856	22,877	31,733	202	2023
The Sterling San Diego, CA	—	1,849	5,407	—	30	1,849	5,437	7,286	698	2020
The View San Diego, CA	—	7,272	8,862	—	667	7,272	9,529	16,801	1,748	2019
Other										
Buckhorn Plaza Bloomsburg, PA	9,357	1,651	11,770	(35)	2,292	1,616	14,062	15,678	8,961	2006
Hudson Correctional Facility Hudson, CO	—	1,382	—	(1,382)	—	—	—	—	—	2009
Palazzo Del Lago Orlando, FL	—	8,938	—	—	19	8,938	19	8,957	10	2010
Sherman Plaza Evanston, IL	—	9,655	30,982	—	12,633	9,655	43,615	53,270	24,066	2006
The Market at Hilliard Hilliard, OH	14,385	4,432	13,308	—	4,537	4,432	17,845	22,277	10,294	2005

HIGHLANDS REIT, INC.
Schedule III
Real Estate and Accumulated Depreciation
(Amounts in thousands)

		Initial Cost (A)				Gross amount at which carried at end of period				
	Encumbrance	Land	Buildings and Improvements	Adjustments to Land Basis (B)	Adjustments to Building Basis (B)	Land	Buildings and Improvements	Total (C)	Accumulated Depreciation (D,E)	Date of Completion of Construction or Acquisition
Trimble San Jose, CA	20,000	12,732	10,045	—	12,633	12,732	22,678	35,410	5,057	2013
Versacold USA - St. Paul St. Paul, MN	—	3,890	10,093	—	—	3,890	10,093	13,983	5,698	2007
Versacold USA - New Ulm New Ulm, MN	—	900	9,359	—	—	900	9,359	10,259	5,291	2007
Corporate	—	—	—	—	29	—	29	29	16	N/A
Totals	$ 124,817	$ 89,999	$ 261,301	$ (1,417)	$ 35,485	$ 88,582	$ 296,786	$ 385,368	$ 87,216	

HIGHLANDS REIT, INC.
Schedule III
Real Estate and Accumulated Depreciation
(Amounts in thousands)

Notes to Schedule III:

The aggregate cost of real estate owned at December 31, 2023 for U.S. federal income tax purposes was approximately $479,131 (unaudited).

A. The initial cost to the Company represents the original purchase price of the investment property, including amounts incurred subsequent to acquisition which were contemplated at the time the investment property was acquired.

B. Adjustments to basis include provisions for asset impairments, partial dispositions and costs capitalized subsequent to acquisitions.

C. Reconciliation of real estate owned:

	2023	2022
Balance at January 1	$ 351,958	$ 353,555
Acquisitions and capital improvements	33,410	8,676
Dispositions and write-offs	—	(10,273)
Balance at December 31,	$ 385,368	$ 351,958

D. Reconciliation of accumulated depreciation:

	2023	2022
Balance at January 1	$ 76,888	$ 67,478
Depreciation expense	10,328	10,136
Dispositions and write-offs	—	(726)
Balance at December 31,	$ 87,216	$ 76,888

E. Depreciation is computed based upon the following estimated lives:

Buildings and improvements	30 years
Tenant improvements	Life of the lease
Furniture, fixtures, & equipment and site improvements	5-15 years

Item 9. Changes in or Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15(b) and Rule 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, including our principal executive officer and our principal financial officer evaluated, as of December 31, 2023, the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and Rule 15d-15(e) of the Exchange Act. Based on that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures, as of December 31, 2023, were effective at a reasonable assurance level for the purpose of ensuring that information required to be disclosed by us in this report 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 our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Management's Annual Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting pursuant to Exchange Act Rules 13a-15(f) and 15d-15(f) as of December 31, 2023. Our management, including our principal executive officer and principal financial officer evaluated the effectiveness of our internal controls over financial reporting based on the framework in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Based on its evaluation, our management has concluded that we maintained effective internal control over financial reporting as of December 31, 2023.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the quarter ended December 31, 2023 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

2024 Annual Meeting of Stockholders Record Date

The Board established the close of business on March 8, 2024 as the record date for determining stockholders entitled to vote at our 2024 Annual Meeting of Stockholders, expected to be held on May 9, 2024.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not Applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

Except as set forth below, the information called for by this Item is contained in our definitive Proxy Statement for our 2024 Annual Meeting of Stockholders, and is incorporated herein by reference.

Executive Officers of the Registrant

Richard Vance, age 60, has served as a director and our President and Chief Executive Officer since our formation in December 2015. Prior to our spin-off from InvenTrust Properties Corp. ("*InvenTrust*"), Mr. Vance served as Senior Vice President - Portfolio Management & Corporate Strategy for InvenTrust, where he was responsible for managing InvenTrust's "non-core"

portfolio with regard to asset management, property operations and leasing. Beginning in 2013 and until InvenTrust's self-management in 2014, Mr. Vance served as Vice President for InvenTrust's former business manager, and, following InvenTrust's self-management, Mr. Vance continued to serve as Vice President for InvenTrust until 2015. In this role, Mr. Vance had various responsibilities, including spearheading InvenTrust's self-management and various asset management responsibilities. Beginning in 2010, Mr. Vance began working with InvenTrust's former business manager and former property manager as an independent consultant, and was primarily responsible for managing a diverse portfolio of InvenTrust's office, industrial and retail assets. Mr. Vance has more than 20 years of experience in commercial real estate and commercial real estate finance, including various positions prior to 2010 with GMAC Commercial Mortgage, Equity Residential, Deutsche Bank, Ernst & Young or their affiliates. Mr. Vance received a Master of Business Administration degree from the University of Michigan-Ann Arbor, a Juris Doctor from Loyola University of Chicago, and a Bachelor of Arts from the University of Michigan-Flint.

Robert J. Lange, age 41, has served as Executive Vice President, General Counsel and Secretary of Highlands since June 2016. On January 22, 2021, Mr. Lange was appointed to serve as Chief Operating Officer of the Company. As General Counsel, Mr. Lange is responsible for all legal functions at Highlands and as Chief Operating Officer, Mr. Lange is charged with overseeing its operations, including strategic planning, non-core asset management, investor relations, human resource matters, risk management, as well as property and corporate insurance. Prior to joining Highlands in 2016, Mr. Lange was Vice President, Head Corporate Counsel and Assistant Secretary at InvenTrust Properties Corp. In that capacity, he oversaw all aspects of InvenTrust's corporate legal affairs, including material transactions, governance, public company reporting and compliance, employee matters and executive compensation and benefits. Prior to joining InvenTrust in 2014, Mr. Lange practiced law at Skadden Arps Slate Meagher & Flom LLP, where he represented companies in mergers and acquisitions and advised clients on a broad variety of general corporate matters. Mr. Lange received a Bachelor of Business Administration degree, with distinction, from the University of Wisconsin – Madison and a Juris Doctor degree, with honors, from the University of Chicago.

Kimberly A. Karas, age 48, serves as Highlands' Chief Accounting Officer, Senior Vice President and Treasurer. Prior to joining Highlands, Ms. Karas was Vice President of Finance for Link Industrial Properties (formerly Gateway Industrial Properties), a Blackstone platform company. Blackstone is one of the largest real estate private equity firms in the world. Ms. Karas served as Vice President and Controller of IRC Retail Centers (formerly Inland Real Estate Corporation) and served as a member of its Management Committee. In this role, Ms. Karas oversaw the corporate accounting function, with responsibilities over SEC reporting, preparation of consolidated financial statements, maintenance of accounting policies and procedures, compliance with Sarbanes-Oxley and coordination of annual audits and tax return filings. Ms. Karas earned her Bachelor of Science in Accounting from the University of Illinois at Chicago.

Code of Ethics

Our board has adopted a code of ethics and business conduct (the "Code of Ethics and Business Conduct") applicable to our directors, officers and employees, which is available on our website at www.highlandsreit.com through the "Investor Relations - Governance Documents" tab. In the event that the Company amends or waives any of the provisions of the Code of Ethics that applies to the Company's Chief Executive Officer or Principal Accounting Officer, and other senior financial officers performing similar functions, the Company intends to disclose the subsequent information on its website. In addition, printed copies of the Code of Ethics and Business Conduct are available to any stockholder, without charge, by writing us at Highlands REIT, Inc., Attn: Corporate Secretary, 1 South Dearborn Street, 20th Floor, Chicago, Illinois 60603.

Item 11. Executive Compensation.

The information called for by this Item is contained in our definitive Proxy Statement for our 2024 Annual Meeting of Stockholders, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Except as set forth below, the information called for by this Item is contained in our definitive Proxy Statement for our 2024 Annual Meeting of the Stockholders, and is incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information regarding securities authorized for issuance under our equity compensation plans, as of December 31, 2023.

	(a)	(b)	(c)
Plan category	Number of securities to be issued upon exercise of outstanding rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders			
Highlands REIT, Inc. 2016 Incentive Award Plan	—	—	11,616
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	11,616

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information called for by this Item is contained in our definitive Proxy Statement for our 2024 Annual Meeting of Stockholders, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information called for by this Item is contained in our definitive Proxy Statement for our 2024 Annual Meeting of Stockholders, and is incorporated herein by reference.

Part IV.

Item 15. Exhibits and Financial Statement Schedules

(a) List of documents filed:

i. Financial Statements:

1. Report of Independent Registered Public Accounting Firm
2. The consolidated financial statements of the Company are set forth in the report in Item 8.

ii. Financial Statement Schedules:

1. Real Estate and Accumulated Depreciation (Schedule III)
2. All schedules other than those indicated in the index have been omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

iii. Exhibits:

1. The list of exhibits filed as part of this Annual Report is set forth on the Exhibit Index attached hereto.

(b) Exhibits:

i. The exhibits filed in response to Item 601 of Regulation S-K are listed on the Exhibit Index attached hereto.

(c) Financial Statement Schedules

All schedules other than those indicated in the index have been omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

Item 16. Form 10-K Summary

Omitted at registrant's option.

EXHIBIT NO.	DESCRIPTION
2.1	Separation and Distribution Agreement between Highlands REIT, Inc. and InvenTrust Properties Corp., dated as of April 15, 2016 (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on April 14, 2016)
3.1	Articles of Amendment and Restatement of Highlands REIT, Inc. (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, filed with the Securities and Exchange Commission on April 27, 2016)
3.2	Amended and Restated Bylaws of Highlands REIT, Inc. (incorporated by reference to Exhibit 3.2 to the Company’s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 15, 2023)
4.1	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (incorporated by reference to Exhibit 4.1 to the Company’s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 20, 2020)
10.1	Transition Services Agreement between Highlands REIT, Inc. and InvenTrust Properties Corp., dated as of April 28, 2016 (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on April 14, 2016)
10.2	Employee Matters Agreement between Highlands REIT, Inc. and InvenTrust Properties Corp., dated as of April 28, 2016 (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on April 14, 2016)
10.3#	Highlands REIT, Inc. 2016 Incentive Award Plan (incorporated by reference to Exhibit 99.1 to the Company’s Registration Statement on Form S-8, filed with the Securities and Exchange Commission on April 27, 2016)
10.4#	Form of Indemnification Agreement entered into between Highlands REIT, Inc. and each of its directors and executive officers (incorporated by reference to Exhibit 10.5 of Company’s Registration Statement on Form 10, filed with the Securities and Exchange Commission on March 18, 2016)
10.5#	Form of Highlands REIT, Inc. 2016 Incentive Award Plan Stock Payment Award Grant Notice (incorporated by reference to Exhibit 10.8 to the Company’s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 10, 2016)
10.6#	First Amendment to Highlands REIT, Inc. 2016 Incentive Award Plan (incorporated by reference to Exhibit 10.5 to the Company’s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 10, 2016)
10.7#	Second Amendment to Highlands REIT, Inc. 2016 Incentive Award Plan (incorporated by reference to Exhibit 4.3 to the Company's Form S-8, filed with the Securities and Exchange Commission on August 12, 2021)
10.8#	Highlands REIT, Inc. Director Compensation Program (incorporated by reference to Exhibit 10.9 of Amendment No. 1 to the Company’s Registration Statement on Form 10, filed with the Securities and Exchange Commission on April 8, 2016)
10.9#	Highlands REIT, Inc. Retention Bonus Plan (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q, filed with the Securities Exchange Commission on August 12, 2016)
10.10#	Amended and Restated Executive Employment Agreement, dated April 12, 2023, by and between Highlands REIT, Inc. and Richard Vance (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 14, 2023)
10.11#	Amended and Restated Executive Employment Agreement, dated April 12, 2023, by and between Highlands REIT, Inc. and Robert J. Lange (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 14, 2023)
10.12#	Executive Employment Agreement, dated April 12, 2023, by and between Highlands REIT, Inc. and Kimberly Karas (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 14, 2023)
21.1*	List of Subsidiaries
23.1*	Consent of Grant Thornton LLP
31.1*	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document

EXHIBIT NO.	DESCRIPTION
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Link Document
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed as part of this Annual Report on Form 10-K.

\# Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

HIGHLANDS REIT, INC.

By: /s/ Richard Vance
Name: Richard Vance
Title: President and Chief Executive Officer
(Principal Executive Officer)
Date: March 14, 2024

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Richard Vance Richard Vance	President and Chief Executive Officer (Principal Executive Officer) and Director	March 14, 2024
/s/ Kimberly A. Karas Kimberly A. Karas	Senior Vice President, Chief Accounting Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 14, 2024
/s/ R. David Turner R. David Turner	Director and Chairman	March 14, 2024
/s/ Jeffrey L. Shekell Jeffrey L. Shekell	Director	March 14, 2024

Exhibit 21.1

List of Subsidiaries

Entity Name	***Jurisdiction of Incorporation or Formation***
1560 Downing LLC	Delaware
1620 Central LLC	Delaware
355 Trimble Owner LLC	Delaware
455 Trimble Owner LLC	Delaware
Champa Street Lofts, LLC	Delaware
Detroit Street Denver LLC	Delaware
Highlands Property Management, LLC	Delaware
HRI Vue Venture LLC	Delaware
IA New Ulm Atlas, L.L.C.	Delaware
IA Orlando Palazzo, L.L.C.	Delaware
IA St. Paul Atlas, L.L.C.	Delaware
IVT PPD Hudson Associates, L.L.C.	Delaware
MB Bloomsburg Buckhorn LLC	Delaware
MB Columbus Hilliard, L.L.C.	Delaware
MB Evanston Sherman, L.L.C.	Delaware
MB Lincoln Mall, L.L.C.	Delaware
MB REIT (Florida), Inc.	Florida
Tennyson 44 Owner LLC	Delaware
The Lafayette Denver, LLC	Delaware
The Muse Owner LLC	Delaware
The Q Lofts Owner, LLC	Delaware
The Q Lofts Unit 1 Owner, LLC	Delaware
The Sterling Owner LLC	Delaware
The View Owner LLC	Delaware
Trimble-Junction Ventures, LLC	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 14, 2024, with respect to the consolidated financial statements included in the Annual Report of Highlands REIT, Inc. on Form 10-K for the year ended December 31, 2023. We consent to the incorporation by reference of said report in the Registration Statement of Highlands REIT, Inc. on Form S-8 (File No. 333-258767).

/s/ GRANT THORNTON LLP

Chicago, Illinois March 15, 2023

Exhibit 31.1

Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Richard Vance, certify that:

1. I have reviewed this Annual Report on Form 10-K of Highlands REIT, Inc.;

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(s) 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(s) 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: March 14, 2024

/s/ Richard Vance

Name: Richard Vance

Title: President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kimberly A. Karas, certify that:

1. I have reviewed this Annual Report on Form 10-K of Highlands REIT, Inc.;

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(s) 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(s) 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: March 14, 2024

/s/ Kimberly A. Karas

Name: Kimberly A. Karas

Title: Senior Vice President, Chief Accounting Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

Certification of Principal Executive Officer
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 Annual Report on Form 10-K of Highlands REIT, Inc. (the “Company”) for the year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to such officer’s knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 14, 2024

/s/ Richard Vance
Name: Richard Vance
Title: President and Chief Executive Officer (Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as a part of the Report or on a separate disclosure document.

Exhibit 32.2

Certification of Principal Financial Officer
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 Annual Report on Form 10-K of Highlands REIT, Inc. (the "Company") for the year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to such officer's knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 14, 2024

/s/ Kimberly A. Karas
Name: Kimberly A. Karas
Title: Senior Vice President, Chief Accounting Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as a part of the Report or on a separate disclosure document.