BLACKSTONE MORTGAGE TRUST, INC.
Form 424B5
November 30, 2017
Table of Contents

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 30, 2017

Preliminary Prospectus Supplement

(To Prospectus dated July 29, 2016)

10,800,000 Shares

Blackstone Mortgage Trust, Inc.

Class A Common Stock

Blackstone Mortgage Trust, Inc., a Maryland corporation, is a real estate finance company that originates and purchases senior loans collateralized by properties in North America and Europe. We are externally managed and advised by BXMT Advisors L.L.C., a Delaware limited liability company, or our Manager, an affiliate of The Blackstone Group L.P., which we refer to as Blackstone. We conduct our operations as a real estate investment trust, or REIT, for U.S. federal income tax purposes. To assist us in qualifying as a REIT, among other purposes, stockholders generally will be restricted from owning more than 9.9% in value or number of shares, whichever is more restrictive, of the outstanding shares of our capital stock or of our class A common stock. In addition, our charter contains various other restrictions on the ownership and transfer of our class A common stock. See Description of Capital Stock Certain Provisions of Our Charter and Bylaws and of Maryland Law in the accompanying prospectus for a description of these restrictions.

We are offering 10,800,000 shares of our class A common stock. All of the shares of our class A common stock offered by this prospectus supplement are being sold by us. Our class A common stock is traded on the New York Stock Exchange, or NYSE, under the symbol BXMT. The last reported price of our class A common stock on the NYSE on November 29, 2017 was $32.86 per share.

Investing in our class A common stock involves risks. See Risk Factors beginning on page S-4 of this prospectus supplement and in the reports we file with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, incorporated by reference in this prospectus supplement or the accompanying prospectus, to read about factors you should consider before buying shares of our class A common stock.

None of the Securities and Exchange Commission, any state securities commission, or any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The underwriters have agreed to purchase the shares of our class A common stock offered by this prospectus supplement from us at a price of $ per share, which will result in approximately $ million of total net proceeds to us before expenses payable by us. The underwriters may offer the shares of our class A common stock from time to time for sale in one or more transactions on the NYSE, in the over-the-counter market, through negotiated transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. See Underwriting.

The underwriters will have the option to purchase within 30 days from the date of this prospectus supplement up to an additional 1,620,000 shares of our class A common stock from us.

We have agreed to reimburse the underwriters for certain expenses in connection with this offering. See Underwriting.

The underwriters expect to deliver the shares against payment in New York, New York on or about December , 2017 through the book-entry facilities of The Depository Trust Company.

Joint Book-Running Managers

Citigroup **BofA Merrill Lynch** **Barclays** **J.P. Morgan** **Morgan Stanley** **Wells Fargo Securities**

Prospectus Supplement dated November , 2017

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

You should rely only on the information contained in this prospectus supplement, the accompanying prospectus or in any free writing prospectus prepared by us or information to which we have referred you, including any information incorporated by reference. We have not, and the underwriters have not, authorized any other person to provide you with additional information or information different from that contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or in any free writing prospectus. We are not, and the underwriters are not, making an offer to sell shares of class A common stock in any jurisdiction where the offer or sale is not permitted.

You should assume that the information appearing in this prospectus supplement, the accompanying prospectus or in any free writing prospectus prepared by us is accurate only as of their respective dates or on the date or dates which are specified in such documents, and that any information in documents that we have incorporated by reference is accurate only as of the date of such document incorporated by reference. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

S-i

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of class A common stock and also adds to and updates the information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information about our class A common stock and other securities that do not pertain to this offering of class A common stock. To the extent that there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or in any document incorporated by reference that was filed with the Securities and Exchange Commission, or SEC, before the date of this prospectus supplement, on the other hand, you should rely on the information in this prospectus supplement. If any statement in one of these documents is inconsistent with a statement in another document having a later date (for example, a document incorporated by reference in this prospectus supplement or in the accompanying prospectus) the statement in the document having the later date modifies or supersedes the earlier statement. The information in this prospectus supplement may not contain all of the information that is important to you. You should read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully before deciding whether to invest in our class A common stock. See Where You Can Find More Information in this prospectus supplement and the accompanying prospectus.

Unless the context otherwise indicates, references in this prospectus supplement to the terms company, we, us, our, and Blackstone Mortgage Trust refer to Blackstone Mortgage Trust, Inc., a Maryland corporation, and its consolidated subsidiaries; Manager refers to BXMT Advisors L.L.C., a Delaware limited liability company, our external manager; and Blackstone refers to The Blackstone Group L.P., a Delaware limited partnership, and its subsidiaries.

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus, including information incorporated by reference herein and therein, as well as any other oral or written statements made in press releases or otherwise by us or on our behalf, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which involve certain known and unknown risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments. These forward-looking statements are generally identified by their use of such terms and phrases as intend, goal, estimate, expect, project, projections, plans, seeks, anticipates, should, could, may, designed to, foreseeable future, believe, and scheduled expressions. Our actual results or outcomes may differ materially from those anticipated. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We assume no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Our actual results may differ significantly from any results expressed or implied by these forward-looking statements. Some, but not all, of the factors that might cause such a difference include, but are not limited to:

- the general political, economic, capital markets and competitive conditions in the United States and foreign jurisdictions where we invest;
- the level and volatility of prevailing interest rates and credit spreads;
- adverse changes in the real estate and real estate capital markets;
- difficulty in obtaining financing or raising capital;
- reductions in the yield on our investments and an increase in the cost of our financing;
- defaults by borrowers in paying debt service on outstanding indebtedness;
- increased competition from entities engaged in mortgage lending or investing in our target assets;
- uncertainties and volatilities caused by the United Kingdom s planned withdrawal from the European Union;
- acts of God such as hurricanes, earthquakes and other natural disasters, acts of war and/or terrorism and other events that may cause unanticipated and uninsured performance declines and/or losses to us or the owners and operators of the real estate securing our investments;
- deterioration in the performance of the property securing our investments that may cause deterioration in the performance of our investments and potentially principal losses to us;

adverse developments in the availability of desirable investment opportunities whether they are due to competition, regulation, or otherwise;

difficulty in redeploying the proceeds from repayments of our existing investments;

difficulty in successfully managing our growth, including integrating new assets into our existing systems;

authoritative generally accepted accounting principles, or GAAP, or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the SEC, the Internal Revenue Service or the NYSE, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business; and

other factors, including those discussed under the Risk Factors section of this prospectus supplement and in the accompanying prospectus and in the information incorporated by reference into this prospectus supplement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We caution you not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to us or persons acting on our behalf are qualified in their entirety by these cautionary statements. Moreover, unless we are required by law to update these statements, we will not necessarily update or revise any forward-looking statements included or incorporated by reference in this prospectus supplement and the accompanying prospectus after the date hereof, either to conform them to actual results or to changes in our expectations.

Table of Contents

SUMMARY

This summary highlights certain information about us and the shares of our class A common stock being offered by this prospectus supplement and the accompanying prospectus. This summary is not complete and does not contain all of the information that you should consider prior to investing in our class A common stock. For a more complete understanding of our company, we encourage you to read this entire document, including the information incorporated by reference into this document and the other documents to which we have referred. Unless indicated otherwise, the information in this prospectus supplement assumes the underwriters do not exercise their option to purchase up to an additional 1,620,000 shares of our class A common stock.

Overview

Blackstone Mortgage Trust, Inc., a Maryland corporation, is a real estate finance company that originates and purchases senior loans collateralized by properties in North America and Europe. Our business plan is to create the premier global commercial real estate lending platform and to originate, acquire and manage commercial real estate loans and securities and other commercial real estate-related debt instruments. While the commercial real estate debt markets are complex and continually evolving, we believe they offer compelling opportunities when approached with the institutional capabilities and expertise of our Manager, an affiliate of Blackstone, one of the world s leading investment firms. Our investment objective is to preserve and protect our capital while producing attractive risk-adjusted returns primarily through dividends generated from current income on our portfolio.

Our investment strategy is to originate loans and invest in debt and related instruments supported by institutional quality commercial real estate in attractive locations. Through our Manager, we draw on Blackstone s extensive real estate debt investment platform and its established sourcing, underwriting and structuring capabilities in order to execute our investment strategy. In addition, we have access to Blackstone s extensive network and substantial real estate and other investment holdings, which provide our Manager access to market data on a scale not available to many competitors.

Our Manager is a part of Blackstone s alternative asset management business, which includes investment vehicles focused on private equity, real estate, public debt and equity, non-investment grade credit, real assets and secondary funds, all on a global basis. Through its different businesses, Blackstone had total assets under management of approximately $387.4 billion as of September 30, 2017.

We made a tax election to be treated as a real estate investment trust, or REIT, for U.S. federal income tax purposes, effective January 1, 2003. We also operate our business in a manner that permits us to maintain our exclusion from regulation under the Investment Company Act of 1940, as amended, or the Investment Company Act.

Blackstone Mortgage Trust, Inc. was incorporated in Maryland in 1998. Our principal executive offices are located at 345 Park Avenue, 42nd Floor, New York, New York 10154, and our telephone number is (212) 655-0220. Our website address is *www.blackstonemortgagetrust.com*. The information on, or otherwise accessible through, our website does not constitute a part of this prospectus supplement.

Table of Contents

The Offering

The following summary is provided solely for your convenience and is not intended to be complete. You should read the full text and more specific details contained elsewhere in this prospectus supplement and the accompanying prospectus.

Issuer	Blackstone Mortgage Trust, Inc.
Class A common stock offered by us	10,800,000 shares (plus up to an additional 1,620,000 shares of our class A common stock that we may issue and sell upon the exercise of the underwriters option to purchase additional shares of class A common stock)
Class A common stock outstanding after this offering (1)	105,628,437 shares (or 107,248,437, if the underwriters exercise their option to purchase 1,620,000 additional shares of class A common stock in full)
Use of proceeds	We estimate that the net proceeds we will receive from this offering will be approximately $ million, after deducting estimated offering expenses payable by us of approximately $350,000 (or, if the underwriters exercise their option to purchase 1,620,000 additional shares of class A common stock in full, approximately $ million, after deducting estimated offering expenses payable by us of approximately $350,000). We plan to use substantially all of the net proceeds from this offering to originate and purchase additional commercial mortgage loans and other target assets and investments consistent with our investment strategies and investment guidelines. We may also use a portion of the net proceeds for working capital and other general corporate purposes. See Use of Proceeds.
Dividend policy	We generally intend to distribute each year substantially all of our taxable income to holders of our class A common stock so as to comply with the REIT provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. In addition, our dividend policy remains subject to revision at the discretion of our board of directors. All distributions will be made at the discretion of our board of directors and will depend upon, among other things, our actual results of operations and liquidity. These results and our ability to pay distributions will be affected by various factors, including our taxable income, our financial condition, our maintenance of REIT status, applicable law, and other factors as our board of directors deems relevant.
Ownership limit	To assist us in complying with the limitations on the concentration of ownership of a REIT imposed by the Internal Revenue Code, among other purposes, our charter prohibits, with certain exceptions, any individuals (including certain entities treated as individuals for this purpose) from beneficially or constructively owning, applying certain attribution rules under the Internal Revenue Code, more than 9.9% by value or number of shares, whichever is more restrictive, of the outstanding shares of our class A common stock, or 9.9% by value or

	number of shares, whichever is more restrictive, of the outstanding shares of our capital stock.
NYSE symbol	BXMT
Risk factors	An investment in the shares of our class A common stock involves risks, and prospective investors should carefully consider the matters discussed under Risk Factors beginning on page S-4 of this prospectus supplement and the reports we file with the SEC pursuant to the Exchange Act, incorporated by reference into this prospectus supplement and the accompanying prospectus, before making a decision to invest in shares of our class A common stock.

(1) The number of shares of our class A common stock to be outstanding after this offering is based on 94,828,437 shares of our class A common stock outstanding as of November 30, 2017. The number of outstanding shares as of November 30, 2017 excludes: (i) 6,233,805 shares of our class A common stock issuable upon conversion of our 5.25% Convertible Senior Notes due 2018 (the 2018 Convertible Notes) and 11,283,041 shares of our class A common stock issuable upon conversion of our 4.375% Convertible Senior Notes due 2022 (the 2022 Convertible Notes), in each case based on the conversion rate in effect as of September 30, 2017; (ii) 193,322 shares of our class A common stock issuable upon conversion of deferred stock units held by members of our board of directors; and (iii) 1,445,117 shares of our class A common stock reserved for issuance pursuant to our stock incentive plans.

Table of Contents

RISK FACTORS

Before you invest in shares of our class A common stock, in addition to the other information in this prospectus supplement and the accompanying prospectus, you should carefully read and consider the risk factors described below as well as under the heading Risk Factors contained in Part I, Item 1A in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which is incorporated by reference into this prospectus supplement and the accompanying prospectus, as the same may be updated from time to time by our future filings under the Exchange Act. Each of the risks described in these documents could materially and adversely affect our business, financial condition, liquidity, results of operations and prospects, and could result in a partial or complete loss of your investment.

In connection with the forward-looking statements that appear in this prospectus supplement and the accompanying prospectus, you should also carefully review the cautionary statement referred to under Forward-Looking Statements in this prospectus supplement.

Risks Related to Our Class A Common Stock and this Offering

The market price of our class A common stock may fluctuate significantly.

The capital and credit markets have on occasion experienced periods of extreme volatility and disruption. The market price and liquidity of the market for shares of our class A common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. Some of the factors that could negatively affect the market price of our class A common stock include:

- our actual or projected operating results, financial condition, cash flows and liquidity, or changes in business strategy or prospects;
- actual or perceived conflicts of interest with our Manager or other affiliates of Blackstone and individuals, including our executives;
- equity issuances by us, or share resales by our stockholders, or the perception that such issuances or resales may occur;
- loss of a major funding source;
- actual or anticipated accounting problems;
- publication of research reports about us or the real estate industry;
- changes in market valuations of similar companies;
- adverse market reaction to the level of leverage we employ;
- additions to or departures of our Manager s or Blackstone s key personnel;
- speculation in the press or investment community;

our failure to meet, or the lowering of, our earnings estimates or those of any securities analysts;

increases in market interest rates, which may lead investors to demand a higher distribution yield for our class A common stock, and would result in increased interest expenses on our debt;

a compression of the yield on our investments and an increase in the cost of our liabilities;

failure to maintain our REIT qualification or exclusion from Investment Company Act regulation;

price and volume fluctuations in the overall stock market from time to time;

general market and economic conditions, and trends including inflationary concerns, and the current state of the credit and capital markets;

- significant volatility in the market price and trading volume of securities of publicly traded REITs or other companies in our sector, including Blackstone Mortgage Trust, which is not necessarily related to the operating performance of these companies;
- changes in law, regulatory policies or tax guidelines, or interpretations thereof, particularly with respect to REITs;
- changes in the value of our portfolio;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- operating performance of companies comparable to us;
- short-selling pressure with respect to shares of our class A common stock or REITs generally; and
- uncertainty surrounding the strength of the U.S. economic recovery particularly in light of the recent debt ceiling, budget deficit concerns and other U.S. and international political and economic affairs.

As noted above, market factors unrelated to our performance could also negatively impact the market price of our class A common stock. One of the factors that investors may consider in deciding whether to buy or sell our class A common stock is our distribution rate as a percentage of our stock price relative to market interest rates. If market interest rates increase, prospective investors may demand a higher distribution rate or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and conditions in the capital markets may affect the market value of our class A common stock.

Some provisions of our charter and bylaws and Maryland law may deter takeover attempts, which may limit the opportunity of our stockholders to sell their shares at a favorable price.

Some of the provisions of Maryland law and our charter and bylaws discussed below could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders by providing them with the opportunity to sell their shares at a premium to the then current market price.

Issuance of Stock Without Stockholder Approval. Our charter authorizes our board of directors, without stockholder approval, to authorize the issuance of up to 200,000,000 shares of class A common stock and up to 100,000,000 shares of preferred stock. Our charter also authorizes our board of directors, without stockholder approval, to classify or reclassify any unissued shares of our class A common stock and preferred stock into other classes or series of stock and to amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that are authorized by the charter to be issued. Preferred stock may be issued in one or more classes or series, the terms of which may be determined by our board of directors without further action by stockholders. Prior to issuance of any such class or series, our board of directors will set the terms of any such class or series, including the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption. The issuance of any preferred stock could materially adversely affect the rights of holders of our class A common stock and, therefore, could reduce the value of the class A common stock. In addition, specific rights granted to future holders of our preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The power of our board of directors to cause us to issue preferred stock could, in certain circumstances, make it more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change in control, thereby preserving the current stockholders control.

Advance Notice Bylaw. Our bylaws contain advance notice procedures for the introduction by a stockholder of new business and the nomination of directors by a stockholder. These provisions could, in certain circumstances, discourage proxy contests and make it more difficult for you and other stockholders to elect stockholder-nominated directors and to propose and, consequently, approve stockholder proposals opposed by management.

Maryland Takeover Statutes. We are subject to the Maryland Business Combination Act, which could delay or prevent an unsolicited takeover of us. The statute substantially restricts the power of third parties who acquire, or seek to acquire, control of us to complete mergers and other business combinations without the approval of our board of directors even if such transaction would be beneficial to stockholders. Business combinations between such a third party acquirer or its affiliate and us are prohibited for five years after the most recent date on which the acquirer becomes an interested stockholder. An interested stockholder is defined as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding stock. If our board of directors approved in advance the transaction that would otherwise give rise to the acquirer attaining such status, the acquirer would not become an interested stockholder and, as a result, it could enter into a business combination with us. Our board of directors may, however, provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by it. Even after the lapse of the five-year prohibition period, any business combination with an interested stockholder must be recommended by our board of directors and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by stockholders; and

- two-thirds of the votes entitled to be cast by stockholders other than the interested stockholder and affiliates and associates thereof.

The super-majority vote requirements do not apply if the transaction complies with a minimum price and form of consideration requirements prescribed by the statute.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors prior to the time that an interested stockholder becomes an interested stockholder. Our board of directors has exempted any business combination involving a limited liability company indirectly controlled by a trust for the benefit of Samuel Zell, our former chairman of the board, and his family and approved in advance the issuance of shares to W.R. Berkley. In addition, our board of directors has exempted any business combination involving Huskies Acquisition LLC, or Huskies Acquisition, an affiliate of Blackstone, or its present affiliates or Blackstone and its present and future affiliates; provided, however, that Huskies Acquisition or any of its present affiliates and Blackstone and any of its present or future affiliates may not enter into any business combination with us without the prior approval of at least a majority of the members of our board of directors who are not affiliates or associates of Huskies Acquisition or Blackstone. As a result, these parties may enter into business combinations with us without compliance with the five-year prohibition or the super-majority vote requirements and the other provisions of the statute.

We are also subject to the Maryland Control Share Acquisition Act. With certain exceptions, the Maryland General Corporation Law provides that a holder of control shares of a Maryland corporation acquired in a control share acquisition has no voting rights with respect to those shares except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiring person or by our officers or by our directors who are our employees.

Control shares are voting shares of stock which, if aggregated with all other shares of stock owned or entitled to be voted (except solely by virtue of a revocable proxy) by the acquirer, would entitle the acquirer to exercise voting power in electing directors within one of the specified ranges of voting power. Control shares do not include shares the acquirer is then entitled to vote as a result of having previously obtained stockholder approval or shares acquired directly from the corporation. A control share acquisition means the acquisition of issued and outstanding control shares subject to certain exceptions. A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions, including an undertaking to pay expenses, may compel our board to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the control shares in question. If no request for a meeting is made, we may present the question at any stockholders meeting.

If voting rights are not approved at a stockholders meeting or if the acquiring person does not deliver the statement required by Maryland law, then, subject to certain conditions and limitations, we may redeem for fair value (determined without regard to the absence of voting rights) any or all of the control shares, except those for which voting rights have previously been approved. If voting rights for control shares are approved at a stockholders meeting and the acquirer may then vote a majority of the shares entitled to vote, then all other stockholders may exercise appraisal rights, unless our charter or bylaws provide otherwise, which they currently do not. The fair value of the shares for purposes of these appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if we are a party to the transaction, nor does it apply to acquisitions approved or exempted by our charter or bylaws. Our bylaws contain a provision exempting the following persons from this statute: (i) a limited liability company indirectly controlled by a trust for the benefit of Samuel Zell and his family; (ii) W.R. Berkley Corporation and any of its controlled affiliates; and (iii) Huskies Acquisition, or any person or entity that was an affiliate of Huskies Acquisition as of September 27, 2012 or by Blackstone or any of its affiliates.

We are also eligible to elect to be subject to the Maryland Unsolicited Takeovers Act, which permits our board of directors, without stockholder approval, to, among other things and notwithstanding any provision in our charter or bylaws, elect on our behalf to classify the terms of directors, to increase the stockholder vote required to remove a director and to provide that each vacancy on our board may be filled only by a majority of the remaining directors even if the remaining directors do not constitute a quorum and each director elected to fill a vacancy shall serve for the remainder of the full term of the class of directors in which the vacancy occurred. Such an election may significantly restrict the ability of third parties to wage a proxy fight for control of our board of directors as a means of advancing a takeover offer. If an acquirer were discouraged from offering to acquire us, or prevented from successfully completing a hostile acquisition, you could lose the opportunity to sell your shares at a favorable price.

Our charter contains provisions that are designed to reduce or eliminate duties of Blackstone and our directors with respect to corporate opportunities and competitive activities.

Our charter contains provisions designed to reduce or eliminate duties of Blackstone and its affiliates (as such term is defined in the charter), and of our directors or any person our directors control to refrain from competing with us or to present to us business opportunities that otherwise may exist in the absence of such charter provisions. Under our charter, Blackstone and its affiliates and our directors or any person our directors control will not be obligated to present to us opportunities unless those opportunities are expressly offered to such person in his or her capacity as a director or officer of Blackstone Mortgage Trust and those persons will be able to engage in competing activities without any restriction imposed as a result of Blackstone s or its affiliates status as a stockholder or Blackstone s affiliates status as officers or directors of Blackstone Mortgage Trust.

We have not established a minimum distribution payment level and we cannot assure you of our ability to pay distributions in the future.

We are generally required to distribute to our stockholders at least 90% of our REIT taxable income each year for us to qualify as a REIT under the Internal Revenue Code, which requirement we currently intend to satisfy through quarterly distributions of all or substantially all of our REIT taxable income in such year, subject to certain adjustments. Although we generally intend to distribute each year substantially all of our taxable income to holders of our class A common stock so as to comply with the REIT provisions of the Internal Revenue Code, we have not established a minimum distribution payment level and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described in this prospectus supplement and the documents incorporated by reference herein. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, debt covenants, maintenance of our REIT qualification, applicable law and other factors as our board of directors may deem relevant from time to time. We believe that a change in any one of the following factors could adversely affect our results of operations and impair our ability to pay distributions to our stockholders:

- the profitability of the investment of the net proceeds of this offering;
- our ability to make profitable investments;
- margin calls or other expenses that reduce our cash flow;
- defaults in our asset portfolio or decreases in the value of our portfolio; and
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

As a result, no assurance can be given that the level of any distributions we make to our stockholders will achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect the market price of our class A common stock. We may use our net operating losses, to the extent available, carried forward to offset future REIT taxable income, and therefore reduce our dividend requirements. In addition, some of our distributions may include a return of capital, which would reduce the amount of capital available to operate our business.

In addition, distributions that we make to our stockholders will generally be taxable to our stockholders as ordinary income. However, a portion of our distributions may be designated by us as long-term capital gains to the extent that they are attributable to capital gain income recognized by us or may constitute a return of capital to the extent that they exceed our earnings and profits as determined for U.S. federal income tax purposes. A return of capital is not taxable, but has the effect of reducing the basis of a stockholder s investment in our class A common stock.

We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce our operating flexibility and reduce the price of our class A common stock.

At any time, the tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. Although REITs generally receive certain tax advantages compared to entities taxed as regular corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated for U.S. federal income tax purposes as a corporation. As a result, our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a regular corporation, without the vote of our stockholders. Our board of directors has duties to us and could only cause such changes in our tax treatment if it determines in good faith that such changes are in the best interest of our company. We cannot predict when or if any new law, regulation or administrative interpretation, or any amendment to any existing 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, tax law, regulation or administrative interpretation.

According to publicly released statements, a top legislative priority of President Trump s administration and of Republicans in the House of Representatives is significant reform of the Internal Revenue Code, including significant changes to taxation of business entities. Both the House Ways and Means Committee and the Senate Committee on Finance have introduced tax reform legislation under the Tax Cuts and Jobs Act (the Tax Reform Bill). While each version of the Tax Reform Bill differs in certain respects, each includes proposals which would fundamentally change the Internal Revenue Code. Among the numerous changes included in the Senate and House of Representatives Tax Reform Bills is a reduction to the maximum tax rate on REIT dividends (other than capital gain dividends). It is unclear whether the Tax Reform Bill will be enacted into law or, if enacted, what form it would take. The impact of any potential tax reform on an investment in us is uncertain. Prospective investors should consult their own tax advisors regarding potential changes in tax laws.

Investing in our class A common stock may involve a high degree of risk.

The investments that we make in accordance with our investment objectives may result in a high amount of risk when compared to alternative investment options and volatility or loss of principal. Our investments may be highly speculative and aggressive, and therefore an investment in our class A common stock may not be suitable for someone with lower risk tolerance.

Future issuances of equity or debt securities, which may include securities that would rank senior to our class A common stock, may adversely affect the market price of the shares of our class A common stock.

The issuance of additional shares of our class A common stock in this offering and in connection with the conversion of our 2018 Convertible Notes, the conversion of our 2022 Convertible Notes, or other future issuances of our class A common stock or shares of preferred stock or securities convertible or exchangeable into equity securities, may dilute the ownership interest of our existing holders of our class A common stock.

If we decide to issue debt or equity securities which would rank senior to our class A common stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our class A common stock and may result in dilution to owners of our class A common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue additional equity or debt securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future issuances. Also, we cannot predict the effect, if any, of future sales of our class A common stock, or the availability of shares for future sales, on the market price of our class A common stock. Sales of substantial amounts of class A common stock or the perception that such sales could occur may adversely affect the prevailing market price for the shares of our class A common stock. Thus holders of our class A common stock will bear the risk of our future issuances reducing the market price of our class A common stock and diluting the value of their stock holdings in us.

USE OF PROCEEDS

We estimate that the net proceeds we will receive from this offering will be approximately $ million after deducting estimated offering expenses payable by us of approximately $350,000 (or, if the underwriters exercise their option to purchase 1,620,000 additional shares of class A common stock in full, approximately $ million after deducting estimated offering expenses payable by us of approximately $350,000).

We plan to use substantially all of the net proceeds from this offering to originate and purchase additional commercial mortgage loans and other target assets and investments consistent with our investment strategies and investment guidelines. We may also use a portion of the net proceeds for working capital and other general corporate purposes, as described in more detail below.

We originate and purchase senior loans collateralized by properties in North America and Europe. We also have originated or acquired and may continue to originate or acquire other real estate and real estate-related debt assets. The allocation of our capital among our target assets will depend on prevailing market conditions and may change over time in response to different prevailing market conditions, including with respect to interest rates and general economic and credit market conditions. In addition, we also may use the net proceeds from this offering to invest in assets other than our target assets, subject to maintaining our qualification as a REIT for United States federal income tax purposes and our exclusion from regulation under the Investment Company Act. Until appropriate investments can be identified, our Manager may invest the net proceeds from this offering in money market funds, bank accounts, overnight repurchase agreements with primary federal reserve bank dealers collateralized by direct U.S. government obligations and other instruments or investments reasonably determined by our Manager that are consistent with our intention to qualify as a REIT and maintain our exclusion from regulation under the Investment Company Act. These investments are expected to provide a lower net return than we seek to achieve from our target assets.

Table of Contents

CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and capitalization as of September 30, 2017 on:

an actual basis; and

an adjusted basis to give effect to the issuance and sale of 10,800,000 shares of our class A common stock in this offering.

The following table does not reflect the incurrence or repayment of debt since September 30, 2017.

	As of September 30, 2017	
	Actual	As Adjusted(1)
	(in thousands, except share data) (unaudited)	
Cash:		
Cash and cash equivalents	$ 61,221	$
Restricted cash	32,864	
Total cash	$ 94,085	$
Debt:		
Secured debt agreements, net	$ 6,079,135	$ 6,079,135
Loan participations sold, net	33,193	33,193
Securitized debt obligations, net	474,298	474,298
Convertible notes, net (2)	562,741	562,741
Total debt	7,149,367	7,149,367
Equity:		
Class A common stock, $0.01 par value per share, 200,000,000 shares authorized, 94,828,007 shares issued and outstanding actual, 105,628,007 shares issued and outstanding as adjusted (3)	948	
Additional paid-in capital	3,109,094	
Accumulated other comprehensive loss	(32,362)	
Accumulated deficit	(558,066)	
Total Blackstone Mortgage Trust, Inc. stockholders equity	2,519,614	
Non-controlling interests	6,178	
Total equity	2,525,792	
Total capitalization	$ 9,675,159	$

(1) Does not include the underwriters option to purchase 1,620,000 additional shares of class A common stock.

(2)

Reflects the issuance of $172.5 million aggregate principal amount of our 2018 Convertible Notes and $402.5 million aggregate principal amount of our 2022 Convertible Notes. As of September 30, 2017, the 2018 Convertible Notes were carried on our consolidated balance sheet at $168.9 million, net of an unamortized discount of $3.5 million and deferred financing costs of $0.1 million, and the 2022 Convertible Notes were carried on our consolidated balance sheet at $393.8 million, net of an unamortized discount of $8.0 million and deferred financing costs of $0.7 million. In accordance with ASC 470-20, a convertible debt instrument that may be settled entirely or partially in cash is required to be separated into a liability and equity component, such that interest expense reflects the issuer s nonconvertible debt interest rate. Upon issuance, a debt discount will be recognized as a decrease in debt and an increase in additional paid-in capital. The debt component will accrete up to the principal amount over the expected term of the debt. Notwithstanding the net presentation required by ASC 470-20, we are required to repay the $172.5 million

Table of Contents

aggregate principal amount of the 2018 Convertible Notes and the $402.5 million aggregate principal amount of the 2022 Convertible Notes.

(3) The number of shares shown as issued and outstanding in the table above excludes:

- any shares of our class A common stock issuable upon conversion of our 2018 Convertible Notes or our 2022 Convertible Notes;
- 189,587 shares of our class A common stock issuable upon conversion of deferred stock units held by members of our board of directors; and
- 1,448,852 shares of our class A common stock reserved for issuance pursuant to our stock incentive plans.

Table of Contents

UNDERWRITING

Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and Wells Fargo Securities, LLC are acting as joint book-running managers and as representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated as of the date of this prospectus supplement, each underwriter named below has severally agreed to purchase, and we have agreed to sell to that underwriter, the number of shares of our class A common stock set forth opposite the underwriter s name.

Underwriter	Number of Shares
Citigroup Global Markets Inc.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Barclays Capital Inc.	
J.P. Morgan Securities LLC	
Morgan Stanley & Co. LLC	
Wells Fargo Securities, LLC	
Total	10,800,000

The underwriting agreement provides that the obligations of the underwriters to purchase the shares of our class A common stock included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters will be obligated to purchase all the shares (other than those covered by the underwriters option to purchase additional shares of class A common stock) if they purchase any of the shares.

If the underwriters sell more shares than the total number set forth in the table above, we have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to 1,620,000 additional shares of our class A common stock at the same price per share as the other shares purchased by the underwriters in this offering. To the extent the option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter s initial purchase commitment. Any shares issued or sold under the underwriters option to purchase 1,620,000 additional shares of class A common stock will be issued and sold on the same terms and conditions as the other shares that are the subject of this offering.

The underwriters have agreed to purchase the shares of our class A common stock offered by this prospectus supplement at a price of $ per share, which will result in approximately $ million of total net proceeds to us before expenses payable by us (or approximately $ million if the underwriters option to purchase 1,620,000 additional shares of class A common stock is exercised in full). The underwriters propose to offer the shares of class A common stock offered hereby from time to time for sale in one or more transactions on the NYSE, in the over-the-counter market, through negotiated transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. The underwriters may effect such transactions by selling the shares of class A common stock to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or purchasers of shares of class A common stock for whom they may act as agents or to whom they may sell as principal. The difference between the price at which the underwriters purchase shares and the price at which the underwriters resell such shares may be deemed underwriting compensation.

We estimate that our total expenses for this offering will be approximately $350,000.

We have agreed to reimburse the underwriters for certain expenses relating to the Financial Industry Regulatory Authority, Inc., or FINRA, in an amount up to $10,000.

We have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

In compliance with the guidelines of FINRA, the aggregate maximum discount, commission or agency fees or other items constituting underwriting compensation to be received by any FINRA member or independent broker-dealer will not exceed 8% of the offering proceeds from any offering pursuant to this prospectus supplement.

No Sales of Similar Securities

We have agreed that, for a period of 45 days after the date of this prospectus supplement, we will not, without the prior written consent of the representatives, dispose of or hedge any shares of our class A common stock or any securities convertible into or exchangeable for our class A common stock, subject to certain exceptions, including the issuance and sale of shares of class A common stock pursuant to an at-the-market program.

Each of our executive officers and directors, Blackstone Holdings III L.P., or Holdings III and our Manager have agreed that, for a period of 45 days from the date of this prospectus supplement, they will not dispose of or hedge any shares of our class A common stock or any securities convertible into or exchangeable for our class A common stock, subject to certain exceptions.

The representatives may, in their sole discretion, release any of the securities subject to these lock-up agreements at any time without notice. There are no present agreements among the representatives, Holdings III, any of our executive officers or directors, our Manager or us to release any of them or us from these lock-up agreements. However, we cannot predict the circumstances or timing under which these restrictions may be waived.

Listing

Our class A common stock is listed on the NYSE under the symbol BXMT.

Stabilization, Short Positions and Penalty Bids

In connection with the offering, the underwriters may purchase and sell shares of class A common stock in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions, which may include purchases pursuant to the underwriters option to purchase additional shares of class A common stock, and stabilizing purchases.

- Short sales involve secondary market sales by the underwriters of a greater number of shares of class A common stock than they are required to purchase in the offering.

  - Covered short sales are sales of shares of class A common stock in an amount up to the number of shares represented by the underwriters option to purchase additional shares of class A common stock.

  - Naked short sales are sales of shares of class A common stock in an amount in excess of the number of shares represented by the underwriters option to purchase additional shares of class A common stock.

Covering transactions involve purchases of shares either pursuant to the underwriters option to purchase additional shares of class A common stock or in the open market after the distribution has been completed in order to cover short positions.

To close a naked short position, the underwriters must purchase shares of class A common stock in the open market after the distribution has been completed. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares of class A common stock in the open market after pricing that could adversely affect investors who purchase in the offering.

To close a covered short position, the underwriters must purchase shares of class A common stock in the open market after the distribution has been completed or must exercise the option to purchase additional shares of class A common stock. In determining the source of shares of class A common stock to close the covered short position, the underwriters will consider, among other things, the price of shares of class A common stock available for purchase in the open market as compared to the price at which they may purchase shares through the underwriters option to purchase additional shares of class A common stock.

Stabilizing transactions involve bids to purchase shares so long as the stabilizing bids do not exceed a specified maximum. Purchases to cover short positions and stabilizing purchases, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of our class A common stock. They may also cause the price of our class A common stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the NYSE, in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

In connection with the offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail.

Conflicts of Interest

Certain of the underwriters are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The underwriters and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for us and/or our affiliates, from time to time, for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for us and/or our affiliates in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and/or short positions in such securities and instruments. Such investment and securities activities may involve our securities and instruments.

Certain of our special-purpose wholly-owned subsidiaries have entered into repurchase agreements with affiliates of certain of the underwriters, including: (i) a master repurchase agreement with Bank of America, N.A., an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, that provides for advances of up to $750.0 million in the aggregate; (ii) a master repurchase agreement with Citibank N.A., an affiliate of Citigroup Global Markets Inc., that provides for advances of up to $500.0 million plus an additional 250.0 million; (iii) a master repurchase agreement with JPMorgan Chase Bank, National Association, an affiliate of J.P. Morgan Securities LLC, that provides for advances of up to $500.0 million in the aggregate; (iv) a master repurchase agreement with Wells Fargo Bank, National Association, an affiliate of Wells Fargo Securities, LLC that provides for advances of up to $2.0 billion in the aggregate; and (v) a master repurchase agreement with Morgan Stanley Bank, N.A., an affiliate of Morgan Stanley & Co. LLC, that provides for advances of up to £500.0 million in the aggregate. In addition, we entered into a credit agreement with Bank of America, N.A., an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, in connection with our joint venture with Walker & Dunlop Inc. that provides for advances of up to $200.0 million in the aggregate. We are also party to a full recourse secured revolving credit agreement with Barclays Bank PLC, an affiliate of Barclays Capital Inc., that, as amended, provides for advances of up to $250.0 million in the aggregate. In addition, we have from time to time purchased loans and other investments from affiliates of certain underwriters and we may purchase loans or other investments from affiliates of the underwriters in the future. We and our Manager are also party to equity distribution agreements with certain sales agents, including Citigroup Global Markets Inc. and Wells Fargo Securities, LLC, to issue and sell shares of our class A common stock from time to time having an aggregate offering price of up to $200.0 million (of which approximately $188.6 million remains available as of the date of this prospectus supplement). Each sales agent is entitled to compensation with respect to any shares of class A common stock sold through it pursuant to the terms of the applicable equity distribution agreement, as amended.

Further, in connection with our acquisition during the second quarter of 2015 of a portfolio of loans from General Electric Capital Corporation, or GE, and certain of its affiliates and joint venture partnerships, an affiliate of Wells Fargo Securities, LLC provided us with secured financing for the acquired portfolio. As of September 30, 2017, this facility provided for $1.2 billion of financing, of which $1.1 billion was outstanding and an additional $129.4 million was available to finance future loan fundings in the GE loan portfolio.

Sales Outside the United States

No action has been taken in any jurisdiction (except in the United States) that would permit a public offering of our class A common stock, or the possession, circulation or distribution of this prospectus supplement or any other material relating to us or our class A common stock in any jurisdiction where action for that purpose is required. Accordingly, the shares of class A common stock may not be offered or sold, directly or indirectly, and neither this prospectus supplement nor any other offering material or advertisements in connection with our class A common stock may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each of the underwriters may arrange to sell the class A common stock offered hereby in certain jurisdictions outside the United States, either directly or through affiliates, where they are permitted to do so.

Notice to Prospective Investors in the United Kingdom

This document is only being distributed to, and is only directed at (i) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the Order), (ii) persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Order; or (iii) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of the shares may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as relevant persons). Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in Hong Kong

The contents of this prospectus supplement and the accompanying prospectus have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offering. If you are in any doubt about any of the contents of this prospectus supplement and the accompanying prospectus, you should obtain independent professional advice. Neither the shares nor the issue of this prospectus supplement and the accompanying prospectus has been authorized by the securities and futures commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571, Law of Hong Kong). The shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer or invitation to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

Registration pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan, as amended (the FIEA), has not been and will not be made with respect to the solicitation of an offer to purchase shares on the ground that the solicitation qualifies as a solicitation for a small number of investors (as defined in Article 23-13, Paragraph 4 of the FIEA), and the shares are securities as defined in Article 2, Paragraph 2, Item 6 of the FIEA and being offered in accordance with Article 2, Paragraph 3, Item 3 of the FIEA where the shares are to be acquired by 499 or fewer investors. Prospective investors should be aware that Blackstone Mortgage Trust, Inc. has not been and will not be registered under the FIEA as type 2 financial instrument trader (*dainishu kinyushohin torihiki gyo*) nor investment management business (*toshi unyo gyo*), and no transfer of shares shall be permitted in any manner whatsoever if such transfer requires the issuer to be registered as type 2 financial instrument trader (*dainishu kinyushohin torihiki gyo*) and/or investment management business (*toshi unyo gyo*) under the FIEA. In the event that the issuer chooses to rely on the exemption from registration requirement for type 2 financial instrument trader (*dainishu kinyushohin torihiki gyo*) as provided for in Article 63, Paragraph 1, Item 1 of the FIEA with respect to the offering and sale of the shares, the investor acknowledges and agrees that: (i) no shares shall be sold to or held by any resident in Japan (including those who have been solicited in Japan to subscribe for the shares) unless at least one qualified institutional investor, as defined in Article 2, Paragraph 3, Item 1 of the FIEA and Article 10 of the Cabinet Office Ordinance on Definitions under Article 2 of the FIEA (the QII), purchases and holds a note; (ii) the investors who are not QIIs in Japan (including those who have been solicited in Japan to subscribe for the shares) that purchase or hold shares shall be persons set forth in Article 17-12, Paragraph 1 of the Order for Enforcement of the Financial Instruments and Exchange Act (Eligible Non-QIIs) and the number of Eligible Non-QIIs shall not exceed 49 during any given six months period (subject to the Rules of Integration as provided for under the FIEA); (iii) no shares shall be sold to or held by any person falling under Article 63, Paragraph 1, Item 1, Sub-items (i) to (iii) of the FIEA (any such person being referred to as an unqualified investor); (iv) the investor does not and will not make the issuer fall within the prohibited categories under Article 234-2 of the Cabinet Office Ordinance on Financial Instruments Business; (v) if the investor is a QII, it agrees not to transfer the shares if (a) the transferee is not a QII or (b) the transferee is an unqualified investor; and (vi) if the investor is an Eligible Non-QIIs, it can transfer the shares only in a single block transaction to a single transferee who is either a QII or an Eligible Non-QIIs and is not an unqualified investor, and all of the investor s shares must be transferred to the transferee in such transaction. Furthermore, in the event that the issuer chooses to rely on the exemption from registration requirement for investment management business (*toshi unyo gyo*), no shares shall be sold in Japan or held by Japanese investors, unless either (a): (i) all of the Japanese investors in the shares who are direct investors (as defined in Article 16, Paragraph 1, Item 13 of the Cabinet Office Ordinance on Definitions under Article 2 of the FIEA) are (x) QIIS or (y) those who have filed the notification form for special business activities for qualified institutional investors in respect of investment management business (as defined in Article 63,

Table of Contents

Paragraph 1, Item 2 of the FIEA) in accordance with Article 63, Paragraph 2 of the FIEA (the Article 63 Notification); (ii) all of the Japanese investors in the shares who are indirect investors (as defined in Article 16, Paragraph 1, Item 13 of the Cabinet Office Ordinance on Definitions under Article 2 of the FIEA), if any, are QIIs; (iii) the number of Japanese investors (including indirect investors) in the shares is not more than 9; and (iv) the aggregate amount of investment in the shares made by the direct investors is not more than one-third (1/3) of the aggregate amount of the investment made by all investors in the shares, or (b): (i) at least one QII holds, at any given time, a note; (ii) the investors who are not QIIs in Japan holding the shares, if any, shall be eligible non-QIIs and the number of Eligible Non-QIIs does not exceed 49 during any given time; (iii) no shares are sold to or held by unqualified investors; (iv) the investor does not and will not make the issuer fall within the prohibited categories under Article 234-2 of the Cabinet Office Ordinance on Financial Instruments Business; and (v) the issuer has filed the Article 63 Notification prior to the commencement of the management of the assets of the issuer.

Notice to Prospective Investors in Singapore

The offer or invitation of the shares, which is the subject of this prospectus supplement, does not relate to a collective investment scheme which is authorised under section 286 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA) or recognised under section 287 of the SFA. Blackstone Mortgage Trust, Inc. is not authorised or recognised by the Monetary Authority of Singapore (the MAS) and the shares are not allowed to be offered to the retail public. This prospectus supplement and the accompanying prospectus and any other document or material issued in connection with the offer or sale is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. You should consider carefully whether the investment is suitable for you. This prospectus supplement and the accompanying prospectus have not been registered as a prospectus with the MAS. Accordingly, this prospectus supplement and the accompanying prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of shares may not be circulated or distributed, nor may shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under section 304 of the SFA, (ii) to a relevant person pursuant to section 305(1) of the SFA, or any person pursuant to section 305(2) of the SFA, and in accordance with the conditions specified in section 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Notice to Prospective Investors in Taiwan

The shares have not been and will not be registered with the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Act of Taiwan that requires a registration or approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorized to offer, sell, give advice regarding or otherwise intermediate the offering and sale of the shares in Taiwan.

Table of Contents

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following summary describes the material United States federal income tax considerations relating to the ownership of class A common stock as of the date hereof by United States and non-United States holders, each as defined below. Except where noted, this summary deals only with class A common stock held as a capital asset and does not deal with special situations, such as those of dealers in securities or currencies, financial institutions, regulated investment companies, tax-exempt entities (except as described in Taxation of Tax-Exempt Holders of Our Class A Common Stock below), insurance companies, persons holding class A common stock as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, persons liable for alternative minimum tax, persons who are foreign governments within the meaning of Section 892 of the Internal Revenue Code, investors in pass-through entities or United States holders of class A common stock whose functional currency is not the United States dollar. Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code and United States Treasury Regulations, or Treasury regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified, possibly with retroactive effect, so as to result in United States federal income tax consequences different from those discussed below. No assurance can be given that the Internal Revenue Service, or IRS, would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below.

You should consult your own tax advisors concerning the United States federal income tax consequences in light of your particular situation as well as consequences arising under the laws of any other taxing jurisdiction.

Our Taxation as a REIT

Our election to be taxed as a REIT was effective January 1, 2003. We believe that we were organized and have operated and will continue to operate in such a manner as to qualify for taxation as a REIT under the United States federal income tax laws.

In connection with the filing of the accompanying prospectus, Simpson Thacher & Bartlett LLP rendered an opinion as of the date thereof that, commencing with the taxable year ended December 31, 2008, Blackstone Mortgage Trust has been organized in conformity with the requirements for qualification and taxation as a REIT under the Internal Revenue Code, and its actual and proposed method of operation as described in the accompanying prospectus has enabled it, and will continue to enable it, to meet the requirements for qualification and taxation as a REIT under the Internal Revenue Code. Investors should be aware that the opinion of Simpson Thacher & Bartlett LLP was based upon customary assumptions, was conditioned upon certain representations made by us as to factual matters, including representations regarding the nature of our assets and the conduct of our business, and is not binding upon the IRS or any court. We have not received, and do not intend to seek, any rulings from the IRS regarding our status as a REIT or our satisfaction of the REIT requirements. The IRS may challenge our status a REIT, and a court could sustain any such challenge. In addition, the opinion of Simpson Thacher & Bartlett LLP was based on federal income tax law governing qualification as a REIT in effect as of the date thereof, which is subject to change either prospectively or retroactively. Moreover, our qualification and taxation as a REIT depend upon our ability to meet on a continuing basis, through actual annual operating results, certain qualification tests set forth in the federal tax laws. Those qualification tests involve the percentage of income that we earn from specified sources, the percentage of our assets that falls within specified categories, the diversity of the ownership of our shares, and the percentage of our earnings that we distribute. Simpson Thacher & Bartlett LLP does not review our compliance with those tests on a continuing basis. Accordingly, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements. For a discussion of the tax consequences of our failure to qualify as a REIT, see Failure to Qualify.

The sections of the Internal Revenue Code and the corresponding regulations that govern the United States federal income tax treatment of a REIT and its stockholders are highly technical and complex. The following

Table of Contents

discussion is qualified in its entirety by the applicable Internal Revenue Code provisions, rules and regulations promulgated thereunder, and administrative interpretations thereof.

In any year in which we qualify for taxation as a REIT, we generally will not be subject to United States federal income tax on that portion of our REIT taxable income that we distribute currently to our stockholders, although taxable income generated by domestic taxable REIT subsidiaries, if any, will be subject to regular corporate income tax. Our stockholders will generally be taxed on dividends that they receive at ordinary income rates unless such dividends are designated by us as capital gain dividends or qualified dividend income. Distributions we make are not eligible for the dividends received deduction for corporations. We expect that ordinary dividends paid by us generally will not be eligible for the reduced rate imposed on qualified dividend income received by individuals, trusts and estates.

We are generally not subject to United States corporate income tax on income that we distribute currently to stockholders, but we will be subject to United States federal tax as follows:

We will pay United States federal income tax on our taxable income, including net capital gain, that we do not distribute to stockholders during, or within a specified time after, the calendar year in which the income is earned.

Under some circumstances, we may be subject to the alternative minimum tax due to our undistributed items of tax preference and alternative minimum tax adjustments.

If we have net income from prohibited transactions, which are, in general, sales or other dispositions of property held primarily for sale to customers in the ordinary course of business, other than foreclosure property, such income will be subject to a 100% tax.

If we elect to treat property that we acquire in connection with a foreclosure of a mortgage loan or from certain leasehold terminations as foreclosure property, we may thereby avoid (a) the 100% tax on gain from a resale of that property (if the sale would otherwise constitute a prohibited transaction) and (b) the inclusion of any income from such property not qualifying for purposes of the REIT gross income tests discussed below, but the income from the sale or operation of the property may be subject to United States corporate income tax at the highest applicable rate (currently 35%).

If due to reasonable cause and not willful neglect we fail to satisfy either the 75% gross income test or the 95% gross income test discussed below, but nonetheless maintain our qualification as a REIT because other requirements are met, we will be subject to a 100% tax on the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, multiplied in either case by a fraction intended to reflect our profitability.

If we fail to satisfy the asset tests (other than a *de minimis* failure of the 5% asset test or the 10% vote or value test, as described below under Asset Tests) as long as the failure was due to reasonable cause and not to willful neglect, we dispose of the assets or otherwise comply with such asset tests within six months after the last day of the quarter in which we identify such failure and we file a schedule with the IRS describing the assets that caused such failure, we will pay a tax equal to the greater of $50,000 or 35% of the net income from the nonqualifying assets during the period in which we failed to satisfy such asset tests.

If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, and the failure was due to reasonable cause and not to willful neglect, we will be required to pay a penalty of $50,000 for each such failure.

We may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet recordkeeping requirements intended to monitor our compliance with rules relating to the composition of a REIT s stockholders, as described below in Requirements for Qualification as a REIT.

If we fail to distribute during each calendar year at least the sum of:

- 85% of our ordinary income for such calendar year;
- 95% of our capital gain net income for such calendar year; and
- any undistributed taxable income from prior taxable years,

we will pay a 4% nondeductible excise tax on the excess of the required distribution over the amount we actually distributed, plus any retained amounts on which income tax has been paid at the corporate level.

We may elect to retain and pay income tax on our net long-term capital gain. In that case, a United States stockholder would include its proportionate share of our undistributed long-term capital gain (to the extent we make a timely designation of such gain to the stockholder) in its income, and would receive a credit or a refund for its proportionate share of the tax we paid.

We will be subject to a 100% excise tax on amounts received by us from a taxable REIT subsidiary (or on certain expenses deducted by a taxable REIT subsidiary) if certain arrangements between us and a taxable REIT subsidiary of ours, as further described below, are not comparable to similar arrangements among unrelated parties.

With respect to an interest in a taxable mortgage pool or a residual interest in a real estate mortgage investment conduit, or REMIC, the ownership of which is attributed to us or to a REIT in which we own an interest, although the law on the matter is unclear as to the ownership of an interest in a taxable mortgage pool, we may be taxable at the highest corporate rate on the amount of any excess inclusion income for the taxable year allocable to the percentage of our stock that is held by disqualified organizations. For a discussion of excess inclusion income, see Taxable Mortgage Pools and REMICs. A disqualified organization includes:

- the United States;
- any state or political subdivision of the United States;
- any foreign government;
- any international organization;
- any agency or instrumentality of any of the foregoing;
- any other tax-exempt organization, other than a farmer s cooperative described in section 521 of the Internal Revenue Code, that is exempt both from income taxation and from taxation under the unrelated business taxable income provisions of the Internal Revenue Code; and

any rural electrical or telephone cooperative.

If we acquire any assets from a non-REIT C corporation in a carry-over basis transaction, we could be liable for specified tax liabilities inherited from that non-REIT C corporation with respect to that corporation s built-in gain in its assets. Built-in gain is the amount by which an asset s fair market value exceeds its adjusted tax basis at the time we acquire the asset. Applicable Treasury regulations, however, allow us to avoid the recognition of gain and the imposition of corporate level tax with respect to a built-in gain asset acquired in a carry-over basis transaction from a non-REIT C corporation unless and until we dispose of that built-in gain asset during the five-year period following its acquisition, at which time we would recognize, and would be subject to tax at the highest regular corporate rate on, the built-in gain.

In addition, notwithstanding our status as a REIT, we may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner that they are treated for United States federal income tax purposes. Moreover, as further described below, any domestic taxable REIT subsidiary in which we own an interest will be subject to United States federal corporate income tax on its net income.

Table of Contents

Requirements for Qualification as a REIT. The Internal Revenue Code defines a REIT as a corporation, trust or association:

(1) that is managed by one or more trustees or directors;

(2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;

(3) that would be taxable as a domestic corporation, but for Sections 856 through 859 of the Internal Revenue Code;

(4) that is neither a financial institution nor an insurance company subject to certain provisions of the Internal Revenue Code;

(5) the beneficial ownership of which is held by 100 or more persons;

(6) of which not more than 50% in value of the outstanding shares are owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) after applying certain attribution rules;

(7) that makes an election to be a REIT for the current taxable year or has made such an election for a previous taxable year, which has not been terminated or revoked; and

(8) that meets other tests, described below, regarding the nature of its income and assets.

Conditions (1) through (4), inclusive, must be met during the entire taxable year. Condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months other than the first taxable year for which an election to become a REIT is made. Condition (6) must be met during the last half of each taxable year but neither conditions (5) nor (6) apply to the first taxable year for which an election to become a REIT is made. We believe that we have maintained and will maintain sufficient diversity of ownership to allow us to continue to satisfy conditions (5) and (6) above. In addition, our charter contains restrictions regarding the ownership and transfer of our stock that are intended to assist us in continuing to satisfy the share ownership requirements described in (5) and (6) above. The provisions of our charter restricting the ownership and transfer of our stock are described in the accompanying prospectus under Description of Capital Stock Certain Provisions of Our Charter and Bylaws and of Maryland Law REIT Qualification Restrictions on Ownership and Transfer. These restrictions, however, may not ensure that we will be able to satisfy these share ownership requirements. If we fail to satisfy these share ownership requirements, we will fail to qualify as a REIT.

If we comply with regulatory rules pursuant to which we are required to send annual letters to holders of our stock requesting information regarding the actual ownership of our stock (as discussed below), and we do not know, or exercising reasonable diligence would not have known, whether we failed to meet requirement (6) above, we will be treated as having met the requirement.

To monitor compliance with the share ownership requirements, we generally are required to maintain records regarding the actual ownership of our shares. To do so, we must demand written statements each year from the record holders of significant percentages of our stock pursuant to which the record holders must disclose the actual owners of the shares (i.e., the persons required to include our dividends in their gross income). We must maintain a list of those persons failing or refusing to comply with this demand as part of our records. We could be subject to monetary penalties if we fail to comply with these record-keeping requirements. If you fail or refuse to comply with the demands, you will be required by Treasury regulations to submit a statement with your tax return disclosing your actual ownership of our shares and other information. In addition, we must

Table of Contents

satisfy all relevant filing and other administrative requirements established by the IRS to elect and maintain REIT status, use a calendar year for federal income tax purposes, and comply with the record keeping requirements of the Internal Revenue Code and regulations promulgated thereunder.

Ownership of Partnership Interests. In the case of a REIT that is a partner in an entity that is treated as a partnership for United States federal income tax purposes, Treasury regulations provide that the REIT is deemed to own its proportionate share of the partnership s assets and to earn its proportionate share of the partnership s gross income based on its pro rata share of capital interests in the partnership for purposes of the asset and gross income tests applicable to REITs, as described below. However, solely for purposes of the 10% value test, described below (see Asset Tests), the determination of a REIT s interest in partnership assets will be based on the REIT s proportionate interest in any securities issued by the partnership, excluding for these purposes certain excluded securities as described in the Internal Revenue Code. In addition, the assets and gross income of the partnership generally are deemed to retain the same character in the hands of the REIT. Thus, our proportionate share of the assets and items of income of partnerships in which we own an equity interest is treated as assets and items of income of our company for purposes of applying the REIT requirements described below. Consequently, to the extent that we directly or indirectly hold a preferred or other equity interest in a partnership, the partnership s assets and operations may affect our ability to qualify as a REIT, even though we may have no control or only limited influence over the partnership.

Qualified REIT Subsidiaries. If a REIT owns a corporate subsidiary that is a qualified REIT subsidiary, the separate existence of that subsidiary is disregarded for United States federal income tax purposes. Generally, a qualified REIT subsidiary is a corporation, other than a taxable REIT subsidiary, all of the stock of which is owned directly or indirectly by the REIT. All assets, liabilities and items of income, deduction and credit of the qualified REIT subsidiary will be treated as assets, liabilities and items of income, deduction and credit of the REIT itself. A qualified REIT subsidiary of ours is not subject to United States federal corporate income taxation, although it may be subject to state and local taxation in some states.

In the event that a qualified REIT subsidiary ceases to be wholly-owned by us (for example, if any equity interest in the subsidiary is acquired by a person other than us or another disregarded subsidiary of us), the subsidiary s separate existence would no longer be disregarded for United States federal income tax purposes. Instead, it would have multiple owners and would be treated as either a partnership or a taxable corporation. Such an event could, depending on the circumstances, adversely affect our ability to satisfy the various asset and gross income tests applicable to REITs, including the requirement that REITs generally may not own, directly or indirectly, more than 10% of the value or voting power of the outstanding securities of another corporation. See Asset Tests and Income Tests.

Taxable REIT Subsidiaries. A taxable REIT subsidiary is an entity that is taxable as a corporation in which we directly or indirectly own stock and that elects with us to be treated as a taxable REIT subsidiary. In addition, if a taxable REIT subsidiary owns, directly or indirectly, securities representing 35% or more of the vote or value of a subsidiary corporation, that subsidiary will also be treated as a taxable REIT subsidiary. However, an entity will not qualify as a taxable REIT subsidiary if it directly or indirectly operates or manages a lodging or health care facility or, generally, provides to another person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated. We generally may not own more than 10%, as measured by voting power or value, of the securities of a corporation that is not a qualified REIT subsidiary unless we and such corporation elect to treat such corporation as a taxable REIT subsidiary. Overall, no more than 25% (20% for taxable years beginning after December 31, 2017) of the value of a REIT s assets may consist of stock or securities of one or more taxable REIT subsidiaries.

Income earned by a taxable REIT subsidiary is not attributable to the REIT. As a result, income that might not be qualifying income for purposes of the income tests applicable to REITs could be earned by a taxable REIT subsidiary without affecting our status as a REIT.

Table of Contents

Several provisions of the Internal Revenue Code regarding the arrangements between a REIT and its taxable REIT subsidiaries ensure that a taxable REIT subsidiary will be subject to an appropriate level of United States federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct interest payments made to affiliated REITs. In addition, we would be obligated to pay a 100% penalty tax on some payments that we receive from, or on certain expenses deducted by, a taxable REIT subsidiary if the IRS were to assert successfully that the economic arrangements between us and a taxable REIT subsidiary are not comparable to similar arrangements among unrelated parties.

Taxable Mortgage Pools and REMICs. An entity, or a portion of an entity, that does not elect to be treated as a REMIC may be classified as a taxable mortgage pool under the Internal Revenue Code if:

- substantially all of its assets consist of debt obligations or interests in debt obligations;
- more than 50% of those debt obligations are real estate mortgages or interests in real estate mortgages as of specified testing dates;
- the entity has issued debt obligations (liabilities) that have two or more maturities; and
- the payments required to be made by the entity on its debt obligations bear a relationship to the payments to be received by the entity on the debt obligations that it holds as assets.

Under the Treasury regulations, if less than 80% of the assets of an entity (or a portion of an entity) consists of debt obligations, these debt obligations are considered not to comprise substantially all of its assets, and therefore the entity would not be treated as a taxable mortgage pool. It is possible that certain of our financing activities, including securitizations, will result in the treatment of us or a portion of our assets as a taxable mortgage pool.

An entity or portion of an entity will be treated as a REMIC for purposes of the Internal Revenue Code if:

- it satisfies requirements relating to the types of interests in the entity;
- substantially all of its assets are comprised of qualified mortgages and certain other permitted instruments at all times, except during (i) the three month period beginning after the startup date and (ii) the period beginning on the date of liquidation and ending on the close of the 90th day after such date;
- it adopts arrangements to ensure that disqualified organizations will not hold residual interests and that information needed to calculate the tax on transfers of residual interests to such organizations will be made available by the entity;
- it has a taxable year that is the calendar year; and
- the election to be treated as a REMIC applies for the taxable year and all prior taxable years.

Where an entity, or a portion of an entity, is classified as a taxable mortgage pool, it is generally treated as a taxable corporation for federal income tax purposes. In the case of a REIT, a portion of a REIT, or a REIT subsidiary that is disregarded as a separate entity from the REIT that is a taxable mortgage pool, however, special rules apply. The portion of a REIT s assets, held directly or through a REIT subsidiary that is disregarded as a separate entity from the REIT, that qualifies as a taxable mortgage pool is treated as a qualified REIT subsidiary that is not subject to corporate income tax, and the taxable mortgage pool classification does not directly affect the tax status of the REIT. The Treasury Department has yet to issue regulations governing the tax treatment of the stockholders of a REIT that owns an interest in a taxable mortgage pool.

A portion of our income from a REMIC residual interest or taxable mortgage pool arrangement could be treated as excess inclusion income. Excess inclusion income is an amount, with respect to any calendar quarter, equal to the excess, if any, of (i) income allocable to the holder of a residual interest in a REMIC or taxable mortgage pool interest during such calendar quarter over (ii) the sum of an amount for each day in the calendar quarter equal to the product of (a) the adjusted issue price of the interest at the beginning of the quarter multiplied by (b) 120 percent of the long-term federal rate (determined on the basis of compounding at the close of each calendar quarter and properly adjusted for the length of such quarter).

Our excess inclusion income would be allocated among our stockholders in proportion to dividends paid. A stockholder s share of excess inclusion income (i) would not be allowed to be offset by any net operating losses otherwise available to the stockholder, (ii) would be subject to tax as unrelated business taxable income in the hands of most types of stockholders that are otherwise generally exempt from United States federal income tax and (iii) would result in the application of United States federal income tax withholding at the maximum rate (30%), without reduction for any otherwise applicable income tax treaty, to the extent allocable to most types of non-United States stockholders. See Taxation of Non-United States Holders of Our Class A Common Stock Distributions. Although the law on this matter is not clear with regard to taxable mortgage pool interests, to the extent excess inclusion income is allocated to a tax-exempt stockholder of ours that is not subject to unrelated business income tax (such as a government entity), we would be taxable on this income at the highest applicable corporate tax rate (currently 35%). The manner in which excess inclusion income would be allocated among shares of different classes of our stock or how such income is to be reported to stockholders is not clear under current law. Tax-exempt investors, non-United States investors and taxpayers with net operating losses should carefully consider the tax consequences described above and are urged to consult their tax advisors in connection with their decision to invest in our class A common stock.

If a subsidiary partnership of ours, not wholly-owned by us directly or through one or more disregarded entities, were a taxable mortgage pool, the foregoing rules would not apply. Rather, the partnership that is a taxable mortgage pool would be treated as a corporation for United States federal income tax purposes, and would potentially be subject to corporate income tax. In addition, this characterization would alter our REIT income and asset test calculations and could adversely affect our compliance with those requirements.

Income Tests

To qualify as a REIT, we must satisfy two gross income requirements, each of which is applied on an annual basis. First, at least 75% of our gross income, excluding gross income from prohibited transactions and certain hedging and foreign currency transactions, for each taxable year generally must be derived directly or indirectly from:

- rents from real property;
- interest on debt secured by mortgages on real property or on interests in real property;
- dividends or other distributions on, and gain from the sale of, stock in other REITs;
- gain from the sale of real property or mortgage loans;
- abatements and refunds of taxes on real property;
- income and gain derived from foreclosure property (as described below);
- amounts (other than amounts the determination of which depends in whole or in part on the income or profits of any person) received or accrued as consideration for entering into agreements (i) to make loans secured by mortgages on real property or on interests in real property or (ii) to purchase or lease real property (including interests in real property and interests in mortgages on real property);

income derived from a REMIC in proportion to the real estate assets held by the REMIC, unless at least 95% of the REMIC s assets are real estate assets, in which case all of the income derived from the REMIC; and

interest or dividend income from investments in stock or debt instruments attributable to the temporary investment of new capital during the one-year period following our receipt of new capital that we raise through equity offerings or public offerings of debt obligations with at least a five-year term.

Second, at least 95% of our gross income, excluding gross income from prohibited transactions and certain hedging transactions, for each taxable year must be derived from sources that qualify for purposes of the 75% test, and from (i) dividends, (ii) interest and (iii) gain from the sale or disposition of stock or securities.

If we fail to satisfy one or both of the 75% and 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for that year if we are entitled to relief under the Internal Revenue Code. These relief provisions generally will be available if our failure to meet the tests is due to reasonable cause and not due to willful neglect, and we attach a schedule of the sources of our income to our United States federal income tax return. It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of these relief provisions. For example, if we fail to satisfy the gross income tests because nonqualifying income that we intentionally recognize exceeds the limits on nonqualifying income, the IRS could conclude that the failure to satisfy the tests was not due to reasonable cause. If these relief provisions are inapplicable to a particular set of circumstances, we will fail to qualify as a REIT. Even if these relief provisions apply, a penalty tax would be imposed based on the amount of nonqualifying income. See Our Taxation as a REIT.

Gross income from our sale of property that we hold primarily for sale to customers in the ordinary course of business is excluded from both the numerator and the denominator in both gross income tests. In addition, income and gain from hedging transactions that we enter into to hedge indebtedness incurred or to be incurred to acquire or carry real estate assets and that are clearly and timely identified as such will be excluded from both the numerator and the denominator for purposes of both gross income tests. In addition, certain foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests. We will monitor the amount of our non-qualifying income and we will manage our portfolio to comply at all times with the gross income tests. The following paragraphs discuss some of the specific applications of the gross income tests to us.

Dividends. Our dividend income from stock in any corporation (other than any REIT) and from any taxable REIT subsidiary will be qualifying income for purposes of the 95% gross income test, but not the 75% gross income test. If we own stock in other REITs, the dividends that we receive from those REITs and our gain on the sale of the stock in those REITs will be qualifying income for purposes of both gross income tests. However, if a REIT in which we own stock fails to qualify as a REIT in any year, our income from such REIT would be qualifying income for purposes of the 95% gross income test, but not the 75% gross income test.

Interest. The term interest, as defined for purposes of both gross income tests, generally excludes any amount that is based in whole or in part on the income or profits of any person, however, it generally includes the following: (i) an amount that is received or accrued based on a fixed percentage or percentages of receipts or sales, and (ii) an amount that is based on the income or profits of a debtor, as long as the debtor derives substantially all of its income from the real property securing the debt by leasing substantially all of its interest in the property, and only to the extent that the amounts received by the debtor would be qualifying rents from real property if received directly by a REIT. We do not expect that any of our loans will be based in whole or in part on the income or profits of any person.

Interest on debt secured by mortgages on real property or on interests in real property, including, for this purpose, prepayment penalties, loan assumption fees and late payment charges that are not compensation for services, generally is qualifying income for purposes of the 75% gross income test. However, if the highest principal amount of a loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of the date we agreed to originate or acquire the loan, a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test but will be qualifying income for purposes of the 95% gross income test. The portion of the interest income that will not be qualifying income for purposes of the 75% gross income test will be equal to the portion of the principal amount of the loan that is not secured by real property that is, the amount by which the loan exceeds the value of the real estate that is security for the loan.

We expect that the CMBS and residential mortgage-backed securities, or RMBS, in which we invest generally will be treated either as interests in a grantor trust or as interests in a REMIC for United States federal income tax purposes and that all interest income from such CMBS and RMBS will be qualifying income for the 95% gross income test. In the case of CMBS and RMBS treated as interests in grantor trusts, we would be treated as owning an undivided beneficial ownership interest in the mortgage loans held by the grantor trust. The interest on such mortgage loans would be qualifying income for purposes of the 75% gross income test to the extent that the obligation is secured by real property, as discussed above. In the case of CMBS and RMBS treated as interests in a REMIC, income derived from REMIC interests will generally be treated as qualifying income for purposes of the 75% and 95% gross income tests. If less than 95% of the assets of the REMIC are real estate assets, however, then only a proportionate part of our interest in the REMIC and income derived from the interest will qualify for purposes of the 75% gross income test. In addition, some REMIC securitizations include imbedded interest swap or cap contracts or other derivative instruments that potentially could produce non-qualifying income for the holder of the related REMIC securities.

The interest, original issue discount, and market discount income that we will receive from our mortgage-related assets generally will be qualifying income for purposes of both gross income tests.

Hedging Transactions. We may enter into hedging transactions with respect to one or more of our assets or liabilities. Hedging transactions could take a variety of forms, including interest rate swap agreements, interest rate cap agreements, options, futures contracts, forward rate agreements or similar financial instruments. Except to the extent provided by Treasury regulations, any income from a hedging transaction we enter into (1) in the normal course of our business primarily to manage risk of interest rate or price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets, which is clearly identified as a hedge along with the risk that it hedges within prescribed time periods as specified in Treasury regulations, (2) primarily to manage risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% income tests which is clearly identified as a hedge along with the risk that it hedges within prescribed time periods or (3) in connection with the effective termination of certain hedging transactions described above will be excluded from gross income for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the 75% and 95% gross income tests. We intend to structure any hedging transactions in a manner that does not jeopardize our qualification as a REIT.

We may conduct some or all of our hedging activities through a taxable REIT subsidiary or other corporate entity, the income of which may be subject to United States federal income tax, rather than by participating in the arrangements directly or through pass-through subsidiaries.

Fee Income. Fee income generally will be qualifying income for purposes of both the 75% and 95% gross income tests if it is received in consideration for entering into an agreement to make a loan secured by real property and the fees are not determined by income and profits. Other fees generally are not qualifying income for purposes of either gross income test. Any fees earned by a taxable REIT subsidiary will not be included for purposes of the gross income tests.

Rents from Real Property. To the extent that we own or acquire real property or an interest therein, rents we receive will qualify as rents from real property in satisfying the gross income requirements for a REIT described above only if several conditions are met. These conditions relate to the identity of the tenant, the computation of the rent payable, and the nature of the property leased. First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from rents from real property solely by reason of being based on a fixed percentage or percentages of receipts or sales. Second, rents we receive from a related party tenant will not qualify as rents from real property in satisfying the gross income tests unless the tenant is a taxable REIT subsidiary, at least 90% of the property is leased to unrelated tenants, the rent paid by the taxable REIT subsidiary is substantially comparable to the rent paid by the unrelated tenants for comparable space and the rent is not attributable to an increase in rent due to a modification of a lease with a controlled taxable REIT subsidiary (i.e., a taxable REIT subsidiary in which we own directly or indirectly more than 50% of the voting power or value of the stock). A tenant is a related party tenant if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns 10% or more of the tenant. Third, if rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property. Finally, for rents to qualify as rents from real property for purposes of the gross income tests, we are only allowed to provide services that are both usually or customarily rendered in connection with the rental of real property and not otherwise considered rendered to the occupant. We may, however, render services to our tenants through an independent contractor who is adequately compensated and from whom we do not derive revenue. We may also own a taxable REIT subsidiary which provides non-customary services to tenants without tainting our rental income from the related properties.

Even if a REIT furnishes or renders services that are non-customary with respect to a property, if the greater of (i) the amounts received or accrued, directly or indirectly, or deemed received by the REIT with respect to such services, or (ii) 150% of our direct cost in furnishing or rendering the services during a taxable year is n