# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# FORM 10-Q

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(Mark one)

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2022**

**OR**

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

**FOR THE TRANSITION PERIOD FROM _____ TO _____**

Commission file number: 000-56165

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# Cottonwood Communities, Inc.

**(Exact name of Registrant as specified in its charter)**

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| **Maryland** | **61-1805524** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**1245 E. Brickyard Road, Suite 250, Salt Lake City, UT 84106**
**(Address of principal executive offices) (Zip code)**

**(801) 278-0700**
**(Registrant's telephone number, including area code)**

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| None | N/A | N/A |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-Accelerated filer | ☒ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☒ |

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

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

As of November 7, 2022, there were 4,667,667 shares of the registrant's Class T common stock, 25,818 shares of the registrant's Class D common stock, 3,767,134 shares of the registrant's Class I common stock, and 27,065,790 shares of the registrant's Class A common stock outstanding.

**Cottonwood Communities, Inc.**

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## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

**Cottonwood Communities, Inc.**
**Condensed Consolidated Balance Sheets**
(in thousands, except share and per share data)

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | (Unaudited) | |
| Real estate assets, net | $ 1,702,432 | $ 1,408,483 |
| Investments in unconsolidated real estate entities | 126,597 | 190,733 |
| Investments in real-estate related loans | — | 13,035 |
| Cash and cash equivalents | 63,045 | 27,169 |
| Restricted cash | 33,509 | 18,221 |
| Other assets | 32,049 | 29,249 |
| Total assets | $ 1,957,632 | $ 1,686,890 |
| **Liabilities, Equity, and Noncontrolling Interests** | | |
| Liabilities | | |
| Mortgage notes and revolving credit facility, net | $ 993,180 | $ 642,107 |
| Construction loans, net | 87,638 | 116,656 |
| Preferred stock, net | 120,320 | 245,268 |
| Unsecured promissory notes, net | 43,443 | 43,543 |
| Performance participation allocation due to affiliate | 31,160 | 51,761 |
| Accounts payable, accrued expenses and other liabilities | 71,217 | 46,886 |
| Total liabilities | 1,346,958 | 1,146,221 |
| Commitments and contingencies (Note 12) | | |
| Equity and noncontrolling interests | | |
| Stockholders' equity | | |
| Common stock, Class T shares, $0.01 par value, 275,000,000 shares authorized; 4,299,100 shares issued and outstanding at September 30, 2022. No Class T shares were outstanding at December 31, 2021. | 43 | — |
| Common stock, Class D shares, $0.01 par value, 275,000,000 shares authorized; 7,361 shares issued and outstanding at September 30, 2022. No Class D shares were outstanding at December 31, 2021. | — | — |
| Common stock, Class I shares, $0.01 par value, 275,000,000 shares authorized; 3,236,141 and 151,286 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively. | 32 | 2 |
| Common stock, Class A shares, $0.01 par value, 125,000,000 shares authorized; 27,116,703 and 23,445,174 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively. | 271 | 234 |
| Common stock, Class TX shares, $0.01 par value, 50,000,000 shares authorized; zero and 17,520 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively. | — | — |
| Additional paid-in capital | 413,328 | 252,035 |
| Accumulated distributions | (31,822) | (17,273) |
| Accumulated deficit | (70,600) | (55,864) |
| Total stockholders' equity | 311,252 | 179,134 |
| Noncontrolling interests | | |
| Limited partners | 266,836 | 291,258 |
| Partially owned entities | 32,586 | 70,277 |
| Total noncontrolling interests | 299,422 | 361,535 |
| Total equity and noncontrolling interests | 610,674 | 540,669 |
| Total liabilities, equity and noncontrolling interests | $ 1,957,632 | $ 1,686,890 |

*See accompanying notes to condensed consolidated financial statements*

**Cottonwood Communities, Inc.**
**Condensed Consolidated Statements of Operations**
(Unaudited)
(in thousands, except share and per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Revenues** | | | | |
| Rental and other property revenues | $ 32,959 | $ 26,708 | $ 88,382 | $ 46,723 |
| Property management revenues | 2,829 | 3,487 | 8,655 | 5,607 |
| Other revenues | 2,295 | 365 | 3,544 | 887 |
| Total revenues | 38,083 | 30,560 | 100,581 | 53,217 |
| **Operating expenses** | | | | |
| Property operations expense | 12,444 | 10,210 | 32,705 | 18,362 |
| Property management expense | 4,323 | 4,373 | 13,863 | 6,925 |
| Asset management fee | 4,622 | 2,392 | 12,761 | 4,720 |
| Performance participation allocation | 1,081 | 29,524 | 31,160 | 35,979 |
| Depreciation and amortization | 14,289 | 27,716 | 37,549 | 43,536 |
| General and administrative expenses | 3,938 | 2,978 | 10,513 | 7,747 |
| Total operating expenses | 40,697 | 77,193 | 138,551 | 117,269 |
| Loss from operations | (2,614) | (46,633) | (37,970) | (64,052) |
| Equity in earnings (losses) of unconsolidated real estate entities | 1,982 | (1,154) | 8,705 | (855) |
| Interest income | 23 | 64 | 47 | 201 |
| Interest expense | (13,296) | (9,229) | (36,100) | (16,382) |
| Gain on sale of unconsolidated real estate entities | 176 | — | 7,810 | — |
| Promote from incentive allocation agreement | — | — | 30,309 | — |
| Loss on debt extinguishment, net | — | — | (481) | — |
| Other income (expense) | 1,913 | (97) | 3,732 | (78) |
| Loss before income taxes | (11,816) | (57,049) | (23,948) | (81,166) |
| Income tax (expense) benefit | (511) | 38 | (8,261) | (255) |
| **Net loss** | (12,327) | (57,011) | (32,209) | (81,421) |
| Net loss attributable to noncontrolling interests: | | | | |
| Limited partners | 6,198 | 31,153 | 16,778 | 43,936 |
| Partially owned entities | 241 | 2,312 | 694 | 4,925 |
| **Net loss attributable to common stockholders** | $ (5,888) | $ (23,546) | $ (14,737) | $ (32,560) |
| | | | | |
| Weighted-average common shares outstanding | 29,733,453 | 21,927,155 | 27,199,948 | 15,586,067 |
| Net loss per common share - basic and diluted | $ (0.20) | $ (1.07) | $ (0.54) | $ (2.09) |

*See accompanying notes to condensed consolidated financial statements*

**Cottonwood Communities, Inc.**

**Condensed Consolidated Statements of Stockholders' Equity**

(Unaudited)

(in thousands, except share data)

| | Cottonwood Communities, Inc. Stockholders' Equity | | | | | | | | | Noncontrolling interests | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Par Value | | | | | | | | | | | |
| | Common Stock Class T | Common Stock Class D | Common Stock Class I | Common Stock Class A | Common Stock Class TX | Additional Paid-In Capital | Accumulated Distributions | Accumulated Deficit | Total Stockholders' Equity | Limited Partners | Partially Owned Entities | Total Equity and Noncontrolling Interests |
| **Balance at January 1, 2022** | $ — | $ — | $ 2 | $ 234 | $ — | $ 252,035 | $ (17,273) | $ (55,864) | $ 179,134 | $ 291,258 | $ 70,277 | $ 540,669 |
| Issuance of common stock | 14 | — | 4 | — | — | 32,912 | — | — | 32,930 | — | — | 32,930 |
| Offering costs | — | — | — | — | — | (2,958) | — | — | (2,958) | — | — | (2,958) |
| Distribution reinvestment | — | — | — | — | — | 464 | — | — | 464 | — | — | 464 |
| Common stock/OP Units repurchased | — | — | — | (2) | — | (3,106) | — | — | (3,108) | (286) | — | (3,394) |
| Contributions from noncontrolling interests | — | — | — | — | — | — | — | — | — | — | 662 | 662 |
| Share-based compensation | — | — | — | — | — | — | — | — | — | 865 | — | 865 |
| Distributions to investors | — | — | — | — | — | — | (4,314) | — | (4,314) | (5,460) | (4,073) | (13,847) |
| Net loss | — | — | — | — | — | — | — | (3,005) | (3,005) | (3,828) | (55) | (6,888) |
| **Balance at March 31, 2022** | 14 | — | 6 | 232 | — | 279,347 | (21,587) | (58,869) | 199,143 | 282,549 | 66,811 | 548,503 |
| Issuance of common stock | 15 | — | 12 | — | — | 53,522 | — | — | 53,549 | — | — | 53,549 |
| Offering costs | — | — | — | — | — | (4,211) | — | — | (4,211) | — | — | (4,211) |
| Distribution reinvestment | — | — | — | 1 | — | 656 | — | — | 657 | — | — | 657 |
| Common stock/OP Units repurchased | — | — | — | (3) | — | (5,591) | — | — | (5,594) | (445) | — | (6,039) |
| Contributions from noncontrolling interests | — | — | — | — | — | — | — | — | — | (210) | 15,444 | 15,234 |
| Share-based compensation | — | — | — | — | — | — | — | — | — | 941 | — | 941 |
| Distributions to investors | — | — | — | — | — | — | (4,765) | — | (4,765) | (5,558) | (122) | (10,445) |
| Net loss | — | — | — | — | — | — | — | (5,843) | (5,843) | (6,752) | (398) | (12,993) |
| **Balance at June 30, 2022** | 29 | — | 18 | 230 | — | 323,723 | (26,352) | (64,712) | 232,936 | 270,525 | 81,735 | 585,196 |
| Issuance of common stock | 14 | — | 13 | — | — | 56,798 | — | — | 56,825 | — | — | 56,825 |
| Offering costs | — | — | — | — | — | (4,748) | — | — | (4,748) | — | — | (4,748) |
| Distribution reinvestment | — | — | — | — | — | 583 | — | — | 583 | — | — | 583 |
| Exchanges and transfers | — | — | 2 | — | — | 3,382 | — | — | 3,384 | (3,384) | — | — |
| OP Units issued for real estate interests | — | — | — | — | — | — | — | — | — | 2,930 | — | 2,930 |
| CMOF Merger | — | — | — | 43 | — | 39,393 | — | — | 39,436 | 8,273 | (49,178) | (1,469) |
| Common stock/OP Units repurchased | — | — | (1) | (2) | — | (5,803) | — | — | (5,806) | (602) | — | (6,408) |
| Contributions from noncontrolling interests | — | — | — | — | — | — | — | — | — | — | 386 | 386 |
| Share-based compensation | — | — | — | — | — | — | — | — | — | 938 | — | 938 |
| Distributions to investors | — | — | — | — | — | — | (5,470) | — | (5,470) | (5,646) | (116) | (11,232) |
| Net loss | — | — | — | — | — | — | — | (5,888) | (5,888) | (6,198) | (241) | (12,327) |
| **Balance at September 30, 2022** | $ 43 | $ — | $ 32 | $ 271 | $ — | $ 413,328 | $ (31,822) | $ (70,600) | $ 311,252 | $ 266,836 | $ 32,586 | $ 610,674 |

**Cottonwood Communities, Inc.**
**Condensed Consolidated Statements of Stockholders' Equity (Continued)**
(Unaudited)
(in thousands, except share data)

| | Cottonwood Communities, Inc. Stockholders' Equity | | | | | | | | | Noncontrolling interests | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Par Value | | | | | | | | | | | |
| | Common Stock Class T | Common Stock Class D | Common Stock Class I | Common Stock Class A | Common Stock Class TX | Additional Paid-In Capital | Accumulated Distributions | Accumulated Deficit | Total Stockholders' Equity | Limited Partners | Partially Owned Entities | Total Equity and Noncontrolling Interests |
| **Balance at January 1, 2021** | $ — | $ — | $ — | $ 122 | $ — | $ 121,677 | $ (7,768) | $ (11,948) | $ 102,083 | $ — | $ — | $ 102,083 |
| Share-based compensation | — | — | — | — | — | 45 | — | — | 45 | — | — | 45 |
| Distributions to investors | — | — | — | — | — | — | (1,511) | — | (1,511) | — | — | (1,511) |
| Net loss | — | — | — | — | — | — | — | (3,010) | (3,010) | — | — | (3,010) |
| **Balance at March 31, 2021** | — | — | — | 122 | — | 121,722 | (9,279) | (14,958) | 97,607 | — | — | 97,607 |
| CRII Merger | — | — | — | 4 | — | 4,654 | — | — | 4,658 | 363,278 | 221,656 | 589,592 |
| Contributions from noncontrolling interests | — | — | — | — | — | — | — | — | — | — | 83 | 83 |
| Share-based compensation | — | — | — | — | — | — | — | — | — | 421 | — | 421 |
| Other | — | — | — | — | — | (200) | — | — | (200) | — | — | (200) |
| Distributions to investors | — | — | — | — | — | — | (1,546) | — | (1,546) | (2,312) | (1,256) | (5,114) |
| Net loss | — | — | — | — | — | — | — | (6,004) | (6,004) | (12,783) | (2,613) | (21,400) |
| **Balance at June 30, 2021** | — | — | — | 126 | — | 126,176 | (10,825) | (20,962) | 94,515 | 348,604 | 217,870 | 660,989 |
| CMRI Merger | — | — | — | 58 | — | 70,036 | — | — | 70,094 | — | (79,447) | (9,353) |
| CMRII Merger | — | — | — | 52 | — | 57,324 | — | — | 57,376 | — | (63,752) | (6,376) |
| Contributions from noncontrolling interests | — | — | — | — | — | — | — | — | — | — | 567 | 567 |
| Share-based compensation | — | — | — | — | — | — | — | — | — | 552 | — | 552 |
| Common stock/OP Units repurchased | — | — | — | (1) | — | (838) | — | — | (839) | (1,440) | — | (2,279) |
| Other | — | — | — | — | — | (863) | — | — | (863) | — | — | (863) |
| Distributions to investors | — | — | — | — | — | — | (2,816) | — | (2,816) | (3,961) | (95) | (6,872) |
| Net loss | — | — | — | — | — | — | — | (23,546) | (23,546) | (31,153) | (2,312) | (57,011) |
| **Balance at September 30, 2021** | $ — | $ — | $ — | $ 235 | $ — | $ 251,835 | $ (13,641) | $ (44,508) | $ 193,921 | $ 312,602 | $ 72,831 | $ 579,354 |

*See accompanying notes to condensed consolidated financial statements*

**Cottonwood Communities, Inc.**
**Condensed Consolidated Statements of Cash Flows**
(Unaudited)
(in thousands)

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2022** | **2021** |
| **Cash flows from operating activities:** | | |
| Net loss | $ (32,209) | $ (81,421) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 37,549 | 43,536 |
| Gain on sale of investments in unconsolidated real estate entities | (7,810) | — |
| Share-based compensation | 2,743 | 1,018 |
| Other operating | 4,802 | 1,150 |
| Loss on debt extinguishment | 481 | — |
| Equity in earnings (losses) of unconsolidated real estate entities | (8,705) | 855 |
| Distributions from unconsolidated real estate entities - return on capital | 8,389 | 2,936 |
| Changes in operating assets and liabilities: | | |
| Other assets | (2,647) | (431) |
| Performance participation allocation | 31,160 | 35,979 |
| Performance participation allocation payment | (51,761) | — |
| Accounts payable, accrued expenses and other liabilities | 19,609 | 7,220 |
| Net cash provided by operating activities | 1,601 | 10,842 |
| **Cash flows from investing activities:** | | |
| Acquisitions of real estate, net of cash acquired | (148,216) | — |
| Settlement of related party notes and liabilities assumed with the CMOF Merger | (1,469) | — |
| Cash, cash equivalents and restricted cash acquired in connection with the CRII Merger | — | 51,943 |
| Capital expenditures and development activities | (77,235) | (50,625) |
| Investments in unconsolidated real estate entities | (197) | (12,909) |
| Proceeds from sale of investments in unconsolidated real estate entities | 28,910 | — |
| Distributions from unconsolidated real estate entities - return on capital | 38,769 | — |
| Contributions to investments in real-estate related loans | — | (10,871) |
| Proceeds from settlement of investments in real-estate related loans | 13,000 | 9,332 |
| Other investing activities | — | 941 |
| Net cash used in investing activities | (146,438) | (12,189) |

**Cottonwood Communities, Inc.**
**Condensed Consolidated Statements of Cash Flows (Continued)**
(Unaudited)
(in thousands)

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2022** | **2021** |
| **Cash flows from financing activities:** | | |
| Principal payments on mortgage notes | (1,186) | (195) |
| Borrowings from revolving credit facility | 168,000 | 8,500 |
| Repayments on revolving credit facility | (141,000) | (15,000) |
| Borrowings under mortgage notes and term loans | 469,976 | — |
| Repayments of mortgage notes and term loans | (231,177) | — |
| Deferred financing costs on mortgage notes and term loans | (5,067) | — |
| Borrowings from construction loans | 30,642 | 37,816 |
| Repayments of construction loans | (59,660) | — |
| Proceeds from issuance of Series 2019 Preferred Stock | 15,472 | 52,267 |
| Redemption of preferred stock | (142,720) | (1,006) |
| Offering costs paid on issuance of preferred stock | (1,708) | (5,496) |
| Proceeds from issuance of common stock | 145,008 | — |
| Repurchase of common stock/OP Units | (15,840) | (2,279) |
| Offering costs paid on issuance of common stock | (11,918) | — |
| Contributions from noncontrolling interests | 11,935 | — |
| Distributions to common stockholders | (13,842) | (6,382) |
| Distributions to noncontrolling interests - limited partners | (16,507) | (6,260) |
| Distributions to noncontrolling interests - partially owned entities | (4,311) | (1,383) |
| Other financing activities | (96) | (834) |
| Net cash provided by financing activities | 196,001 | 59,748 |
| **Net increase in cash and cash equivalents and restricted cash** | 51,164 | 58,401 |
| Cash and cash equivalents and restricted cash, beginning of period | 45,390 | 4,633 |
| **Cash and cash equivalents and restricted cash, end of period** | $ 96,554 | $ 63,034 |
| | | |
| **Reconciliation of cash and cash equivalents and restricted cash to the condensed consolidated balance sheets:** | | |
| Cash and cash equivalents | $ 63,045 | $ 41,313 |
| Restricted cash | 33,509 | 21,721 |
| Total cash and cash equivalents and restricted cash | $ 96,554 | $ 63,034 |

**Cottonwood Communities, Inc.**
**Condensed Consolidated Statements of Cash Flows (Continued)**
(Unaudited)
(in thousands)

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2022** | **2021** |
| **Supplemental disclosure of non-cash investing and financing activities:** | | |
| *CMOF Merger* | | |
| CMOF related party notes assumed | $ 1,327 | $ — |
| Net other liabilities assumed | $ 142 | $ — |
| *Cottonwood Ridgeview Acquisition* | | |
| Real estate assets, net of cash acquired | $ 62,636 | $ — |
| Mortgage note | $ 58,192 | $ — |
| Other assets and liabilities assumed, net | $ 642 | $ — |
| Value of OP Units issued for real estate assets | $ 2,930 | $ — |
| *Cottonwood Clermont Acquisition* | | |
| Assumption of mortgage note | $ 35,521 | $ — |
| *CRII Merger* | | |
| Fair value of assets acquired and liabilities assumed with the CRII Merger: | | |
| Real estate assets | $ — | $ 1,291,030 |
| Investments in unconsolidated real estate entities | $ — | $ 120,775 |
| Intangibles | $ — | $ 32,122 |
| Debt | $ — | $ 734,852 |
| Preferred stock | $ — | $ 143,979 |
| Other assets acquired | $ — | $ 62,147 |
| Other liabilities assumed | $ — | $ 40,926 |
| Fair value of equity issued to CRII Shareholders in the CRII Merger | $ — | $ 4,658 |
| Fair value of noncontrolling interests from the CRII Merger | $ — | $ 581,659 |
| *CMRI Merger* | | |
| Settlement of promote upon closing of the CMRI Merger | $ — | $ 5,585 |
| Settlement of CMRI promissory notes and interest with CROP | $ — | $ 1,545 |
| Net liabilities assumed with the CMRI Merger | $ — | $ 2,223 |
| *CMRII Merger* | | |
| Settlement of promote upon closing of the CMRII Merger | $ — | $ 2,424 |
| Settlement of CMRII promissory notes and interest with CROP | $ — | $ 2,475 |
| Net liabilities assumed with the CMRII Merger | $ — | $ 1,477 |

*See accompanying notes to condensed consolidated financial statements*

## 1. Organization and Business

Cottonwood Communities, Inc. (the "Company," "CCI," "we," "us," or "our") invests in a diverse portfolio of multifamily apartment communities and multifamily real estate-related assets throughout the United States. We are externally managed by our advisor, CC Advisors III, LLC ("CC Advisors III"), a wholly-owned subsidiary of our sponsor, Cottonwood Communities Advisors, LLC ("CCA"). We were incorporated in Maryland in 2016. We hold all of our assets through our operating partnership, Cottonwood Residential O.P., LP ("CROP"). CROP, together with its subsidiaries, holds the Company's real estate interests and conducts the ongoing operations of the Company. We are the sole member of the sole general partner of CROP and own general partner interests in CROP alongside third party limited partners.

We are a non-traded perpetual-life, net asset value ("NAV") real estate investment trust ("REIT"). We qualified as a REIT for U.S. federal income tax purposes beginning with the taxable year ended December 31, 2019. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent we annually distribute all of our net taxable income to stockholders and maintain our qualification as a REIT.

From August 13, 2018 to December 22, 2020 we conducted an initial public offering of our common stock (the "Initial Offering"), for which we raised gross proceeds of $122.0 million. The Initial Offering ended in December 2020 as we pursued the 2021 Mergers described below. On November 4, 2021, after the 2021 Mergers (defined below) were completed, we registered with the SEC an offering of up to $1.0 billion of shares of common stock (the "Follow-on Offering"), consisting of up to $900.0 million in shares of common stock offered in a primary offering (the "Primary Offering") and $100.0 million in shares under our distribution reinvestment plan (the "DRP Offering"). As of September 30, 2022, we have raised gross proceeds of $147.7 million from the Follow-on Offering, including proceeds from the DRP Offering.

On November 8, 2019, we commenced a private placement offering exempt from registration under the Securities Act pursuant to which we offered a maximum of $128.0 million in shares of Series 2019 Preferred Stock to accredited investors at a purchase price of $10.00 per share (the "Private Offering"). The Private Offering was fully subscribed in March 2022, having received gross proceeds of $127.0 million.

We own and operate a diverse portfolio of investments in multifamily apartment communities located in targeted markets throughout the United States. As of September 30, 2022, our portfolio consists of ownership interests or structured investment interests in 33 multifamily apartment communities with a total of 9,620 units, including 1,073 units in three multifamily apartment communities in which we have a structured investment interest and another 738 units in three multifamily apartment communities under construction or recently completed and in lease-up. In addition, we have an ownership interest in four land sites planned for development.

### Cottonwood Multifamily Opportunity Fund, Inc. Merger

On July 8, 2022, we entered into an agreement and plan of merger with Cottonwood Multifamily Opportunity Fund, Inc. ("CMOF") and its operating partnership (the "CMOF OP") to merge CMOF with and into our wholly owned subsidiary and the CMOF OP with and into CROP through the exchange of stock-for-stock and units-for-units (the "CMOF Merger"). The CMOF Merger closed on September 27, 2022.

CMOF stockholders received 0.8669 shares of our Class A common stock in exchange for each share of their CMOF common stock. We issued 4,335,367 shares of Class A common stock in connection with the CMOF Merger, at an aggregate value of $89.7 million on the close date.

In connection with the merger of the CMOF OP with and into CROP, the CMOF OP partnership units outstanding held by third parties were converted into CROP common units at the same ratio as the common stock.

CROP was a joint venture partner with CMOF in all three of CMOF's investments: Park Avenue (development project), Cottonwood on Broadway (development project) and Block C (land held for development). Following the CMOF Merger, we acquired CMOF's interest in these joint ventures, increasing our percentage ownership interest in the joint ventures as follows: Park Avenue, 100.0%, Cottonwood on Broadway, 100.0% and Block C, 79.0%. The remaining interest in the Block C joint venture is held either directly or indirectly by certain officers or directors, as well as certain employees of CROP and our advisor or its affiliates as discussed in Note 10. The three development projects we acquired additional interests in with the CMOF Merger were already consolidated by us.

**The 2021 Mergers**

On January 26, 2021, we entered into stock-for-stock and unit-for-unit merger agreements with three affiliated REITs. The merger with Cottonwood Residential II, Inc. ("CRII," the "CRII Merger") closed on May 7, 2021. The merger with Cottonwood Multifamily REIT I, Inc. ("CMRI," the "CMRI Merger") closed on July 7, 2021. The merger with Cottonwood Multifamily REIT II, Inc. ("CMRII," the "CMRII Merger") also closed on July 7, 2021. We refer to the CRII Merger, the CMRI Merger and the CMRII Merger as the "2021 Mergers."

CRII stockholders received (i) 2.015 shares of our Class A common stock in exchange for their shares of common stock, (ii) one share of our Series 2016 preferred stock in exchange for their CRII Series 2016 preferred stock, and (iii) one share of our Series 2017 preferred stock in exchange for their CRII Series 2017 preferred stock.

CROP, the operating partnership of CRII, replaced Cottonwood Communities O.P., LP ("CCOP") as our operating partnership. The participating partnership units of CROP, which excluded preferred units, were split by a ratio of 2.015 ("CROP Unit Split"). Issued and outstanding partnership units of CCOP, which included Series 2019 Preferred units, LTIP units, Special LTIP units, general partner units and common limited partnership units converted into corresponding units at CROP, the terms of which were identical to the converted CCOP partnership unit.

After giving effect to the CROP Unit Split, each preferred unit, general partner unit, common limited partnership unit, and LTIP unit of CROP remained issued and outstanding.

CMRI stockholders received 1.175 shares of our Class A common stock in exchange for their CMRI common stock. CMRII's stockholders received 1.072 shares of our Class A common stock in exchange for their CMRII common stock. In connection with the mergers of the operating partnerships of each of CMRI and CMRII with and into CROP, the partnership units outstanding, which were split to equal the amount of the common stock outstanding, were converted into CROP common units at the same ratio as the common stock. Each asset held by CMRI and CMRII was owned through joint ventures with CROP. As a result of the consummation of the CMRI Merger and the CMRII Merger, our ownership interest in the properties held through joint ventures with CMRI and CMRII increased to 100% on July 15, 2021.

Through the 2021 Mergers we acquired interests in 22 stabilized multifamily apartment communities, four multifamily development projects, one structured investment, and land held for development. We also acquired CRII's property management business and its employees, an advisory contract with Cottonwood Multifamily Opportunity Fund, Inc. ("CMOF"), and personnel who performed certain administrative and other services for us on behalf of CC Advisors III.

CC Advisors III continues to manage our business as our external advisor pursuant to an amended and restated advisory agreement. With the exception of our Chief Legal Officer, Chief Operating Officer, Chief Accounting Officer and Chief Development Officer, we do not employ our executive officers.

Much of our structure and agreements have changed materially as a result of the 2021 Mergers. Accordingly, information presented in these condensed consolidated financial statements may not be directly comparable to prior periods.

**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The condensed consolidated financial statements, including the condensed notes thereto, are unaudited and exclude some of the disclosures required in audited financial statements. The condensed consolidated balance sheet as of December 31, 2021 has been derived from the Company's audited financial statements as of that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments and eliminations, consisting only of normal recurring adjustments necessary for a fair presentation in conformity with GAAP. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the period ending December 31, 2021 filed with the SEC.

The accompanying condensed consolidated financial statements include the accounts of the Company and its subsidiaries for which we have a controlling interest. All intercompany balances and transactions have been eliminated in consolidation.

Certain amounts in the prior year condensed consolidated financial statements and notes to the condensed consolidated financial statements have been reclassified to conform to the current year presentation. Such reclassifications did not impact previously reported net loss or accumulated deficit or change net cash provided by or used in operating, investing or financing activities.

*Organization and Offering Costs*

Organization and offering costs in the Follow-on Offering are paid by purchasers of the shares through an adjustment to the purchase price of the share or their distribution (depending on the class of share purchased) or by us. They are recorded as an offset to equity. As of September 30, 2022, $13.6 million in organization and offering costs had been incurred in connection with the Follow-on Offering.

Organization and offering costs in the Private Offering for our Series 2019 Preferred Stock were paid by us. They are deferred and amortized up to the redemption date through interest expense. We incurred $13.2 million of organization and offering costs related to the Private Offering, which was fully subscribed and terminated in March 2022.

*Income Taxes*

As a REIT, we are not subject to federal income tax with respect to the portion of our income that meets certain criteria and is distributed annually to stockholders. Taxable income from activities managed through our taxable REIT subsidiary ("TRS") are subject to federal, state and local income taxes. Provision for such taxes has been included in income tax expense on our condensed consolidated statements of operations. In 2018, CROP entered into an incentive allocation agreement with a real estate firm who bought a portfolio of twelve assets from CROP. The agreement allowed us to participate in distributions from the portfolio should returns on the portfolio exceed certain amounts. In March 2022, the firm sold the portfolio and our TRS realized a promote distribution of $30.3 million. Income tax expense accrued for this discrete item was $7.3 million. In June 2022, the taxable gain from the promote was contributed to a Qualified Opportunity Zone fund, which provides tax benefits for development programs located in designated areas as established by Congress in the Tax Cuts and Jobs act of 2017. As a result, the $7.3 million income tax payable was reclassified to a deferred tax liability. We expect that this deferred tax liability will be realized in 2026.

## 3. Real Estate Assets, Net

The following table summarizes the carrying amounts of our consolidated real estate assets (in thousands):

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Land | $ 267,876 | $ 202,531 |
| Buildings and improvements | 1,346,626 | 1,074,126 |
| Furniture, fixtures and equipment | 52,806 | 37,463 |
| Intangible assets | 40,692 | 34,905 |
| Construction in progress [1] | 97,484 | 127,493 |
| | 1,805,484 | 1,476,518 |
| Less: Accumulated depreciation and amortization [2] | (103,052) | (68,035) |
| Real estate assets, net | $ 1,702,432 | $ 1,408,483 |

[1] Includes construction in progress for our development projects and capitalized costs for improvements not yet placed in service at our stabilized properties.

[2] Includes the amortization of $33.2 million of in-place lease assets acquired with the CRII Merger over a period of six months in 2021.

*CMOF Merger*

The acquisition of an additional ownership interest of a consolidated entity is accounted for as an equity transaction. The three development projects we acquired additional interests in with the CMOF Merger were already consolidated by us. Accordingly, CMOF's noncontrolling interest in the three investments was reduced by its carrying amount and the difference between the carrying amount and the consideration paid was recorded as an adjustment to our equity through additional paid-in capital as follows (in thousands, except share and per share data):

| **2022 Consideration** | **CMOF Merger** |
|---|---|
| Common stock issued and outstanding | 5,001,000 |
| Exchange ratio | 0.8669 |
| CCI common stock issued as consideration | 4,335,367 |
| Per share value of CCI Common Stock | $ 20.7007 |
| Fair value of CCI Common Stock issued | $ 89,745 |
| Fair value of OP Units issued | 8,273 |
| Settlement of CMOF related party notes and interest | 1,327 |
| Settlement of net other liabilities of CMOF | 142 |
| Total consideration | $ 99,487 |

| **2022 Change in equity** | **CMOF Merger** |
|---|---|
| Carrying amount of noncontrolling interest | $ 49,178 |
| Total consideration | 99,487 |
| Additional paid in capital adjustment | $ (50,309) |
| Fair value of CCI Common Stock issued | $ 89,745 |
| Additional paid in capital adjustment | (50,309) |
| Total change in equity | $ 39,436 |

*Asset Acquisitions*

The following table summarizes the purchase price allocation of the real estate assets acquired or consolidated during the nine months ended September 30, 2022 (in thousands):

| | | | **Allocated Amounts** | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Property** | **Location** | **Date Consolidated** | **Building** | **Land** | **Land Improvements** | **Personal Property** | **Lease Intangible** | **Debt Mark to Market** | **Total** |
| Cottonwood Lighthouse Point | Pompano Beach, FL | 6/22/22 | $ 76,322 | $ 13,647 | $ 1,843 | $ 2,011 | $ 1,783 | $ — | $ 95,606 |
| Cottonwood Ridgeview | Plano, TX | 9/19/22 | 54,337 | 9,275 | 2,548 | 835 | 1,603 | 1,504 | 70,102 |
| Cottonwood Clermont | Clermont, FL | 9/21/22 | 67,400 | 5,705 | 5,744 | 1,817 | 1,792 | 3,428 | 85,886 |
| | | | $ 198,059 | $ 28,627 | $ 10,135 | $ 4,663 | $ 5,178 | $ 4,932 | $251,594 |

The acquisition of Cottonwood Lighthouse Point was funded with debt of $48.0 million and available cash.

Cottonwood Ridgeview was consolidated when we issued 141,543 operating partnership units in CROP ("OP Units) to acquire the remaining 9.5% tenant-in-common interests in the property. The value of the OP Units was $2.9 million on the close date. Cottonwood Ridgeview was previously accounted for as an equity method investment.

The acquisition of Cottonwood Clermont was funded through an assumed loan of $35.5 million and available cash.

In asset acquisitions, assets and liabilities are recorded at relative fair value. The weighted-average amortization period for the intangible lease assets acquired in connection with these acquisitions is 0.5 years.

*Galleria Land Purchase*

On September 20, 2022, we acquired 26 acres of land for future development in Murray, Utah for $28.5 million.

*Block C*

On June 28, 2022, Block C, an early-stage development joint venture with CMOF, was recapitalized. Entities affiliated with us and our advisor contributed capital to the joint venture and were admitted as members. We contributed additional funds to obtain a controlling interest and consolidated the joint venture, which had previously been recorded as an equity method investment. On September 27, 2022, we acquired CMOF's interest in Block C as a result of the CMOF Merger. The joint venture consists of cash, land held for development, and payables. Refer to Note 10 for further information on the Block C recapitalization.

*CRII Merger*

On May 7, 2021, we completed the CRII Merger, which was accounted for as a business combination in accordance with ASC 805, *Business Combinations* ("ASC 805"). Based on an evaluation of the relevant factors and the guidance in ASC 805, CCI was determined to be both the legal and accounting acquirer. In order to make this determination, various factors were analyzed including which entity issued its equity interests, relative voting rights, existence of noncontrolling interests, control of the board of directors, management composition, relative size, transaction initiation, operational structure, relative composition of employees, and other factors. The most significant factor identified was the relative voting rights, as CCI stockholders hold the majority of the controlling financial (voting) interests. CCI also initiated the transaction and was the entity issuing common equity interests in the merger.

The consideration given in exchange for CRII was as follows ($ in thousands, except share and per share data):

| | | |
|---|---|---|
| CRII Common stock issued and outstanding | | 213,434 |
| Exchange ratio | | 2.015 |
| CCI common stock issued as consideration | | 430,070 |
| CCI's estimated value per share as of May 7, 2021 | $ | 10.83 |
| Value of CCI common stock issued as consideration | $ | 4,658 |

The allocation of the purchase price below required significant judgment and represented management's best estimate of the fair value as of the acquisition date. The following table shows the purchase price allocation of CRII's identifiable asset and liabilities assumed as of May 7, 2021 ($ in thousands):

| | | |
|---|---|---|
| **Assets** | | |
| Real estate assets [1] | $ | 1,291,030 |
| Investments in unconsolidated real estate entities | | 120,775 |
| Cash and cash equivalents | | 31,799 |
| Restricted cash | | 20,144 |
| Other assets [2] | | 42,325 |
| Total assets acquired | $ | 1,506,073 |
| **Liabilities** | | |
| Mortgage notes, net | $ | 622,095 |
| Construction loans | | 64,114 |
| Preferred stock | | 143,979 |
| Unsecured promissory notes | | 48,643 |
| Accounts payable, accrued expenses and other liabilities | | 40,926 |
| Total liabilities assumed | | 919,757 |
| Consolidated net assets acquired | | 586,316 |
| Noncontrolling interests [3] | | (581,659) |
| Net assets acquired | $ | 4,657 |

[1] Real estate assets acquired in connection with the CRII Merger include $33.2 million of intangible lease assets, which have a weighted-average amortization period of 0.5 years. As such, based on the May 7, 2021 merger date, the intangible lease assets acquired from the CRII Merger have been fully amortized by December 31, 2021.

[2] Other assets includes $32.1 million of intangible assets from the CRII Merger. Of this amount, $8.0 million relates to a promote asset which was removed upon the closing of the CMRI Merger and CMRII Merger on July 15, 2021. The remaining $24.1 million of intangible assets have a weighted-average amortization period of 8.8 years, and include $22.2 million related to the acquisition of CRII's property management and ancillary businesses (with a weighted-average amortization period of 9.2 years) and $1.9 million related to acquired disposition fees on certain properties and promotes on development assets (with a weighted-average amortization period of 3.8 years).

[3] The fair value of noncontrolling interests is based on the fair value of assets and liabilities held by the noncontrolling interests at their ownership share. These values were determined using methods similar to those used by independent appraisers, and include using replacement cost estimates less depreciation, discounted cash flows, market comparisons, and direct capitalization of net operating income.

As a result of the CRII Merger we consolidated 17 multifamily apartment communities and four development properties as well as added six multifamily apartment communities accounted for under the equity method of accounting.

The results of operations for the CRII Merger are included in the Company's statements of operations beginning on the May 7, 2021 merger closing date onward. For the nine months ended September 30, 2022, the accompanying statements of operations include the following revenue and net income generated from the assets acquired and liabilities assumed with the CRII Merger (unaudited, in thousands):

| | | |
|---|---|---|
| Revenue | $ | 91,763 |
| Net income | $ | 31,247 |

*Pro Forma Financial Information (unaudited)*

The following condensed pro forma operating information is presented as if the CRII Merger occurred in 2020 and had been included in operations as of January 1, 2020. The pro forma operating information excludes certain nonrecurring adjustments, such as acquisition fees and expenses incurred, to reflect the pro forma impact the acquisition would have on earnings on a continuous basis (unaudited, in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Pro forma revenue:** | | | | |
| Historic results | $ 38,083 | $ 30,560 | $ 100,581 | $ 53,217 |
| CRII Merger (excluding those in historic results) | — | — | — | 36,657 |
| Total | $ 38,083 | $ 30,560 | $ 100,581 | $ 89,874 |
| **Pro forma net loss:** | | | | |
| Historic results | $ (12,327) | $ (57,011) | $ (32,209) | $ (81,421) |
| CRII Merger (excluding those in historic results) | — | 16,609 | — | (13,300) |
| Total | $ (12,327) | $ (40,402) | $ (32,209) | $ (94,721) |

The pro forma information is not necessarily indicative of the results which actually would have occurred if the business combination had occurred on the first day of the periods presented, nor does the pro forma financial information purport to represent the results of operations for future periods.

*CMRI Merger and CMRII Merger*

With the closing of the CRII Merger in May 2021, we consolidated the properties that CMRI and CMRII invested in through joint ventures with CROP. As a result of the consummation of the CMRI Merger and the CMRII Merger in July 2021, our ownership interest in these properties increased to 100%. The acquisition of an additional ownership interest of a consolidated entity is accounted for as an equity transaction. Accordingly, CMRI's and CMRII's noncontrolling interest in the properties was reduced by its carrying amount and the difference between the carrying amount and the consideration paid was recorded as an adjustment to our equity through additional paid-in capital. Information regarding these equity transactions is as follows (in thousands, except share and per share data):

| **2021 Consideration** | **CMRI Merger** | **CMRII Merger** |
|---|---|---|
| Common stock issued and outstanding | 4,904,045 | 4,881,490 |
| Exchange ratio | 1.175 | 1.072 |
| CCI common stock issued as consideration | 5,762,253 | 5,232,957 |
| Per share value of CCI Common Stock | $ 11.7865 | $ 11.7865 |
| Fair value of CCI Common Stock issued | $ 67,917 | $ 61,678 |
| Settlement of promote | 5,585 | 2,424 |
| Settlement of CMRI and CMRII promissory notes and interest with CROP | 1,545 | 2,475 |
| Net liabilities assumed | 2,223 | 1,477 |
| Total consideration | $ 77,270 | $ 68,054 |

| **2021 Change in equity** | **CMRI Merger** | **CMRII Merger** |
|---|---|---|
| Carrying amount of noncontrolling interest | $ 79,447 | $ 63,752 |
| Total consideration | 77,270 | 68,054 |
| Additional paid in capital adjustment | $ 2,177 | $ (4,302) |
| Fair value of CCI Common Stock issued | $ 67,917 | $ 61,678 |
| Additional paid in capital adjustment | 2,177 | (4,302) |
| Total change in equity | $ 70,094 | $ 57,376 |

## 4. Investments in Unconsolidated Real Estate Entities

Our investments in unconsolidated real estate entities consist of ownership interests in stabilized properties and preferred equity investments as follows as of September 30, 2022 and December 31, 2021 (in thousands):

| Property / Development | Location | % Owned | Balance at September 30, 2022 | Balance at December 31, 2021 |
|---|---|---|---|---|
| *Stabilized Assets* | | | | |
| 3800 Main [1] | Houston, TX | 0% [1] | $ — | $ 10,347 |
| Alpha Mill [2] [3] | Charlotte, NC | 28.3% | 10,560 | 22,034 |
| Cottonwood Bayview [2] | St. Petersburg, FL | 71.0% | 30,943 | 31,399 |
| Cottonwood Ridgeview [4] | Plano, TX | 100% [4] | — | 34,352 |
| Fox Point [2] | Salt Lake City, UT | 52.8% | 15,103 | 16,056 |
| Toscana at Valley Ridge [2] | Lewisville, TX | 58.6% | 9,399 | 9,370 |
| Melrose Phase II [2] | Nashville, TN | 79.8% | 6,408 | 15,523 |
| *Preferred Equity Investments* | | | | |
| Lector85 | Ybor City, FL | | 14,310 | 13,010 |
| Vernon Boulevard | Queens, NY | | 19,908 | 18,079 |
| Riverfront | West Sacramento, CA | | 19,047 | 16,884 |
| Other | | | 919 | 3,679 |
| **Total** | | | $ 126,597 | $ 190,733 |

[1] On June 23, 2022, 3800 Main was sold. We received $16.8 million in cash for the sale and recorded a gain on sale of $6.8 million.

[2] We account for our tenant-in-common interests in these properties as equity method investments.

[3] On April 7, 2022, we sold 28.9% of our ownership interest in Alpha Mill for $11.9 million to certain unaffiliated third parties and we recorded a gain on sale of $0.8 million related to the transaction, which reduced our remaining ownership in Alpha Mill to 28.3%.

[4] On September 19, 2022, we issued 141,543 OP Units to acquire the remaining 9.5% tenant-in-common interests in Cottonwood Ridgeview, bringing our ownership in Cottonwood Ridgeview to 100% and resulting in the consolidation of the property from that date onward. The value of the OP Units was $2.9 million on the close date.

Our investments in unconsolidated real estate entities for the stabilized assets above were acquired on May 7, 2021 as part of the CRII Merger. Equity in earnings (losses) for our stabilized assets for the three months ended September 30, 2022 and 2021 were $0.1 million and $(2.7) million, respectively. Equity in earnings for our stabilized assets for the nine months ended September 30, 2022 was $3.4 million. Equity in losses for our stabilized and other assets during the period from the CRII Merger closing on May 7, 2021 to September 30, 2021 was $4.8 million. During March 2022, we received $30.4 million and $8.3 million in distributions as a return of capital from debt refinances at Cottonwood Ridgeview and Melrose Phase II, respectively.

Our preferred equity investments, which are in development projects, have liquidation rights and priorities that are different from ownership percentages. As such, equity in earnings is determined using the hypothetical liquidation book value method. Equity in earnings for our preferred equity investments for the three months ended September 30, 2022 and 2021 were $1.8 million and $1.6 million, respectively. Equity in earnings for our preferred equity investments for the nine months ended September 30, 2022 and 2021 were $5.3 million and $3.9 million, respectively. By the end of 2021, we had fully funded our commitments on all of our preferred equity investments.

## 5. Investments in Real-Estate Related Loans

On June 30, 2021, we entered into a co-lender agreement to participate in a $19.5 million mezzanine loan originated for the purpose of developing a 300-unit multifamily apartment community located in Reno, Nevada (the "Integra Peaks Mezzanine Loan"). We committed a total of $13.0 million of the Integra Peaks Mezzanine Loan, with the remaining $6.5 million funded by our co-lender (an unaffiliated third party). As of December 31, 2021, we had funded all of our commitment. The Integra Peaks Mezzanine Loan bore interest of 12.0% per annum, had an original maturity date of March 30, 2024 and could be prepaid in whole or in part subject to certain limitations and a minimum multiple payment.

On September 2, 2022, the borrower prepaid the Integra Peaks Mezzanine Loan in full. Net interest income from the Integra Peaks Mezzanine Loan for the three and nine months ended September 30, 2022 was $0.3 million and $1.1 million, respectively. Net interest income for both the three and nine months ended September 30, 2021 was $0.2 million. In addition to the payment of all accrued interest, we received a minimum multiple payment of $1.8 million. Interest income and the minimum multiple on the Integra Peaks Mezzanine Loan is classified within other revenues on our condensed consolidated statements of operations.

## 6. Debt

*Mortgage Notes and Revolving Credit Facility*

The following table is a summary of the mortgage notes and revolving credit facility secured by our properties as of September 30, 2022 and December 31, 2021 ($ in thousands):

| Indebtedness | Weighted-Average Interest Rate | Weighted-Average Remaining Term [1] | Principal Balance Outstanding | |
|---|---|---|---|---|
| | | | September 30, 2022 | December 31, 2021 |
| *Fixed rate loans* | | | | |
| Fixed rate mortgages | 3.63% | 5.4 Years | $ 528,824 | $ 213,009 |
| Total fixed rate loans | | | 528,824 | 213,009 |
| *Variable rate loans* [2] | | | | |
| Floating rate mortgages | 4.69% | 6.9 Years | 426,130 | 407,022 |
| Variable rate revolving credit facility [3] | 4.23% | 2.5 Years | 47,000 | 20,000 |
| Total variable rate loans | | | 473,130 | 427,022 |
| Total secured loans | | | 1,001,954 | 640,031 |
| Unamortized debt issuance costs | | | (5,345) | (940) |
| Premium on assumed debt, net | | | (3,429) | 3,016 |
| Mortgage notes and revolving credit facility, net | | | $ 993,180 | $ 642,107 |

[1] For loans where we have the ability to exercise extension options at our own discretion, the maximum maturity date has been assumed.

[2] The interest rate of our variable rate loans is primarily based on one-month LIBOR or one-month SOFR.

[3] We may obtain advances secured against Cottonwood One Upland and Parc Westborough up to $125.0 million on our variable rate revolving credit facility, as long as certain loan-to-value ratios and other requirements are maintained.

We are in compliance with all covenants associated with our mortgage notes and revolving credit facility as of September 30, 2022.

*Construction Loans*

Information on our construction loans are as follows ($ in thousands):

| Development | Interest Rate | Final Expiration Date | Loan Amount | Amount Drawn at September 30, 2022 | Amount Drawn at December 31, 2021 |
|---|---|---|---|---|---|
| Sugarmont [1] | [1] | [1] | [1] | $ — | $ 59,660 |
| Park Avenue | One-Month USD Libor + 1.75% | November 30, 2023 | $ 37,000 | 37,000 | 29,520 |
| Cottonwood on Broadway | One-Month USD Libor + 1.9% | May 15, 2024 | 44,625 | 36,724 | 27,476 |
| Cottonwood on Highland | One-Month USD SOFR + 2.55% | May 1, 2029 | 44,250 | 13,914 | — |
| | | | $ 125,875 | $ 87,638 | $ 116,656 |

[1] The Sugarmont construction loan was refinanced in January 2022 with a $105.0 million floating rate mortgage.

*Unsecured Promissory Notes, Net*

CROP issued notes to foreign investors outside of the United States. These notes are unsecured and subordinate to all of CROP's debt. Each note has two one-year extension options during which the interest rate will increase 0.25% each additional period.

Information on our unsecured promissory notes are as follows ($ in thousands):

| | Offering Size | Interest Rate | Maturity Date | September 30, 2022 | December 31, 2021 |
|---|---|---|---|---|---|
| 2017 6% Notes | $ 35,000 | 6.00% | December 31, 2022 | $ 20,818 | $ 20,918 |
| 2019 6% Notes | 25,000 | 6.00% | December 31, 2023 | 22,625 | 22,625 |
| | $ 60,000 | | | $ 43,443 | $ 43,543 |

The aggregate maturities, including amortizing principal payments on our debt for years subsequent to September 30, 2022 are as follows (in thousands):

| Year | Mortgage Notes and Revolving Credit Facility | Construction Loans | Unsecured Promissory Notes | Total |
|---|---|---|---|---|
| 2022 [1] | $ 516 | $ 37,000 | $ 20,818 | $ 58,334 |
| 2023 [2] | 103,506 | 36,724 | 22,625 | 162,855 |
| 2024 | 1,008 | — | — | 1,008 |
| 2025 | 3,227 | — | — | 3,227 |
| 2026 | 143,516 | — | — | 143,516 |
| Thereafter | 750,181 | 13,914 | — | 764,095 |
| | $ 1,001,954 | $ 87,638 | $ 43,443 | $ 1,133,035 |

[1] $20.8 million of the amount maturing in 2022 relates to the amount outstanding at September 30, 2022 on our 2017 6% Unsecured Promissory Notes. The maturity date on these notes can be extended for two one-year periods to a fully-extended maturity date of December 31, 2024. An additional $37.0 million of the amount maturing in 2022 relates to the Park Avenue construction loan originally due on November 30, 2022, which was extended on October 4, 2022 to May 30, 2023. We also have the option on the Park Avenue construction loan to further extend the maturity date to November 30, 2023.

[2] $22.6 million of the amount maturing in 2023 relates to the amount outstanding at September 30, 2022 on our 2019 6% Unsecured Promissory Notes. The maturity date on these notes can be extended for two one-year periods to a fully-extended maturity date of December 31, 2025. An additional $47.0 million of the amount maturing in 2023 relates to the amount outstanding at September 30, 2022 on our variable rate revolving credit facility. The maturity date on the variable rate revolving credit facility can be extended for two one-year periods to a fully-extended maturity date of March 19, 2025, subject to the satisfaction of certain conditions.

## 7. Fair Value of Financial Instruments

We estimate the fair value of our financial instruments using available market information and valuation methodologies we believe to be appropriate. As of September 30, 2022 and December 31, 2021, the fair values of cash and cash equivalents, restricted cash, other assets, related party payables, and accounts payable, accrued expenses and other liabilities approximate their carrying values due to the short-term nature of these instruments.

Fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. Fair value measurements are categorized into one of three levels of the fair value hierarchy based on the lowest level of significant input used. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Considerable judgment and a high degree of subjectivity are involved in developing these estimates. These estimates may differ from the actual amounts that we could realize upon settlement.

The fair value hierarchy is as follows:

Level 1 - Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2 - Other observable inputs, either directly or indirectly, other than quoted prices included in Level 1, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets/liabilities in non-active markets (e.g., few transactions, limited information, non-current prices, high variability over time);
- Inputs other than quoted prices that are observable for the asset/liability (e.g., interest rates, yield curves, volatility, default rates); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

The table below includes the carrying value and fair value for our financial instruments for which it is practicable to estimate fair value (in thousands):

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial Asset: | | | | |
| Investments in real-estate related loans | $ — | $ — | $ 13,035 | $ 13,035 |
| Financial Liability: | | | | |
| Fixed rate mortgages | $ 528,824 | $ 509,085 | $ 213,009 | $ 216,566 |
| Floating rate mortgages | $ 426,130 | $ 421,146 | $ 407,022 | $ 409,377 |
| Variable rate revolving credit facility | $ 47,000 | $ 47,000 | $ 20,000 | $ 20,000 |
| Construction loans | $ 87,638 | $ 87,638 | $ 116,656 | $ 116,656 |
| Series 2016 Preferred Stock | $ — | $ — | $ 139,996 | $ 139,996 |
| Series 2017 Preferred Stock | $ — | $ — | $ 2,586 | $ 2,586 |
| Series 2019 Preferred Stock | $ 127,175 | $ 127,175 | $ 111,863 | $ 111,863 |
| Unsecured promissory notes | $ 43,443 | $ 43,443 | $ 43,543 | $ 43,543 |

Our investments in real-estate related loans, fixed and floating rate mortgages, variable rate revolving credit facility, construction loans, preferred stock and unsecured promissory notes are categorized as Level 3 in the fair value hierarchy.

## 8. Preferred Stock

Information on our preferred stock as of September 30, 2022 and December 31, 2021 is as follows:

| | Dividend Rate | Extension Dividend Rate | Redemption Date | Maximum Extension Date | Shares Outstanding at | |
|---|---|---|---|---|---|---|
| | | | | | September 30, 2022 | December 31, 2021 |
| Series 2016 Preferred Stock [1] | 6.5% | 7.0% | January 31, 2022 | January 31, 2023 | — | 13,999,560 |
| Series 2017 Preferred Stock [2] | 7.5% | 8.0% | January 31, 2022 | January 31, 2024 | — | 258,550 |
| Series 2019 Preferred Stock | 5.5% | 6.0% | December 31, 2023 | December 31, 2025 | 12,717,485 | 11,186,301 |

[1] We fully redeemed our Series 2016 Preferred Stock on April 18, 2022 for $139.8 million.

[2] We fully redeemed our Series 2017 Preferred Stock immediately after the January 31, 2022 redemption date for $2.6 million.

The Private Offering for our Series 2019 Preferred Stock was fully subscribed and terminated in March 2022. We issued $15.4 million of our Series 2019 Preferred Stock in the first quarter of 2022 prior to the termination of the Private Offering. During the nine months ended September 30, 2021 we issued $52.5 million of Series 2019 Preferred Stock. During the nine months ended September 30, 2022 and 2021, we incurred $5.2 million and $2.2 million in dividends on our Series 2019 Preferred Stock, respectively. During the nine months ended September 30, 2022, we incurred $2.9 million in dividends on our Series 2016 Preferred Stock prior to their full redemption on April 18, 2022, and we incurred an insignificant amount in dividends on our Series 2017 Preferred Stock prior to their full redemption immediately after the January 31, 2022 redemption date. During the period from the CRII Merger closing on May 7, 2021 to September 30, 2021, we incurred $4.0 million and $0.1 million in dividends on our Series 2016 Preferred Stock and Series 2017 Preferred Stock, respectively.

During the nine months ended September 30, 2022, we repurchased 16,000 shares of Series 2019 Preferred Stock for $0.2 million. Additionally, we fully redeemed our Series 2017 Preferred Stock immediately after the January 31, 2022 redemption date for $2.6 million and we fully redeemed our Series 2016 Preferred Stock on April 18, 2022 for $139.8 million. During the nine months ended September 30, 2021, we repurchased 10,000 shares of Series 2019 Preferred Stock for $0.1 million and during the period from the CRII Merger closing on May 7, 2021 to September 30, 2021 we repurchased 96,490 shares of Series 2016 Preferred Stock for $0.9 million.

## 9. Stockholders' Equity

*Common Stock*

The following table details the movement in the Company's outstanding shares for each class of common stock:

| | Nine Months Ended September 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Class T | Class D | Class I | Class A | Class TX | Total |
| December 31, 2021 | — | — | 151,286 | 23,445,174 | 17,520 | 23,613,980 |
| Issuance of common stock | 4,301,688 | 7,361 | 2,948,338 | — | — | 7,257,387 |
| Distribution reinvestment | 5,173 | — | 3,739 | 72,090 | 13 | 81,015 |
| Exchanges and transfers [1] | — | — | 163,325 | 17,533 | (17,533) | 163,325 |
| CMOF Merger | — | — | — | 4,335,367 | — | 4,335,367 |
| Repurchases of common stock | (7,761) | — | (30,547) | (753,461) | — | (791,769) |
| September 30, 2022 | 4,299,100 | 7,361 | 3,236,141 | 27,116,703 | — | 34,659,305 |

[1] Exchanges represent the number of shares OP Unit holders have exchanged for Class I shares during the period. Transfers represent Class TX shares that were converted to Class A shares during the period.

*Common Stock Distributions*

Distributions on our common stock are determined by the board of directors based on our financial condition and other relevant factors. Common stockholders may choose to receive cash distributions or purchase additional shares through our distribution reinvestment plan. For the nine months ended September 30, 2022, we paid aggregate distributions of $15.4 million, including $13.8 million distributions paid in cash and $1.6 million of distributions reinvested through our distribution reinvestment plan.

We declared the following monthly distributions for each share of our common stock as shown in the table below:

| Shareholder Record Date | Monthly Rate | Annually |
|---|---|---|
| January 31, 2022 | $ 0.05833333 | $ 0.70 |
| February 28, 2022 | $ 0.05916667 | $ 0.71 |
| March 31, 2022 | $ 0.05916667 | $ 0.71 |
| April 30, 2022 | $ 0.05916667 | $ 0.71 |
| May 31, 2022 | $ 0.06000000 | $ 0.72 |
| June 30, 2022 | $ 0.06083333 | $ 0.73 |
| July 31, 2022 | $ 0.06083333 | $ 0.73 |
| August 31, 2022 | $ 0.06083333 | $ 0.73 |
| September 30, 2022 | $ 0.06083333 | $ 0.73 |

*Repurchases*

During the nine months ended September 30, 2022, we repurchased 791,769 shares of common stock pursuant to our share repurchase program for $14.5 million, at an average repurchase price of $18.32. During the nine months ended September 30, 2021, we repurchased 81,524 shares of common stock pursuant to our repurchase program for $0.8 million, at an average price of $10.29. We had no unfulfilled repurchase requests during the nine months ended September 30, 2022.

## 10. Related-Party Transactions

*Asset Management Fee*

Under the amended and restated advisory agreement entered May 7, 2021 and renewed for an additional one-year term as of May 7, 2022, CROP pays our advisor a monthly management fee equal to 0.0625% of GAV (gross asset value of CROP, calculated pursuant to our valuation guidelines and reflective of the ownership interest held by CROP in such gross assets), subject to a cap of 0.125% of net asset value of CROP. Prior to May 7, 2021, we paid our advisor an annual asset management fee in an amount equal to 1.25% per annum (paid monthly) of the gross book value of our assets as of the last day of the prior month.

Asset management fees to our advisor for the three months ended September 30, 2022 and 2021 were $4.6 million and $2.4 million, respectively. Asset management fees to our advisor for the nine months ended September 30, 2022 and 2021 were $12.8 million and $4.7 million, respectively.

*Performance Participation Allocation*

CC Advisors - SLP, LLC, an affiliate of our advisor and the Special Limited Partner at CROP, holds a performance participation interest in CROP that entitles it to receive an allocation of CROP's total return to its capital account as long as the advisory agreement has not been terminated. Total return is defined as all distributions accrued or paid (without duplication) on the Participating Partnership units (all units in CROP with the exception of preferred units) plus the change in the aggregate net asset value of such Participating Partnership units. Under the Operating Partnership agreement, the annual total return will be allocated solely to the Special Limited Partner only after the other unit holders have received a total return of 5% (after recouping any loss carryforward amount) and such allocation will continue until the allocation between the Special Limited Partner and all other unit holders is equal to 12.5% and 87.5%, respectively. Thereafter, the Special Limited Partner will receive an allocation of 12.5% of the annual total return. The allocation of the performance participation interest is ultimately determined at the end of each calendar year, accrues monthly and will be paid in cash or Class I units at the election of the Special Limited Partner after the completion of each calendar year.

On January 31, 2022, the performance participation allocation incurred during the period from the CRII Merger closing on May 7, 2021 to December 31, 2021 of $51.8 million was paid in cash. During the three and nine months ended September 30, 2022, we recognized $1.1 million and $31.2 million, respectively, of performance participation expense as a result of the increase in the value of our net assets and dividends paid to stockholders. The Operating Partnership agreement was amended with the CRII Merger in May 2021 to provide for the performance participation allocation. Therefore, no performance participation allocation was recognized prior to the CRII Merger.

*Block C and Jasper Investments*

On June 28, 2022, we, through our indirect subsidiaries, admitted entities affiliated with us and our advisor, Brickyard QOF, LLC ("Brickyard QOF") and HV Millcreek, LLC ("Millcreek," and together with Brickyard QOF, the "Affiliated Members") as members in CW Block C, LLC, a development joint venture with CMOF, and CW Jasper, LLC, a development project owned 100% by CROP ("Jasper"). The Affiliated Members are owned directly or indirectly by our officers or directors, as well as certain employees of CROP and our advisor or its affiliates. In connection with their admission as members, the Affiliated Members made an aggregate capital contribution of $8.5 million and $2.4 million to Block C and Jasper, respectively. The Affiliated Members will participate in the economics of Block C and Jasper on the same terms and conditions as us. The operating agreements of Block C and Jasper were amended in August 2022 to reflect additional terms related to the admission of the Affiliated Members. Block C and Jasper are located in an Opportunity Zone, which provides tax benefits for development programs located in designated areas as established by Congress in the Tax Cuts and Jobs act of 2017. As a result of the consummation of the CMOF Merger on September 27, 2022, we acquired CMOF's joint venture interests in Block C, increasing our ownership interest in Block C to 79.0%.

**11. Noncontrolling Interests**

*Noncontrolling Interests - Limited Partners*

Common Limited OP Units and LTIP Units are CROP units not owned by us and collectively referred to as "Noncontrolling Interests – Limited Partners."

Common Limited OP Units - During the nine months ended September 30, 2022, we paid aggregate distributions to noncontrolling OP Unit holders of $16.5 million. During the period from the CRII Merger closing on May 7, 2021 to September 30, 2021, we paid aggregate distributions to noncontrolling OP Unit holders of $6.3 million.

LTIP Units - As of September 30, 2022, there were 673,780 unvested time LTIP awards and 548,138 unvested performance LTIP awards outstanding. Share-based compensation was $2.7 million and $1.0 million for the nine months ended September 30, 2022 and 2021, respectively. Total unrecognized compensation expense for LTIP Units at September 30, 2022 is $9.0 million and is expected to be recognized on a straight-line basis through December 2025.

*Noncontrolling Interests - Partially Owned Entities*

As of September 30, 2022, noncontrolling interests in consolidated entities not wholly owned by us ranged from 1% to 63%, with the average being 12%.

On June 28, 2022, Block C was recapitalized. We contributed additional funds to obtain a controlling interest and consolidated the Block C joint venture, recording the Block C membership interests owned by CMOF and Affiliated Members at that time as noncontrolling interests. Upon recapitalization, additional noncontrolling interests were recorded with the Affiliated Members contribution to Jasper, an entity that was already consolidated.

With the CMOF Merger on September 27, 2022, we acquired the noncontrolling interest in Broadway, Park Ave, and Block C that were previously owned by CMOF. The remaining portion of Block C not owned by us continues to be recorded as noncontrolling interest.

**12. Commitments and Contingencies**

*Litigation*

We are subject to a variety of legal actions in the ordinary course of our business, most of which are covered by liability insurance. While the resolution of these matters cannot be predicted with certainty, as of September 30, 2022, we believe the final outcome of such legal proceedings and claims will not have a material adverse effect on our liquidity, financial position or results of operations.

**13. Subsequent Events**

We evaluate subsequent events up until the date the condensed consolidated financial statements are issued and have determined there are none to be reported or disclosed in the condensed consolidated financial statements other than those mentioned below.

On November 3, 2022, we entered into an agreement to provide $33.4 million of preferred equity for 417 Callowhill, a multifamily development in Philadelphia, Pennsylvania. The preferred equity accrues at a rate of 12.75% per annum, compounded monthly, on the full amount as of the closing date and will be funded as the development progresses.

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

*References herein to "Company," "we," "us," and "our" refer to Cottonwood Communities, Inc. together with its subsidiaries. The following discussion of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes.*

**Forward-Looking Statements**

This Quarterly Report on Form10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include statements about our business, including, in particular, statements about our plans, strategies and objectives. You can generally identify forward-looking statements by our use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar words. You should not rely on these forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our actual results, performance and achievements may be materially different from those expressed or implied by these forward-looking statements.

The following is a summary of the principal risks that could adversely affect our business, financial condition, results of operations and cash flows and an investment in our common stock.

- We depend on our advisor to identify suitable investments and to manage our investments. There is no assurance that we will be able to successfully achieve our investment objectives.

- Since there is no public trading market for shares of our common stock, the repurchase of shares by us will likely be the only way for our stockholders to dispose of their shares. Our share repurchase program will provide stockholders with the opportunity to request that we repurchase their shares on a monthly basis, but we are not obligated to repurchase any shares and may choose to repurchase only some, or even none, of the shares that have been requested to be repurchased in any particular month in our discretion. In addition, repurchases will be subject to available liquidity and other significant restrictions. Further, our board of directors may modify or suspend our share repurchase program if in its reasonable judgment it deems a suspension to be in our best interest and the best interest of our stockholders, such as when a repurchase request would place an undue burden on our liquidity, adversely affect our operations or risk having an adverse impact on the company that would outweigh the benefit of the repurchase offer.

- The offering price and repurchase price for shares of our common stock are generally based on our prior month's NAV (which will be our most recently disclosed NAV per share at such time) plus, in the case of our offering price, applicable upfront selling commissions and dealer manager fees, and are not based on any public trading market. In addition to being up to a month old when share purchases and repurchases take place, our NAV does not currently represent our enterprise value and may not accurately reflect the actual prices at which our assets could be liquidated on any given day, the value a third party would pay for all or substantially all of our shares, or the price that our shares would trade at on a national stock exchange. Furthermore, our board of directors may amend our NAV procedures from time to time. While there will be independent annual appraisals of our properties, the appraisal of properties is inherently subjective and our NAV may not accurately reflect the actual price at which our properties could be liquidated on any given day.

- We have paid distributions from offering proceeds and may continue to fund distributions with offering proceeds. We have not established a limit on the amount of proceeds from our offering that we may use to fund distributions. To the extent we fund distributions from sources other than our cash flow from operations, we will have less funds available for investment in multifamily apartment communities and multifamily real estate-related assets and the overall return to our stockholders may be reduced. Distributions may also be paid from other sources such as borrowings, advances or the deferral of fees and expense reimbursements. During the early stages of our operations, these distributions may constitute a return of capital.

- Certain of our officers and our directors are also officers and directors of our sponsor, advisor and their affiliates and, as a result, are subject to conflicts of interest, including conflicts arising from time constraints and the fact that the fees our advisor receives for services rendered to us are based on our NAV, which our advisor is responsible for determining.

- We pay certain fees and expenses to our advisor and its affiliates. These fees were not negotiated at arm's length and therefore may be higher than fees payable to unaffiliated third parties.

- Development projects in which we invest will be subject to potential development and construction delays which could result in increased costs and risks and may hinder our operating results and ability to make distributions.

- We may incur significant debt in certain circumstances, including through the issuance of preferred equity that is accounted for as debt. Our use of leverage increases the risk of an investment in us. Loans we obtain may be collateralized by some or all of our investments, which will put those investments at risk of forfeiture if we are unable to pay our debts. Principal and interest payments on these loans and dividend payments on our preferred shares reduce the amount of money that would otherwise be available for other purposes.

- Volatility in the debt markets could affect our ability to obtain financing for investments or other activities related to real estate assets and the diversification or value of our portfolio, potentially reducing cash available for distribution to our stockholders or our ability to make investments. In addition, volatility in the debt markets could negatively impact our loans with variable interest rates.

- Our operating results will be affected by global and national economic and market conditions generally and by the local economic conditions where our properties are located, including supply chain disruptions, the current economic slowdown, the rising interest rate environment and inflation; and changes in government rules, regulations and fiscal policies, such as property taxes, zoning laws, limitations on rental rates, and compliance costs with respect to environmental laws.

- There are limits on the ownership and transferability of our shares.

- If we fail to continue to qualify as a REIT, it would adversely affect our operations and our ability to make distributions to our stockholders because we will be subject to United States federal income tax at regular corporate rates with no ability to deduct distributions made to our stockholders.

- The Russian Federation's invasion of Ukraine has caused increased geopolitical tensions around the world and the United States, the United Kingdom, EU member states, and other countries have imposed economic sanctions on the Russian Federation, parts of Ukraine, as well as various designated parties. As further military conflicts and economic sanctions continue to evolve, it has become increasingly difficult to predict the impact of these events or how long they will last. Depending on direction and timing, the Russian Federation-Ukraine conflict may significantly exacerbate the normal risks associated with an investment in us as it could adversely impact our operations and ability to realize our investment objectives.

- The COVID-19 pandemic, together with the resulting measures imposed to contain the virus, has had a negative impact on the economy and business activity globally. Although we have not seen a material impact on our operations to date, the extent to which the COVID-19 pandemic may impact our operations, the personal financial position of our tenants and the development projects in which we have invested cannot be predicted with confidence.

Additional risks related to our business are discussed herein under Part II - "Item 1A. Risk Factors" and under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2022. In light of the significant uncertainties inherent in these forward-looking statements, the inclusion of this information should not be regarded as a representation by us or any other person that our objectives and plans, which we consider to be reasonable, will be achieved. Except as otherwise required by federal securities laws, we do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Overview**

Cottonwood Communities, Inc. invests in a diverse portfolio of multifamily apartment communities and multifamily real estate-related assets throughout the United States. We are externally managed by our advisor, CC Advisors III, LLC ("CC Advisors III"), a wholly-owned subsidiary of our sponsor, Cottonwood Communities Advisors, LLC ("CCA"). We were incorporated in Maryland in 2016. We hold all of our assets through Cottonwood Residential O.P., LP ("CROP"), our operating partnership. We are the sole member of the sole general partner of CROP and own general partner interests in CROP alongside third party limited partners.

We are a non-traded perpetual-life, net asset value ("NAV"), real estate investment trust ("REIT"). We qualified as a REIT for U.S. federal income tax purposes beginning with the taxable year ended December 31, 2019. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent we annually distribute all of our net taxable income to stockholders and maintain our qualification as a REIT.

As of September 30, 2022, we raised $122.0 million from the sale of our common stock in an initial public offering that we conducted from August 2018 through December 2020; we raised gross proceeds of $127.0 million from the sale of our Series 2019 Preferred Stock in a private offering to accredited investors only; and we raised $147.7 million in our follow-on offering that we commenced in November 2021 (including shares issued through the distribution reinvestment plan offering). We have primarily used the net proceeds to make investments in multifamily real estate and real estate-related assets.

As of our September 30, 2022 NAV, we had a portfolio of $2.7 billion in total assets, with 81.9% of our equity value in operating properties, 9.8% in development, 4.7% in land held for development and 3.6% in real estate-related structured investments. Refer to the sections entitled "Our Investments" and "Net Asset Value" below for further description of our portfolio and NAV.

**Merger with Cottonwood Multifamily Opportunity Fund, Inc.**

On July 8, 2022, we entered into an agreement and plan of merger with Cottonwood Multifamily Opportunity Fund, Inc. ("CMOF") and its operating partnership (the "CMOF OP") to merge CMOF with and into our wholly owned subsidiary and the CMOF OP with and into CROP through the exchange of stock-for-stock and units-for-units (the "CMOF Merger"). The CMOF Merger closed on September 27, 2022.

CMOF stockholders received 0.8669 shares of our Class A common stock in exchange for each share of their CMOF common stock. We issued 4,335,367 shares of Class A common stock in connection with the CMOF Merger, at an aggregate value of $89.7 million on the close date.

In connection with the merger of the CMOF OP with and into CROP, the CMOF OP partnership units outstanding held by third parties were converted into CROP common units at the same ratio as the common stock.

CROP was a joint venture partner with CMOF in all three of CMOF's investments: Park Avenue (development project), Cottonwood on Broadway (development project) and Block C (land held for development). Following the CMOF Merger, we acquired CMOF's interest in these joint ventures increasing our percentage ownership interest in the joint ventures as follows: Park Avenue, 100.0%, Cottonwood on Broadway, 100.0% and Block C, 79.0%. The remaining interest in the Block C joint venture is held by some of our officers and affiliated directors, either directly or indirectly.

**The 2021 Mergers**

On January 26, 2021, we entered into separate agreements with three affiliated REITs and their respective operating partnerships to merge through the exchange of stock-for-stock and units-for-units, respectively. The merger with Cottonwood Residential II, Inc. ("CRII," the "CRII Merger") closed on May 7, 2021. The mergers with Cottonwood Multifamily REIT I, Inc. ("CMRI," the "CMRI Merger") and with Cottonwood Multifamily REIT II, Inc. ("CMRII," the "CMRII Merger") closed on July 15, 2021. We refer to the CRII Merger, the CMRI Merger and the CMRII Merger as the "2021 Mergers."

Through the 2021 Mergers we acquired interests in 22 stabilized multifamily apartment communities, four multifamily development projects, one structured investment, and land held for development. We also acquired CRII's property management business and its employees, which currently manage approximately 9,600 units, including 7,300 units we own or have ownership interests in, an advisory contract with CMOF, and personnel who performed certain administrative and other services for us, including legal, accounting, property development oversight and certain services relating to construction management, shareholder relations, human resources, renter insurance and information technology.

CC Advisors III continues to manage our business as our external advisor pursuant to an amended and restated advisory agreement. With the exception of our Chief Legal Officer, Chief Operating Officer, Chief Accounting Officer, and Chief Development Officer, we do not employ our executive officers.

See Note 1 of the consolidated financial statements in this Quarterly Report on Form 10-Q for further description of the 2021 Mergers.

**Highlights for the Three Months Ended September 30, 2022**

The following highlights activities that occurred during the three months ended September 30, 2022:

- Attained net loss attributable to common stockholders of $(0.20) per diluted share, representing an 81.3% improvement compared to the same period in the prior year.
- Achieved funds from operations attributable to common stockholders and unit holders ("FFO") of $0.01 per diluted share/unit. Core FFO was $0.11 per diluted share/unit, compared to $0.10 for the same period in the prior year.
- NAV decreased slightly from $20.7202 as of June 30, 2022 to $20.7056 as of September 30, 2022.
- Merged with Cottonwood Multifamily Opportunity Fund, Inc., acquiring the remaining interests in two development properties and an additional interest in a joint venture holding land for development.
- Acquired Cottonwood Clermont, a 250 unit apartment community in Clermont, FL, for $85.0 million.
- Acquired the remaining tenant-in-common interests of Cottonwood Ridgeview.
- Received a $1.8 million minimum make whole payment with the prepayment of our Integra Peaks mezzanine loan investment.
- Executed additional draws of $7.7 million on construction loans to further the completion of our development projects.
- Raised $52.7 million of net proceeds from the sale of stock issued under our follow-on offering.

**Highlights for the Nine Months Ended September 30, 2022**

The following highlights activities that occurred during the nine months ended September 30, 2022:

- Attained net loss attributable to common stockholders of $(0.54) per diluted share, representing a 73.9% improvement compared to the same period in the prior year.
- Achieved funds from operations attributable to common stockholders and unit holders ("FFO") of $0.00 per diluted share/unit. Core FFO was $0.27 per diluted share/unit, compared to $0.29 per share/unit for the same period in the prior year.
- NAV increased from $17.2839 as of December 31, 2021 to $20.7056 as of September 30, 2022, representing an increase of 19.8%.
- Merged with Cottonwood Multifamily Opportunity Fund, Inc., acquiring the remaining interests in two development properties and an additional interest in a joint venture holding land for development.
- Acquired Cottonwood Lighthouse Point, a 243 unit apartment community in Pompano Beach, FL, for $95.5 million.
- Acquired Cottonwood Clermont, a 250 unit apartment community in Clermont, FL, for $85.0 million.
- Acquired the remaining tenant-in-common interests of Cottonwood Ridgeview.
- Received a $1.8 million minimum make whole payment with the prepayment of our Integra Peaks mezzanine loan investment.
- Sold equity method investments in 3800 Main and Alpha Mill, recognizing $7.8 million of gains from these investments.
- Recapitalized our Block C and Jasper developments, receiving $10.9 million from affiliated investors and obtaining a controlling interest in Block C.
- Obtained an aggregate of $470.0 million in property-level financing and repaid $231.2 million.
- Executed additional draws of $30.6 million on construction loans to further the completion of our development projects and refinanced $59.7 million of construction loans with permanent debt.
- Raised $133.1 million of net proceeds from the sale of stock issued under our Follow-on Offering.
- Fully redeemed our Series 2016 Preferred Stock for $139.8 million and fully redeemed our Series 2017 Preferred Stock for $2.6 million.
- Achieved stabilization at Sugarmont and commenced lease-up at our Park Ave development.

## Our Investments

Information regarding our investments as of September 30, 2022 is as follows:

*Stabilized Properties ($ in thousands)*

| Property Name | Market | Number of Units | Average Unit Size (Sq Ft) | Purchase Date | Purchase Price | Mortgage Debt Outstanding [1] | Physical Occupancy Rate | Percentage Owned by CROP |
|---|---|---|---|---|---|---|---|---|
| Alpha Mill | Charlotte, NC | 267 | 830 | May 2021 | $ 69,500 | $ 39,044 | 94.76% | 28.29% |
| Cason Estates | Murfreesboro, TN | 262 | 1,078 | May 2021 | 51,400 | 33,594 | 95.04% | 100.00% |
| Cottonwood Apartments | Salt Lake City, UT | 264 | 834 | May 2021 | 47,300 | 35,430 | 89.77% | 100.00% |
| Cottonwood Bayview | St. Petersburg, FL | 309 | 805 | May 2021 | 95,900 | 46,463 | 92.23% | 71.00% |
| Cottonwood Clermont | Clermont, FL | 250 | 1,111 | Sept 2022 | 85,000 | 35,521 | 92.54% | 100.00% |
| Cottonwood Lighthouse Point | Pompano Beach, FL | 243 | 996 | June 2022 | 95,500 | 47,964 | 89.71% | 100.00% |
| Cottonwood One Upland | Boston, MA | 262 | 1,160 | March 2020 | 103,600 | 28,200 | 93.89% | 100.00% |
| Cottonwood Reserve | Charlotte, NC | 352 | 1,021 | May 2021 | 77,500 | 37,944 | 95.00% | 91.14% |
| Cottonwood Ridgeview | Plano, TX | 322 | 1,156 | May 2021 | 72,930 [2] | 65,300 | 96.58% | 100.00% |
| Cottonwood West Palm | West Palm Beach, FL | 245 | 1,122 | May 2019 | 66,900 | 47,978 | 93.88% | 100.00% |
| Cottonwood Westside | Atlanta, GA | 197 | 860 | May 2021 | 47,900 | 25,144 | 94.92% | 100.00% |
| Enclave on Golden Triangle | Keller, TX | 273 | 1,048 | May 2021 | 51,600 | 48,400 | 96.34% | 98.93% |
| Fox Point | Salt Lake City, UT | 398 | 841 | May 2021 | 79,400 | 46,000 | 93.47% | 52.75% |
| Heights at Meridian | Durham, NC | 339 | 997 | May 2021 | 79,900 | 45,341 | 94.99% | 100.00% |
| Melrose | Nashville, TN | 220 | 951 | May 2021 | 67,400 | 56,600 | 93.64% | 100.00% |
| Melrose Phase II | Nashville, TN | 139 | 675 | May 2021 | 40,350 | 32,400 | 87.77% | 79.82% |
| Parc Westborough | Boston, MA | 249 | 1,008 | May 2021 | 74,000 | 18,800 | 93.17% | 100.00% |
| Pavilions | Albuquerque, NM | 240 | 1,162 | May 2021 | 61,100 | 58,500 | 92.08% | 96.35% |
| Raveneaux | Houston, TX | 382 | 1,065 | May 2021 | 57,500 | 47,400 | 93.19% | 96.97% |
| Regatta | Houston, TX | 490 | 862 | May 2021 | 48,100 | 35,367 | 92.84% | 100.00% |
| Retreat at Peachtree City | Peachtree City, GA | 312 | 980 | May 2021 | 72,500 | 48,719 | 93.59% | 100.00% |
| Scott Mountain | Portland, OR | 262 | 927 | May 2021 | 70,700 | 48,373 | 89.31% | 95.80% |
| Stonebriar of Frisco | Frisco, TX | 306 | 963 | May 2021 | 59,200 | 53,600 | 94.12% | 84.19% |
| Sugarmont | Salt Lake City, UT | 341 | 904 | May 2021 | 139,567 [3] | 105,000 | 91.79% | 99.00%[4] |
| Summer Park | Buford, GA | 358 | 1,064 | May 2021 | 75,500 | 44,620 | 95.81% | 98.68% |
| The Marq Highland Park [5] | Tampa, FL | 239 | 999 | May 2021 | 65,700 | 34,160 | 94.56% | 100.00% |
| Toscana at Valley Ridge | Lewisville, TX | 288 | 738 | May 2021 | 47,700 | 30,700 | 97.92% | 58.60% |
| **Total / Weighted-Average** | | 7,809 | 970 | | $ 1,903,647 | $ 1,196,562 | 93.59% | |

[1] Mortgage debt outstanding is shown as if CROP owned 100% of the property.

[2] We acquired 90.45% of Cottonwood Ridgeview with the CRII Merger at a value of $70.0 million. The remaining 9.55% was acquired through the issuance of OP Units valued at $2.9 million on the close date in September 2022.

[3] We acquired the Sugarmont development with the CRII Merger at a value of $112.5 million. The $139.6 million above represents the total capitalized costs on the project placed in service through September 30, 2022.

[4] The one percent interest not owned by us has limited rights, including the right to control on behalf of the joint venture the prosecution and resolution of all litigation, claims, or causes of action that the joint venture has or may have against certain third parties associated with the design and construction of Sugarmont, as well as the obligation to defend any cross claims resulting from these actions.

[5] Excludes the commercial data in units count and physical occupancy.

*Development Properties ($ in thousands)*

| Property Name | Market | Units to be Built | Average Unit Size (Sq Ft) | Purchase Date | Completion Date | Total Project Investment | Construction Debt Outstanding [1] | Percentage Owned by CROP |
|---|---|---|---|---|---|---|---|---|
| Cottonwood on Broadway | Salt Lake City, UT | 254 | 817 | May 2021 | 4Q2022 | $ 67,654 | $ 36,724 | 100.00 |
| Park Avenue | Salt Lake City, UT | 234 | 714 | May 2021 | 2Q2022 | 62,077 | 37,000 | 100.00 |
| Cottonwood on Highland [2] | Salt Lake City, UT | 250 | 757 | May 2021 | 2Q2023 | 39,209 | 13,914 | 36.93% [2] |
| **Total** | | 738 | | | | $ 168,940 | $ 87,638 | |

[1] Construction debt outstanding is shown as if CROP owned 100% of the development property.

[2] Intended to qualify as a qualified opportunity zone investment. Excludes the commercial data in unit count. CROP's percentage ownership is not proportionate to the total amount CROP invested in the project.

*Structured Investments ($ in thousands)*

| Property Name | Market | Investment Type | Date of Initial Investment | Number of Units | Funding Commitment | Amount Funded to Date |
|---|---|---|---|---|---|---|
| Lector85 | Ybor City, FL | Preferred Equity | August 2019 | 254 | $ 9,900 | $ 9,900 |
| Vernon Boulevard | Queens, NY | Preferred Equity | July 2020 | 534 | 15,000 | 15,000 |
| Riverfront | West Sacramento, CA | Preferred Equity | November 2020 | 285 | 15,092 | 15,092 |
| **Total** | | | | 1,073 | $ 39,992 | $ 39,992 |

*Land Held for Development ($ in thousands)*

| Property Name | Market | Acreage | Purchase Date | Total Investment Amount | Percentage Owned by CROP |
|---|---|---|---|---|---|
| Block C | Salt Lake City, UT | 2.84 acres | May 2021 | $ 37,838 | 78.99% [1] |
| Jasper | Salt Lake City, UT | 0.79 acres | June 2021 | 11,889 | 80.02%[2] |
| 3300 Cottonwood | Salt Lake City, UT | 1.76 acres | October 2021 | 7,521 | 100.00% |
| Galleria | Salt Lake City, UT | 26.07 acres | September 2022 | 28,500 | 100.00% |
| **Total** | | | | $ 85,748 | |

[1] On June 28, 2022, Block C was recapitalized. We provided additional capital contributions to the project and obtained a majority interest, and subsequently increased our ownership interest again when we merged with CMOF on September 27, 2022. At the time of recapitalization, we admitted two affiliated entities as members in the joint venture (the "Affiliated Members"). The Affiliated Members are owned directly or indirectly by certain officers or directors, as well as certain employees of CROP and our advisor or its affiliates.

[2] On June 28, 2022, the Affiliated Members were admitted as members in the Jasper joint venture and provided a capital contribution.

## Results of Operations

Our results of operations for the three and nine months ended September 30, 2022 and 2021 are as follows (in thousands, except share and per share data):

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| **Revenues** | | | | | | |
| Rental and other property revenues | $ 32,959 | $ 26,708 | $ 6,251 | $ 88,382 | $ 46,723 | $ 41,659 |
| Property management revenues | 2,829 | 3,487 | (658) | 8,655 | 5,607 | 3,048 |
| Other revenues | 2,295 | 365 | 1,930 | 3,544 | 887 | 2,657 |
| Total revenues | 38,083 | 30,560 | 7,523 | 100,581 | 53,217 | 47,364 |
| **Operating expenses** | | | | | | |
| Property operations expense | 12,444 | 10,210 | 2,234 | 32,705 | 18,362 | 14,343 |
| Property management expense | 4,323 | 4,373 | (50) | 13,863 | 6,925 | 6,938 |
| Asset management fee | 4,622 | 2,392 | 2,230 | 12,761 | 4,720 | 8,041 |
| Performance participation allocation | 1,081 | 29,524 | (28,443) | 31,160 | 35,979 | (4,819) |
| Depreciation and amortization | 14,289 | 27,716 | (13,427) | 37,549 | 43,536 | (5,987) |
| General and administrative expenses | 3,938 | 2,978 | 960 | 10,513 | 7,747 | 2,766 |
| Total operating expenses | 40,697 | 77,193 | (36,496) | 138,551 | 117,269 | 21,282 |
| Loss from operations | (2,614) | (46,633) | 44,019 | (37,970) | (64,052) | 26,082 |
| Equity in earnings (losses) of unconsolidated real estate entities | 1,982 | (1,154) | 3,136 | 8,705 | (855) | 9,560 |
| Interest income | 23 | 64 | (41) | 47 | 201 | (154) |
| Interest expense | (13,296) | (9,229) | (4,067) | (36,100) | (16,382) | (19,718) |
| Gain on sale of unconsolidated real estate entities | 176 | — | 176 | 7,810 | — | 7,810 |
| Promote from incentive allocation agreement | — | — | — | 30,309 | — | 30,309 |
| Loss on debt extinguishment, net | — | — | — | (481) | — | (481) |
| Other income (expense) | 1,913 | (97) | 2,010 | 3,732 | (78) | 3,810 |
| Loss before income taxes | (11,816) | (57,049) | 45,233 | (23,948) | (81,166) | 57,218 |
| Income tax (expense) benefit | (511) | 38 | (549) | (8,261) | (255) | (8,006) |
| **Net loss** | (12,327) | (57,011) | 44,684 | (32,209) | (81,421) | 49,212 |
| Net loss attributable to noncontrolling interests: | | | — | | | — |
| Limited partners | 6,198 | 31,153 | (24,955) | 16,778 | 43,936 | (27,158) |
| Partially owned entities | 241 | 2,312 | (2,071) | 694 | 4,925 | (4,231) |
| **Net loss attributable to common stockholders** | $ (5,888) | $ (23,546) | $ 17,658 | $ (14,737) | $ (32,560) | $ 17,823 |
| | | | | | | |
| Weighted-average common shares outstanding | 29,733,453 | 21,927,155 | 7,806,298 | 27,199,948 | 15,586,067 | 11,613,881 |
| Net loss per common share - basic and diluted | $ (0.20) | $ (1.07) | $ 0.87 | $ (0.54) | $ (2.09) | $ 1.55 |

### *Comparison of the Three Months Ended September 30, 2022 and 2021*

*Rental and Other Property Revenues, Property Operations Expense*

Rental and other property revenues increased $6.3 million and property operations expense increased $2.2 million. The acquisition of Cottonwood Lighthouse Point in June 2022 and the acquisitions of Cottonwood Clermont and Cottonwood Ridgeview in September 2022 contributed $2.7 million of property revenues and $1.0 million of property operation expenses. Higher rents and higher operating costs across all of our portfolio accounted for remaining increases.

*Other Revenues*

Other revenues increased $1.9 million primarily due to a $1.8 million minimum multiple payment made with the early payoff of the Integra Peaks mezzanine loan.

*Asset Management Fee*

The increase in asset management fees of $2.2 million is due to the increase in the value and number of overall assets under management.

*Performance Participation Allocation*

The performance participation allocation was $1.1 million for the three months ended September 30, 2022 compared to $29.5 million for the same period in the prior year. The performance participation allocation is a function of NAV growth for the respective period, which was significant during the three months ended September 30, 2021.

*Depreciation and Amortization*

Depreciation and amortization decreased $13.4 million primarily due to certain intangible assets from the CRII Merger being fully amortized in 2021. Amortization expense for the three months ended September 30, 2021 for these intangible assets was $16.2 million. The decrease in amortization was offset by additional depreciation and amortization of $2.2 million from Cottonwood Lighthouse, Cottonwood Clermont and Cottonwood Ridgeview.

*Equity in earnings of unconsolidated real estate entities*

The $3.1 million increase in equity in earnings of unconsolidated real estate entities is due to improved earnings from the underlying properties from increased rents and the absence in 2022 of amortization from intangible assets acquired with the CRII Merger. We also had additional increases in income on preferred equity and other investments.

*Interest Expense*

The $4.1 million increase in interest expense is primarily due to $5.2 million of additional interest related to increased leverage on our properties, debt acquired with Cottonwood Lighthouse, Cottonwood Clermont and Cottonwood Ridgeview, and higher variable interest rates. In addition, we incurred additional interest expense of $1.4 million from our Series 2019 Preferred Stock. This was offset by a decrease of $2.5 million of interest on our Series 2016 Preferred Stock, which was redeemed in April 2022.

*Other Income*

Other income increased $2.0 million due to gains from the increase in fair value of our interest rate caps.

***Comparison of the Nine Months Ended September 30, 2022 and 2021***

*Rental and Other Property Revenues, Property Operations Expense*

Rental and other property revenues increased $41.7 million and property operations expense increased $14.3 million. A full nine months of activity in 2022 from real estate assets acquired with the CRII Merger compared to less than five months of activity for the same period in 2021 combined with higher rents and expenses across the portfolio contributed $37.8 million of rental and other property revenues and $13.3 million of property operation expenses. The acquisitions of Cottonwood Lighthouse Point in June 2022 and Cottonwood Clermont and Cottonwood Ridgeview in September 2022 also contributed $2.7 million of rental and property revenues and $1.0 million of property operation expenses.

*Property Management Revenues and Property Management Expense*

Property management revenues and property management expenses increased $3.0 million and $6.9 million, respectively. The increase was due to nine months of activity in 2022 from the property management business acquired with the CRII Merger compared to less than five months of activity for the same period in 2021. This was offset by the loss of a portfolio of 12 properties we managed for a third party in February 2022. Our consolidated properties are managed by us. The property management income received from those properties is eliminated with the associated expense at those properties.

*Other Revenues*

Other revenues increased $2.7 million primarily due to increased interest from the Integra Peaks mezzanine loan and a $1.8 million minimum multiple payment made with the early payoff that loan.

*Asset Management Fee*

Asset management fees prior to May 7, 2021 were 1.25% of gross book value. After May 7, 2021 the asset management fee was the lesser of 0.0625% gross asset value or 0.125% of net asset value each month (0.75% and 1.5% annually), with values updated monthly. The increase in asset management fees of $8.0 million is due to the increase in assets acquired, the increase in capital raised, and overall increases in real estate values applied to the revised fee structure.

*Performance Participation Allocation*

The performance participation allocation was $31.2 million for the nine months ended September 30, 2022 compared to $36.0 million for the same period in the prior year. The performance participation allocation is a function of NAV growth for the respective period. The performance participation allocation in 2021 represents the growth in NAV from May 7, 2021, the effective date of the amended and restated operating agreement of CROP, to September 30, 2021.

*Depreciation and Amortization*

Depreciation and amortization decreased $6.0 million primarily due to certain intangible assets from the CRII Merger being fully amortized in 2021. Amortization expense for the nine months ended September 30, 2021 for these intangible assets was $24.0 million. This was offset by an increase of $16.0 million of depreciation from nine months of depreciation in 2022 on properties acquired with the CRII Merger compared to less than five months of depreciation for the same period in 2021 and additional depreciation and amortization of $2.2 million from Cottonwood Lighthouse, Cottonwood Clermont, and Cottonwood Ridgeview.

*General and Administrative Expenses*

General and administrative expenses increased $2.8 million primarily due increased costs of professional services, including legal, valuation, and tax, higher insurance costs and additional share based compensation, offset by a reduction in transaction costs of $2.0 million.

*Equity in earnings of unconsolidated real estate entities*

The $9.6 million increase in equity in earnings of unconsolidated real estate entities is due to nine months of earnings in 2022 from the underlying properties of the equity method investments acquired with the CRII Merger compared to less than five months of earnings for the same period in 2021. In addition, earnings from the underlying properties improved from increased rents and the absence in 2022 of amortization from intangible assets acquired with the CRII Merger. We also had additional increase in income on preferred equity and other investments.

*Interest Expense*

Interest expense increased $19.7 million, of which $13.5 million is primarily due to nine months of interest in 2022 on debt acquired with the CRII Merger compared to less than five months of interest for the same period in 2021, increased leverage on our properties, and higher variable interest rates. Interest expense also increased $5.6 million from additional Series 2019 Preferred Stock issued. This was offset by a $1.1 million reduction in interest from our Series 2016 Preferred Stock that was redeemed in April 2022.

*Gain on Sale of Unconsolidated Real Estate Entities*

The gain on sale of unconsolidated real estate entities of $7.8 million is from the sale of additional interests in Alpha Mill and the sale of 3800 Main to a third party.

*Promote from Incentive Allocation Agreement, Income Tax Expense*

In 2018, CROP sold a portfolio of twelve properties to an unrelated real estate firm. Under the sales arrangement, CROP entered into an incentive allocation agreement that entitled CROP to participate in distributions from the portfolio should returns exceed certain amounts. During the first quarter of 2022 the real estate firm sold the portfolio of properties. Our taxable REIT subsidiary realized a promote distribution of $30.3 million from the sale. We managed the portfolio on behalf of the real estate firm prior to the portfolio being sold.

*Income Tax Expense*

The $8.0 million increase in income tax expense is mainly due to a $7.3 million tax liability on the $30.3 million promote distribution combined with higher income at our taxable REIT subsidiary.

*Other Income*

Other income increased $3.8 million primarily due to gains from the increase in fair value of our interest rate caps.

**Funds from Operations**

We believe funds from operations, or FFO, is a beneficial indicator of the performance of an equity REIT and of our company. We compute FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT, as net income or loss (computed in accordance with GAAP), excluding gains or losses from sales of operating real estate assets (which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates), gains and losses from change in control, impairment losses on real estate assets, the cumulative effect of changes in accounting principles, real estate-related depreciation and amortization, and after adjustments for our share of unconsolidated partnerships and joint ventures.

We believe FFO facilitates comparisons of operating performance between periods and among other REITs. However, our computation of FFO may not be comparable to other REITs that do not define FFO in accordance with the NAREIT definition or that interpret the current NAREIT definition differently than we do. Our management believes that historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentations, provides a more complete understanding of our performance relative to our competitors and provides a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities.

Our management also uses Core FFO as a measure of our operating performance. Core FFO is further adjusted from FFO for the following items included in GAAP net income: amortization of issuance costs associated with investments in real-estate related loans and debt, accretion of discounts on preferred stock, the performance participation allocation, share-based compensation, legal costs and settlements, net, acquisition fees and expenses, and amortization of above or below intangible lease assets and liabilities. Our calculation of Core FFO may differ from the methodology used for calculating Core FFO by other REITs and, accordingly, our Core FFO may not be comparable. We believe these measures are useful to investors because they facilitate an understanding of our operating performance after adjusting for non-cash expenses and other items not indicative of ongoing operating performance.

Neither FFO nor Core FFO is equivalent to net income or cash generated from operating activities determined in accordance with U.S. GAAP. Furthermore, FFO and Core FFO do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments or uncertainties. Neither FFO nor Core FFO should be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flow from operating activities as a measure of our liquidity.

The following table presents the calculation of FFO and Core FFO (in thousands, except share and per share data):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Net loss attributable to common stockholders | $ (5,888) | $ (23,546) | $ (14,737) | $ (32,560) |
| Adjustments to arrive at FFO: | | | | |
| Real estate related depreciation and amortization | 12,182 | 26,862 | 33,762 | 42,243 |
| Depreciation and amortization from unconsolidated real estate entities | 1,804 | 5,292 | 6,303 | 7,935 |
| Gain on sale of investments in unconsolidated real estate entities | (176) | — | (7,810) | — |
| Loss allocated to noncontrolling interests - limited partners | (6,198) | (31,153) | (16,778) | (43,936) |
| Amount attributable to above from noncontrolling interests - partially owned entities | (1,184) | (3,290) | (719) | (6,985) |
| Funds from operations attributable to common stockholders and unit holders | 540 | (25,835) | 21 | (33,303) |
| Adjustments: | | | | |
| Amortization of intangible assets | 2,108 | 855 | 3,786 | 1,293 |
| Accretion of discount on preferred stock | 1,377 | 648 | 4,031 | 1,374 |
| Performance participation allocation | 1,081 | 29,524 | 31,160 | 35,979 |
| Share-based compensation [1] | 938 | 552 | 2,743 | 1,018 |
| Promote from incentive allocation agreement (tax effected) | — | — | (23,047) | — |
| Acquisition fees and expenses [2] | 970 | 670 | 1,607 | 3,416 |
| Loss on debt extinguishment | — | — | 481 | — |
| Legal costs and settlements, net [1] | 767 | 398 | 1,713 | 588 |
| Gains on derivatives | (1,997) | — | (3,820) | — |
| Other adjustments | 327 | (1,202) | (1,712) | (1,078) |
| Amount attributable to above from unconsolidated real estate entities | 249 | (104) | (1,408) | 368 |
| Amount attributable to above from noncontrolling interests - partially owned entities | 50 | (23) | 126 | (118) |
| Core funds from operations attributable to common stockholders and unit holders | $ 6,410 | $ 5,483 | $ 15,681 | $ 9,537 |
| | | | | |
| FFO per common share and unit - basic and diluted | $ 0.01 [3] | $ (0.49) | $ 0.00 [3] | $ (1.03) |
| Core FFO per common share and unit - basic and diluted | $ 0.11 [3] | $ 0.10 | $ 0.27 [3] | $ 0.29 |
| Weighted-average common shares and units outstanding | 61,029,554 | 53,187,154 | 58,561,620 | 32,471,680 |

[1] Core FFO was adjusted for these items beginning the three and nine months ending September 30 2022. Core FFO for the three and nine months ended September 30, 2021 was also adjusted by these items for comparability.

[2] Acquisition fees and expenses during the three and nine months ended September 30, 2021 included costs associated with the CRII Merger, the CMRI Merger, and the CMRII Merger.

[3] FFO and Core FFO for the three and nine months ending September 30, 2022 include the $1.8 million minimum multiple payment made with the payoff of the Integra Peaks mezzanine loan.

See “Results of Operations” above for further detail.

Weighted average common shares and units are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Weighted-average common shares | 29,733,453 | 21,927,155 | 27,199,948 | 15,586,067 |
| Weighted-average limited partnership unit | 31,296,101 | 31,259,999 | 31,361,672 | 16,885,613 |
| Weighted-average common shares and units outstanding | 61,029,554 | 53,187,154 | 58,561,620 | 32,471,680 |

**Net Asset Value**

Our board of directors, including a majority of our independent directors, has adopted valuation procedures, as amended from time to time, that contain a comprehensive set of methodologies to be used in connection with the calculation of our net asset value ("NAV"). Pursuant to these valuation procedures, we computed a September 30, 2022 NAV per share for our outstanding Class T, Class D, Class I, and Class A shares of $20.7056.

The purchase price per share for each class of common stock will vary and will generally equal our prior month's NAV per share, as determined monthly, plus applicable upfront selling commissions and dealer manager fees. Please see "Net Asset Value Calculation and Valuation Guidelines" in our prospectus for a detailed description of our valuation guidelines.

CROP has certain classes or series of OP Units that are each economically equivalent to a corresponding class of shares. Accordingly, on the last day of each month, for such classes or series of OP Units, the NAV per OP Unit equals the NAV per share of the corresponding class. To the extent CROP has classes of units that do not correspond to a class of our shares, such units will be valued in a manner consistent with our valuation procedures. The NAV of CROP on the last day of each month equals the sum of the NAVs of each fully-diluted outstanding OP Unit on such day. In calculating the fully-diluted outstanding OP Units we include all outstanding vested LTIP Units, unvested time-based LTIP Units and those performance-based LTIP Units that would be earned based on the internal rate of return as of such day.

Our total NAV in the following table includes the NAV of our Class T, Class D, Class I, and Class A common stockholders, as well as the partnership interests of CROP held by parties other than us. The following table sets forth the components of our NAV as of September 30, 2022 (in thousands except share data):

| **Components of NAV*** | **As of 9/30/2022** |
|---|---|
| Investments in Multifamily Operating Properties | $ 2,342,201 |
| Investments in Multifamily Development Properties | 231,882 |
| Investments in Real-estate Related Structured Investments | 53,305 |
| Investments in Land Held for Development | 73,158 |
| Operating Company and Other Net Current Assets | 15,808 |
| Cash and Cash Equivalents | 8,765 |
| Secured Real Estate Financing | (1,147,347) |
| Subordinated Unsecured Notes | (43,443) |
| Preferred Equity | (127,175) |
| Accrued Performance Participation Allocation | (31,160) |
| Net Asset Value | $ 1,375,994 |
| Fully-diluted Shares/Units Outstanding | 66,455,073 |

** Presented as adjusted for the Company's economic ownership percentage in each asset.*

The following table provides a breakdown of our total NAV and NAV per share/unit by class as of September 30, 2022 (in thousands, except share and per share data):

| | **Class** | | | | | |
|---|---|---|---|---|---|---|
| | **T** | **D** | **I** | **A** | **OP[(1)]** | **Total** |
| **As of September 30, 2022** | | | | | | |
| Monthly NAV | $ 89,016 | $ 152 | $ 67,371 | $ 561,468 | $ 657,987 | $ 1,375,994 |
| Fully-diluted Outstanding Shares/Units | 4,299,100 | 7,361 | 3,253,755 | 27,116,703 | 31,778,154 | 66,455,073 |
| NAV per Fully-diluted Share/Unit | $ 20.7056 | $ 20.7056 | $ 20.7056 | $ 20.7056 | $ 20.7056 | |

(1) Includes the partnership interests of CROP held by High Traverse Holdings, an entity beneficially owned by Daniel Shaeffer, Chad Christensen, Gregg Christensen and Eric Marlin and other CROP interests, including LTIP Units as described above, held by parties other than us.

Set forth below are the weighted averages of the key assumptions that were used by the independent appraisal advisor in the discounted cash flow methodology used in the September 30, 2022, valuations of our real property assets, based on property types.

| | Discount Rate | Exit Capitalization Rate |
|---|---|---|
| Operating Assets | 6.06% | 4.62% |
| Development Assets | 5.85% | 4.50% |

** Presented as adjusted for the Company's economic ownership percentage in each asset, weighted by gross value.*

A change in these assumptions would impact the calculation of the value of our operating and development assets. For example, assuming all other factors remain unchanged, the changes listed below would result in the following effects on our operating and development asset values:

| Sensitivities | Change | Operating Asset Values | Development Asset Values |
|---|---|---|---|
| Discount Rate | 0.25% decrease | 2.4% | 2.2% |
| | 0.25% increase | (2.3)% | (2.1)% |
| Exit Capitalization Rate | 0.25% decrease | 4.4% | 4.3% |
| | 0.25% increase | (3.7)% | (3.8)% |

** Presented as adjusted for the Company's economic ownership percentage in each asset.*

The following table reconciles stockholders' equity and CROP partners' capital per our condensed consolidated balance sheet to our NAV (in thousands):

| | September 30, 2022 |
|---|---|
| Stockholders' equity | $ 311,252 |
| Non-controlling interests attributable to limited partners | 266,836 |
| Total partners' capital of CROP under U.S. GAAP | 578,088 |
| Adjustments at share: | |
| Accumulated depreciation and amortization, consolidated and unconsolidated entities | 122,076 |
| Goodwill | (439) |
| Deferred tax liability | 3,659 |
| Discount on preferred stock | (6,855) |
| Unrealized net real estate and debt appreciation | 679,465 |
| NAV | $ 1,375,994 |

The following details the adjustments to reconcile GAAP stockholders' equity and CROP partners' capital per our condensed consolidated balance sheet to our NAV:

- Our preferred stock is accounted for as a liability with associated issuance costs deferred and amortized under GAAP. These issuance costs are excluded for purposes of determining our NAV.
- We recorded goodwill for the difference between the transaction price of the CRII Merger and the fair value of identifiable assets acquired, liabilities assumed, and non-controlling interests. Goodwill was not included for purposes of determining our NAV.
- We recorded certain deferred tax liabilities for the tax effects on the difference in the value of certain assets recorded with the CRII Merger and their underlying tax basis. These deferred tax liabilities are excluded for purposes of determining our NAV.
- We depreciate our investments in real estate and amortize certain other assets and liabilities in accordance with GAAP. Such depreciation and amortization is not recorded for purposes of determining our NAV.
- Accumulated depreciation and amortization associated with our investments in unconsolidated real estate entities is also not recorded for purposes of determining our NAV.
- We manage properties on behalf of third parties and under certain agreements have contractual rights to receive promotional interests subject to minimum return hurdles. We do not recognize promotes under GAAP until a liquidation transaction is probable, but do include the fair value of promotes, using a hypothetical liquidation valuation method, for purposes of determining our NAV.

- Our investments in real estate are presented under historical cost in our GAAP consolidated financial statements. Additionally, our mortgage notes, revolving credit facility and construction loans ("Debt") are presented at their carrying value in our consolidated GAAP financial statements. As such, any increases or decreases in the fair market value of our investments in real estate or our Debt are not included in our GAAP results. For purposes of determining our NAV, our investments in real estate and our Debt are recorded at fair value.

**Policies Regarding Operating Expenses**

Our advisor must reimburse us the amount by which our aggregate total operating expenses for the four fiscal quarters then ended exceed the greater of 2% of our average invested assets or 25% of our net income (the 2%/25% Limitation), unless the conflicts committee has determined that such excess expenses were justified based on unusual and non-recurring factors. For the four consecutive quarters ended September 30, 2022, our total operating expenses exceeded the 2%/25% Limitation.

Based upon a review of unusual and non-recurring factors, including but not limited to the performance participation allocation expense and the costs of the CMOF Merger, our independent directors determined that the excess expenses were justified.

**Liquidity and Capital Resources**

Our principal demands for funds during the short and long-term are and will be for the acquisition of multifamily apartment communities and investments in multifamily real estate-related assets; operating expenses, including the management fee we pay to our advisor and the performance participation allocation, capital expenditures and general and administrative expenses; payments under debt obligations; repurchases of common and preferred stock; and payments of distributions to stockholders. We will obtain the capital required to purchase multifamily apartment communities and make investments in multifamily real estate-related assets and conduct our operations from the proceeds of the Follow-on Offering, from our credit facilities, other secured or unsecured financings from banks and other lenders, and from any undistributed funds from our operations.

We intend to strengthen our capital and liquidity positions by continuing to focus on our core fundamentals at the property level. Factors which could increase or decrease our future liquidity include but are not limited to operating performance of the properties, including the impact of COVID-19 on the properties, the rising interest rate environment and inflation which could increase our expenses, and the satisfaction of REIT dividend requirements.

As of September 30, 2022, we have $528.8 million of fixed rate debt and $560.8 million of variable rate debt, which includes $87.6 million of construction loans. $318.7 million, or 57% of our variable rate debt, is accompanied by interest rate cap hedging instruments. In addition, CROP has issued unsecured promissory notes in several private placement offerings, in an aggregate amount of $43.4 million as of September 30, 2022.

We have various credit facilities in place that provide us with additional liquidity. Our JP Morgan Revolving Credit Facility has a variable rate and is secured by Cottonwood One Upland and Parc Westborough. We may obtain advances secured against Cottonwood One Upland and Parc Westborough up to $125.0 million on the JP Morgan Revolving Credit Facility. We can draw upon or pay down the JP Morgan Revolving Credit Facility at our discretion, subject to loan-to-value requirements, debt service coverage ratios and other covenants and restrictions as set forth in the loan documents. As of September 30, 2022, we had advances of $47.0 million on the JP Morgan Revolving Credit Facility. Additionally, we have three other facilities through Fannie Mae that may provide additional liquidity if necessary as long as we maintain certain loan-to-value ratios and other requirements as set forth in the loan documents.

We must redeem the Series 2019 Preferred Stock for cash at a redemption price per share equal to $10.00 plus any accrued and unpaid dividends, to the extent there are funds legally available, on December 31, 2023. This date may be extended by two one-year extension options. Our Series 2017 Preferred Stock was fully redeemed in the first quarter of 2022 immediately following the January 31, 2022 redemption date for $2.6 million. On April 18, 2022, we fully redeemed the Series 2016 Preferred Stock for $139.8 million.

In addition to making investments in accordance with our investment objectives, we expect to use our capital resources to pay offering costs in connection with the Follow-on Offering, as well as make certain payments to our advisor pursuant to the terms of our advisory management agreement.

To maintain our qualification as a REIT, we will be required to make aggregate annual distributions to our stockholders of at least 90% of our REIT taxable income (computed without regard to the dividends-paid deduction and

excluding net capital gain). Our board of directors may authorize distributions in excess of those required for us to maintain REIT status depending on our financial condition and such other factors as our board of directors deems relevant.

**Cash Flows**

The following table provides a breakdown of the net change in our cash and cash equivalents and restricted cash (in thousands):

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2022 | 2021 |
| Net cash provided by operating activities | $ 1,601 | $ 10,842 |
| Net cash used in investing activities | (146,438) | (12,189) |
| Net cash provided by financing activities | 196,001 | 59,748 |
| Net increase in cash and cash equivalents and restricted cash | $ 51,164 | $ 58,401 |

Net cash flows provided by operating activities were $1.6 million during the nine months ended September 30, 2022. Operating cash inflows increased primarily due to the impact of the 2021 Mergers, which resulted in increased tenant receipts and property management fees and an increase in accounts payable and accrued liabilities. We also acquired an incentive allocation promote with the CRII Merger that was realized in 2022 for $30.3 million, of which we have received $28.9 million as of September 30, 2022. These operating cash inflows were mostly offset by the performance participation allocation payment of $51.8 million, additional operating expenses including interest expense on our mortgage notes and revolving credit facility and payment of preferred stock interest. Cash flows provided by operating activities for the same period in 2021 were $10.8 million, primarily due to the CRII Merger which resulted in increased tenant receipts and property management fees. Operating cash inflows were also due to an increase in accounts payable and accrued liabilities, partially offset by operating expenses and payment of preferred stock interest.

Cash flows used in investing activities were $146.4 million during the nine months ended September 30, 2022, primarily due to the acquisitions of Cottonwood Clermont and Cottonwood Lighthouse Point, purchases of land held for development, and investments in development projects and capital improvements. These investing cash inflows were partially offset by a return on capital from investments in unconsolidated entities upon refinance, proceeds from the sale of 3800 Main and the sale of interests in Alpha Mill, and proceeds received from the repayment of the Integra Peaks mezzanine loan. Cash flows used in investing activities were $12.2 million for the same period in 2021 primarily due to investments in development projects and capital improvements, funding of preferred equity at Riverfront, and draws on the Integra Peaks mezzanine loan, largely offset by the cash acquired in connection with the CRII Merger and repayment on the Dolce B-Notes.

Cash flows provided by financing activities were $196.0 million during the nine months ended September 30, 2022, as a result of net proceeds we received from the issuance of common stock, net borrowings under mortgage notes and term loans, net draws on our JP Morgan Revolving Credit Facility, and the issuance of Series 2019 Preferred Stock, partially offset by the full redemption of both our Series 2016 and our Series 2017 Preferred Stock, distributions paid to both common stockholders and noncontrolling interest holders, net repayment on construction loans, and repurchases of common stock and OP Units. Cash flows provided by financing activities were $59.7 million for the same period in 2021, driven mainly by the net proceeds we received from the issuance of our Series 2019 Preferred Stock and proceeds from construction loans, offset partially by distributions paid to both common stockholders and noncontrolling interest holders, net repayments made on our JP Morgan Revolving Credit Facility, and repurchases of preferred stock, common stock and OP Units.

**Distributions**

The following table shows distributions paid and cash flow provided by (used in) operating activities during the nine months ended September 30, 2022 and the year ended December 31, 2021 (in thousands):

| | Nine Months Ended September 30, 2022 | Year Ended December 31, 2021 |
|---|---|---|
| Distributions paid in cash - common stockholders | $ 13,842 | $ 9,482 |
| Distributions paid in cash to noncontrolling interests - limited partners | 16,507 | 10,591 |
| Distributions of DRP (reinvested) | 1,563 | 141 |
| Total distributions [1] | $ 31,912 | $ 20,214 |
| | | |
| Source of distributions [2] | | |
| Paid from cash flows provided by operations | $ 16,407 | $ 11,044 |
| Paid from additional borrowings | 4,308 | 5,000 |
| Paid from offering proceeds | 9,634 | 4,029 |
| Offering proceeds from issuance of common stock pursuant to the DRP | 1,563 | 141 |
| Total sources | $ 31,912 | $ 20,214 |
| | | |
| Net cash provided by operating activities [2] | $ 1,601 | $ 5,424 |

[1] Distributions are paid on a monthly basis. In general, distributions for all record dates of a given month are paid on or about the fifth business day of the following month.

[2] The allocation of total sources are calculated on a quarterly basis. Generally, for purposes of determining the source of our distributions paid, we assume first that we use positive cash flow from operating activities from the relevant or prior quarter to fund distribution payments. As such, amounts reflected above as distributions paid from cash flows provided by operations may be from prior quarters which had positive cash flow from operations.

For the nine months ended September 30, 2022, distributions declared to common stockholders and limited partners were $14.5 million and $16.7 million, respectively. For the nine months ended September 30, 2022, we paid aggregate distributions to common stockholders and limited partners of $13.8 million and $16.5 million. For the nine months ended September 30, 2022, our net loss was $32.2 million. Cash flows provided by operating activities for the nine months ended September 30, 2022 was $1.6 million.

**Critical Accounting Policies**

Please refer to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the period ending December 31, 2021 for discussions of our critical accounting estimates. As of September 30, 2022, our critical accounting estimates have not changed from those described in that report.

**Subsequent Events**

On November 3, 2022, we entered into an agreement to provide $33.4 million of preferred equity for 417 Callowhill, a multifamily development in Philadelphia, Pennsylvania. The preferred equity accrues at a rate of 12.75% per annum, compounded monthly, on the full amount as of the closing date and will be funded as the development progresses.

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

Quantitative and qualitative disclosures about market risk have been omitted as permitted under rules applicable to smaller reporting companies.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2022. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2022, our disclosure controls and procedures were effective.

*Internal Control Over Financial Reporting*

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. As of September 30, 2022, we were not involved in any material legal proceedings.

### Item 1A. Risk Factors

Please see the risks discussed below and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 and Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2022.

### Risks Related to our Company

***We have incurred net losses under GAAP in the past and may incur net losses in the future, and we have an accumulated deficit and may continue to have an accumulated deficit in the future.***

For the nine months ended September 30, 2022 and for the year ended December 31, 2021, we had consolidated net losses of $32.2 million and $106.9 million, respectively. As of September 30, 2022, we had an accumulated deficit of $70.6 million. These amounts largely reflect the expense of real estate depreciation and amortization in accordance with GAAP, which was $37.5 million for the nine months ended September 30, 2022 and $63.4 million for the year ended December 31, 2021. In addition, the nine months ended September 30, 2022 and the year ended December 31, 2021 also included $31.2 million and $51.8 million, respectively, of charges related to the performance participation allocation.

Net loss and accumulated deficit are calculated and presented in accordance with GAAP, which, among other things, requires depreciation of real estate investments to be calculated on a straight-line basis. As a result, our operating results imply that the value of our real estate investments will decrease evenly over a set time period. However, we believe that the value of real estate investments will fluctuate over time based on market conditions. Thus, in addition to GAAP financial metrics, management reviews certain non-GAAP financial metrics, funds from operations, or FFO and Core FFO. FFO measures operating performance that excludes gains or losses from sales of depreciable properties, real estate-related depreciation and amortization and after adjustments for our share of consolidated and unconsolidated entities. See Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations– Funds from Operations” for considerations on how to review this metric.

***We have paid distributions from offering proceeds. In the future we may continue to fund distributions with offering proceeds. To the extent we fund distributions from sources other than our cash flow from operations, we will have less funds available for investment in multifamily apartment communities and multifamily real estate-related assets and the overall return to our stockholders may be reduced.***

Our charter permits us to make distributions from any source, including offering proceeds or borrowings (which may constitute a return of capital), and our charter does not limit the amount of funds we may use from any source to pay such distributions. We intend to make distributions on our common stock on a per share basis with each share receiving the same distribution, subject to any class-specific expenses such as distribution fees on our Class T and Class D shares. If we fund distributions from financings, our offerings or other sources, we will have less funds available for investment in multifamily apartment communities and other multifamily real estate-related assets and the number of real estate properties that we invest in and the overall return to our stockholders may be reduced. If we fund distributions from borrowings, our interest expense and other financing costs, as well as the repayment of such borrowings, will reduce our earnings and cash flow from operations available for distribution in future periods. If we fund distributions from the sale of assets or the maturity, payoff or settlement of multifamily real estate-related assets, this will affect our ability to generate cash flows from operations in future periods.

During the early stages of our operations, it is likely that we will use sources of funds, which may constitute a return of capital to fund distributions. During our offering stage, when we may raise capital more quickly than we acquire income-producing assets, and for some period after, we may not be able to make distributions solely from our cash flow from operations. Further, because we may receive income from our investments at various times during our fiscal year and because we may need cash flow from operations during a particular period to fund capital expenditures and other expenses, we expect that at least during the early stages of our existence and from time to time during our operational stage, we will declare distributions in anticipation of cash flow that we expect to receive during a later period and we will make these distributions in advance of our actual receipt of these funds. In addition, to the extent our investments are in development or redevelopment projects or in properties that have significant capital requirements, our ability to make distributions may be negatively impacted,

especially during our early periods of operation. In these instances, we expect to look to third party borrowings to fund our distributions. We may also fund such distributions from the sale of assets. To the extent distributions exceed cash flow from operations, a stockholder's basis in our stock will be reduced and, to the extent distributions exceed a stockholder's basis, the stockholder may recognize capital gain.

For the nine months ended September 30, 2022, and the year ended December 31, 2021, we paid aggregate distributions to common stockholders and limited partnership unit holders of $31.9 million and $20.2 million, including $30.5 million and $20.1 million of distributions paid in cash and $1.6 million and $0.1 million of distributions reinvested through our distribution reinvestment plan, respectively. Our net loss for the nine months ended September 30, 2022 and the year ended December 31, 2021 was $32.2 million and $106.9 million, respectively. Cash flows provided by operating activities were $1.6 million for the nine months ended September 30, 2022, and cash flows provided by operating activities were $5.4 million for the year ended December 31, 2021. We funded our total distribution paid during the nine months ended September 30, 2022, which includes net cash distributions and distribution reinvestment by stockholders, with $16.4 million prior period cash provided by operating activities, $4.3 million from additional borrowings, $9.6 million from offering proceeds, and $1.6 million of offering proceeds from issuance of common stock pursuant to the DRP. We funded our total distributions paid for the year ended December 31, 2021, which includes net cash distributions and distributions reinvested by stockholders, with $11.1 million prior period cash provided by operating activities, $5.0 million from additional borrowings, $4.0 million from offering proceeds, and $0.1 million of offering proceeds from issuance of common stock pursuant to the DRP.

Generally, for purposes of determining the source of our distributions paid, we assume first that we use cash flow from operating activities from the relevant or prior periods to fund distribution payments. To the extent that we pay distributions from sources other than our cash flow from operating activities, we will have less funds available for the acquisition of real estate investments, the overall return to our stockholders may be reduced and subsequent investors will experience dilution. In addition, to the extent distributions exceed cash flow from operating activities, a stockholder's basis in our stock will be reduced and, to the extent distributions exceed a stockholder's basis, the stockholder may recognize capital gain.

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

*Share Repurchase Program*

Under our share repurchase program, to the extent we choose to repurchase shares in any particular month, we will only repurchase shares as of the opening of the last calendar day of that month (a "Repurchase Date"). Repurchases will be made at the transaction price in effect on the Repurchase Date (which will generally be equal to our prior month's NAV per share), except that depending on the class of shares requested to be repurchased and how long the shares have been outstanding, the shares may be repurchased at a discount to the transaction price (an "Early Repurchase Deduction") as described in the Share Repurchase Program which is filed as exhibit 99.1 to this report, subject to certain limited exceptions. Settlements of share repurchases will generally be made within three business days of the Repurchase Date.

The total amount of aggregate repurchases of our Class T, Class D, Class I, Class A and Class TX shares (all of our classes of common stock) is limited to no more than 2% of the aggregate NAV of our common stock outstanding per month and no more than 5% of our aggregate NAV of our common stock outstanding per calendar quarter.

Should repurchase requests, in our judgment, place an undue burden on our liquidity, adversely affect our operations or risk having an adverse impact on the company as a whole, or should we otherwise determine that investing our liquid assets in real properties or other investments rather than repurchasing our shares is in the best interests of the company as a whole, we may choose to repurchase fewer shares in any particular month than have been requested to be repurchased, or none at all. Further, our board of directors may modify and suspend our share repurchase plan if it deems such action to be in our best interest and the best interest of our stockholders. In the event that we determine to repurchase some but not all of the shares submitted for repurchase during any month, shares repurchased at the end of the month will be repurchased on a pro rata basis. All unsatisfied repurchase requests must be resubmitted after the start of the next month or quarter, or upon the recommencement of the share repurchase plan, as applicable.

If the transaction price for the applicable month is not made available by the tenth business day prior to the last business day of the month (or is changed after such date), then no repurchase requests will be accepted for such month and stockholders who wish to have their shares repurchased the following month must resubmit their repurchase requests.

During the three months ended September 30, 2022, we repurchased shares of our common stock in the following amounts at the then-applicable transaction price (reduced as applicable by the Early Repurchase Deduction):

| Month of: | Total Number of Shares Repurchased[1] | Repurchases as a Percentage of NAV[2] | Average Price Paid per Share | Maximum Number of Shares Pending Repurchase Pursuant to Publicly Announced Plans or Programs[3] |
|---|---|---|---|---|
| July 2022 | 64,553 | 0.2100215 % | $18.7055 | — |
| August 2022 | 187,154 | 0.5921825 % | $18.6799 | — |
| September 2022 | 57,198 | 0.1802480 % | $19.2816 | — |
| Total | 308,905 | | | |

[1] All shares have been repurchased pursuant to our share purchase program.

[2] Represents aggregate NAV of the shares repurchased under our share repurchase plan over aggregate NAV of all shares of our common stock outstanding, in each case, based on our NAV as of the last calendar day of the prior month. Pursuant to our share repurchase program, we may repurchase up to 2% of the aggregate NAV of our common stock outstanding per month and 5% of the aggregate NAV of our common stock outstanding per calendar quarter.

[3] All repurchase requests under our share repurchase plan were satisfied. We funded our repurchases with cash available from operations, financing activities and capital raising activities.

## Item 3. Defaults Upon Senior Securities

None

## Item 4. Mine Safety Disclosures

Not applicable

## Item 5. Other Information

*Form of Services Agreement with APT Cowork, LLC*

On November 7, 2022, our conflicts committee approved a form of Services Agreement to be entered by and between our taxable REIT subsidiary, Cottonwood Capital Management, Inc. (“CCMI”) and APT Cowork, LLC (“APT”), an entity in which our officers and directors have a direct or indirect ownership interest as follows: Glenn Rand (21.49%), Daniel Shaeffer (21.46%), Chad Christensen (21.46%), Gregg Christensen (8.89%), Eric Marlin (6.71%), Enzio Cassinis (5.25%), Adam Larson (2.81%), Susan Hallenberg (2.18%), Paul Fredenberg (1.83%), and Stan Hanks (1.06%).

The form of agreement provides that APT will provide the ongoing administration of coworking services at the property subject to the agreement in exchange for $10.00 per apartment unit per month. In addition, there is a revenue sharing component of the agreement which provides that APT will pay CCMI 50% of coworking revenue it receives at the properties. Upon approval of the form agreement, we intend to enter into a Services Agreement with respect to ten of our properties. We expect to enter into agreements for an additional fifteen of our properties over the next six to twelve months. Each of the properties for which we expect to enter a Services Agreement are or will be subject to a Coworking Space Design Agreement with APT pursuant to which APT will design and upgrade the amenities for the common areas at the properties. The conflicts committee previously approved the form of the Coworking Space Design Agreement in August 2022.

**Item 6. Exhibits**

| Exhibit Number | Exhibit Description |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated as of January 26, 2021, by and among the Company, Cottonwood Communities O.P., LP, Cottonwood Communities GP Subsidiary, LLC, Cottonwood Residential O.P., LP and Cottonwood Residential II, Inc., incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed February 1, 2021 |
| 2.2 | Agreement and Plan of Merger, dated as of January 26, 2021, by and among the Company, Cottonwood Communities O.P, LP, Cottonwood Communities GP Subsidiary, LLC, Cottonwood Multifamily REIT I O.P., LP and Cottonwood Multifamily REIT I, Inc., incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed February 1, 2021 |
| 2.3 | Agreement and Plan of Merger, dated as of January 26, 2021, by and among the Company, Cottonwood Communities O.P., LP, Cottonwood Communities GP Subsidiary, LLC, Cottonwood Multifamily REIT II O.P., LP and Cottonwood Multifamily REIT II, Inc., incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K filed February 1, 2021 |
| 2.4 | Agreement and Plan of Merger, dated as of July 8, 2022, by and among the Company, Cottonwood Multifamily Opportunity Fund, Inc., Cottonwood Multifamily Opportunity O.P., LP, Cottonwood Residential O.P., LP and Cottonwood Communities GP Subsidiary, LLC, incorporated by reference to Exhibit 2.4 to the Company's Post-Effective Amendment no. 10 to its Registration Statement on Form S-11 (No. 333-258754) filed July 12, 2022 |
| 3.1 | Articles of Amendment and Restatement, incorporated by reference to Exhibit 3.1 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-215272) filed June 27, 2018 |
| 3.2 | Bylaws, incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-11 (No. 333-215272) filed December 22, 2016 |
| 3.3 | Articles Supplementary for the Class A shares of common stock, incorporated by reference to Exhibit 3.1 on Form 8-K (No. 333-215272) filed August 19, 2019 |
| 3.4 | Articles Supplementary for the Class T shares of common stock, incorporated by reference to Exhibit 3.2 on Form 8-K (No. 333-215272) filed August 19, 2019 |
| 3.5 | Articles of Amendment, incorporated by reference to Exhibit 3.3 on Form 8-K (No. 333-215272) filed August 19, 2019 |
| 3.6 | Article Supplementary – Preferred Stock, incorporated by reference to Exhibit 3.6 to the Company's Quarterly Report on Form 10-Q filed November 13, 2019 |
| 3.7 | Articles Supplementary for the Series 2016 Preferred Stock, incorporated by reference to Exhibit 3.1 on Form 8-K (No. 000-56165) filed April 2, 2021 |
| 3.8 | Articles Supplementary for the Series 2017 Preferred Stock, incorporated by reference to Exhibit 3.2 on Form 8-K (No. 000-56165) filed April 2, 2021 |
| 3.9 | Articles Supplementary for the Series 2019 Preferred Stock, incorporated by reference to Exhibit 3.3 on Form 8-K (No. 000-56165) filed April 2, 2021 |
| 3.10 | Articles of Amendment for the Class TX shares of common stock, incorporated by reference to Exhibit 3.4 on Form 8-K (No. 000-56165) filed April 2, 2021 |
| 3.11 | Articles Supplementary for the Class D, Class I and Class T shares of common stock, incorporated by reference to Exhibit 3.5 on Form 8-K (No. 000-56165) filed April 2, 2021 |
| 3.12 | Articles Supplementary for the Class D shares of common stock, incorporated by referenced to Exhibit 3.12 to the Company's Registration Statement on Form S-4/A (file no. 333-255171) filing dated May 13, 2021 |
| 3.13 | Articles Supplementary for the Class D and Class T shares of common stock, incorporated by reference to Exhibit 3.1 to the Company's Post-Effective Amendment no. 7 to its Registration Statement on Form S-11 (No. 333-215272) filed August 11, 2021 |
| 3.14 | Articles Supplementary for the Series 2019 Preferred Stock (incorporated by reference to Exhibit 3.1 on Form 8-K (No. 000-56165) filed October 18, 2021) |
| 3.15 | Articles of Amendment (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed December 20, 2021) |
| 3.16 | Articles Supplementary for the Series 2019 Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed February 7, 2022) |
| 3.17 | Articles Supplementary for the Series 2016 Preferred Stock and 2017 Preferred Stock, incorporated by reference to Exhibit 3.1 to the Company's Current Report Form 8-K filed July 6, 2022 |

| | |
|---|---|
| 4.1 | Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates), incorporated by reference to Exhibit 4.2 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-215272) filed June 27, 2018 |
| 4.2 | Distribution Reinvestment Plan, incorporated by reference to Appendix A to the prospectus included in the Company's Amendment No. 1 to the Company's Registration Statement on Form S-11 (No. 333-258754) filed October 21, 2021 |
| 4.3 | Multiple Class Plan, incorporated by reference to Exhibit 4.1 to the Company's Post-Effective Amendment no. 7 to its Registration Statement on Form S-11 (No. 333-215272) filed August 11, 2021 |
| 4.4 | Form of Subscription Agreement (incorporated by reference to Appendix B to the prospectus included in the Company's Amendment no. 1 to the Registration Statement on Form S-11 (No. 333-258754)) |
| 10.1* | Second Amended and Restated Limited Liability Company Agreement of CW Block C, LLC by and among Cottonwood Block C QOF, LLC, Cottonwood Residential O.P., LP, Cottonwood Multifamily Opportunity Fund O.P., LP, Brickyard QOF, LLC and HV Millcreek, LLC effective as of August 11, 2022, and First Amendment to the Second Amended and Restated Limited Liability Company Agreement of CW Block C, LLC effective as of September 28, 2022 |
| 10.2* | Amended and Restated Limited Liability Company Agreement of CW Jasper, LLC by and among Cottonwood Block C QOF, LLC, Brickyard QOF, LLC and HV Millcreek, LLC effective as of August 11, 2022 |
| 10.3* | Form of Coworking Space Design Agreement by and among property owning entity and APT Cowork, LLC |
| 31.1* | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2* | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1* | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2* | Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.1 | Share Repurchase Program Effective as of October 7, 2021 (incorporated by reference to Exhibit 99.1 to the Company's Amendment no. 1 to its Registration Statement on Form S-11 (File No. 333-258754) filed October 21, 2021 |
| 101.INS* | Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document) |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104* | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

*Filed herewith

## SIGNATURES

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

**COTTONWOOD COMMUNITIES, INC.**

By: /s/ Daniel Shaeffer
Daniel Shaeffer, Chief Executive Officer

By: /s/ Adam Larson
Adam Larson, Chief Financial Officer

Dated: November 9, 2022