
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2019

Commission File Number: 000-55190

NORTHSTAR HEALTHCARE INCOME, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

27-3663988
(IRS Employer
Identification No.)

590 Madison Avenue, 34th Floor, New York, NY 10022
(Address of Principal Executive Offices, Including Zip Code)

(212) 547-2600
(Registrant's Telephone Number, Including Area Code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class common stock, par value \$0.01 per share	None	None

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

The Company has one class of common stock, \$0.01 par value per share, 188,867,665 shares outstanding as of November 7, 2019.

NORTHSTAR HEALTHCARE INCOME, INC.

FORM 10-Q

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “seek,” “anticipate,” “estimate,” “believe,” “could,” “project,” “predict,” “continue,” “future” or other similar words or expressions. Forward-looking statements are not guarantees of performance and are based on certain assumptions, discuss future expectations, describe plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Such statements include, but are not limited to, those relating to our ability to make distributions to our stockholders, our reliance on our advisor and our sponsor, the operating performance of our investments, our financing needs, the effects of our current strategies and investment activities and our ability to effectively deploy capital. Our ability to predict results or the actual effect of plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements and you should not unduly rely on these statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from those forward-looking statements. These factors include, but are not limited to:

- adverse economic conditions and the impact on the real estate industry, including healthcare real estate;
- the impact of economic conditions on the operators/tenants of the real property that we own as well as on the borrower of debt we originated;
- the ability of our tenants, operators and managers to conduct their respective businesses in a manner sufficient to maintain or increase their revenues and to generate sufficient income to make rent payments to us and, in turn, our ability to satisfy our obligations under our borrowings;
- the impact of increased operating costs on our liquidity, financial condition and results of operations or that of our tenants, operators and managers and our ability and the ability of our tenants, operators and managers to accurately estimate the magnitude of those costs;
- the nature and extent of future competition, including new construction in the markets in which our assets are located;
- the ability of our tenants, operators and managers, as applicable, to comply with laws, rules and regulations in the operation of our properties, to deliver high-quality services, to attract and retain qualified personnel and to attract residents and patients;
- the ability and willingness of our tenants, operators, managers and other third parties to satisfy their respective obligations to us, including in some cases their obligation to indemnify us from and against various claims and liabilities;
- the financial weakness of our tenants and operators, including potential bankruptcies and downturns in their businesses, and their legal and regulatory proceedings, which results in uncertainties regarding our ability to continue to realize the full benefit of such tenants’ and operators’ leases and/or expose us to additional liabilities and expenses;
- risks associated with our joint ventures and unconsolidated entities, including our reliance on joint venture partners, lack of decision making authority and the financial condition of our joint venture partners;
- the impact of market and other conditions influencing the performance of our investments relative to our expectations and the impact on our actual return on invested equity, as well as the cash provided by these investments;
- our liquidity and access to capital;
- our use of leverage;
- our ability to make distributions to our stockholders;
- the lack of a public trading market for our shares;
- the effect of economic conditions on the valuation of our investments;
- the effect of paying distributions to our stockholders from sources other than cash flow provided by operations;
- our dependence on the resources and personnel of our advisor, our sponsor and their affiliates, including our advisor’s ability to manage our portfolio on our behalf;

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- the performance of our advisor, our sponsor and their affiliates;
- the impact of continued business uncertainties surrounding our sponsor, as well as adverse changes in the financial health and public perception of our sponsor;
- our advisor's and its affiliates' ability to attract and retain qualified personnel to support our operations and potential changes to key personnel providing management services to us;
- our reliance on our advisor and its affiliates and sub-advisors/co-venturers in providing management services to us, the payment of substantial fees to our advisor, and various potential conflicts of interest in our relationship with our sponsor;
- changes in our business or investment strategy;
- changes in the value of our portfolio;
- the impact of fluctuations in interest rates;
- our ability to realize current and expected returns over the life of our investments;
- illiquidity of properties, joint venture or debt investments in our portfolio;
- environmental compliance costs and liabilities;
- the effectiveness of our risk and portfolio management systems;
- the potential failure to maintain effective internal controls and disclosure controls and procedures;
- regulatory requirements with respect to our business and the healthcare industry generally, as well as the related cost of compliance;
- the extent and timing of future healthcare reform and regulation, including changes in reimbursement policies, procedures and rates;
- legislative and regulatory changes, including changes to laws governing the taxation of real estate investment trusts, or REITs;
- our ability to maintain our qualification as a REIT for federal income tax purposes and limitations imposed on our business by our status as a REIT;
- the loss of our exemption from registration under the Investment Company Act of 1940, or the Investment Company Act, as amended;
- general volatility in capital markets;
- the adequacy of our cash reserves and working capital; and
- other risks associated with investing in our targeted investments, including changes in our industry, interest rates, the securities markets, the general economy or the capital markets and real estate markets specifically.

The foregoing list of factors is not exhaustive. All forward-looking statements included in this Quarterly Report on Form 10-Q are based on information available to us on the date hereof and we are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

Factors that could have a material adverse effect on our operations and future prospects are set forth in our filings with the U.S. Securities and Exchange Commission, or the SEC, including Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as amended by Amendment No. 1 on Form 10-K/A, and in Part II, Item 1A of this Quarterly Report on Form 10-Q under the heading "Risk Factors." The risk factors set forth in our filings with the SEC could cause our actual results to differ significantly from those contained in any forward-looking statement contained in this report.

PART I Financial Information

Item 1. Financial Statements

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)

	September 30, 2019 (Unaudited)	December 31, 2018
Assets		
Cash and cash equivalents	\$ 29,183	\$ 73,811
Restricted cash	20,985	20,697
Operating real estate, net	1,724,019	1,778,914
Investments in unconsolidated ventures	282,553	264,319
Real estate debt investments, net	55,649	58,600
Assets held for sale	2,037	2,183
Receivables, net	15,011	14,436
Deferred costs and intangible assets, net	28,822	36,996
Other assets	14,759	14,460
Total assets⁽¹⁾	\$ 2,173,018	\$ 2,264,416
Liabilities		
Mortgage and other notes payable, net	\$ 1,436,542	\$ 1,466,349
Due to related party	4,346	5,675
Escrow deposits payable	6,118	4,379
Distribution payable	—	5,400
Accounts payable and accrued expenses	27,983	32,405
Other liabilities	4,669	5,834
Total liabilities⁽¹⁾	1,479,658	1,520,042
Commitments and contingencies		
Equity		
NorthStar Healthcare Income, Inc. Stockholders' Equity		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding as of September 30, 2019 and December 31, 2018	—	—
Common stock, \$0.01 par value, 400,000,000 shares authorized, 189,219,380 and 188,495,355 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	1,893	1,885
Additional paid-in capital	1,703,086	1,697,998
Retained earnings (accumulated deficit)	(1,014,724)	(958,924)
Accumulated other comprehensive income (loss)	(2,372)	(2,284)
Total NorthStar Healthcare Income, Inc. stockholders' equity	687,883	738,675
Non-controlling interests	5,477	5,699
Total equity	693,360	744,374
Total liabilities and equity	\$ 2,173,018	\$ 2,264,416

(1) Represents the consolidated assets and liabilities of NorthStar Healthcare Income Operating Partnership, LP (the "Operating Partnership"). The Operating Partnership is a consolidated variable interest entity ("VIE"), of which the Company is the sole general partner and owns approximately 99.99%. As of September 30, 2019, the Operating Partnership includes \$0.6 billion and \$0.5 billion of assets and liabilities, respectively, of certain VIEs that are consolidated by the Operating Partnership. Refer to Note 2, "Summary of Significant Accounting Policies."

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Property and other revenues				
Resident fee income	\$ 32,283	\$ 32,469	\$ 97,658	\$ 98,232
Rental income	40,410	39,986	121,168	119,626
Other revenue	85	1,015	1,445	2,692
Total property and other revenues	72,778	73,470	220,271	220,550
Net interest income				
Interest income on debt investments	1,946	1,943	5,771	5,763
Interest income on mortgage loans held in a securitized trust	—	—	—	5,149
Interest expense on mortgage obligations issued by a securitization trust	—	—	—	(3,824)
Net interest income	1,946	1,943	5,771	7,088
Expenses				
Real estate properties - operating expenses	45,359	47,355	135,213	141,510
Interest expense	17,218	17,677	51,908	52,408
Other expenses related to securitization trust	—	—	—	811
Transaction costs	29	—	105	806
Asset management and other fees - related party	4,994	5,951	14,983	17,845
General and administrative expenses	2,807	2,818	8,210	9,927
Depreciation and amortization	16,164	25,629	54,525	81,943
Impairment loss	—	—	10,146	5,239
Total expenses	86,571	99,430	275,090	310,489
Other income (loss)				
Realized gain (loss) on investments and other	204	726	5,926	4,221
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	(11,643)	(23,291)	(43,122)	(78,630)
Equity in earnings (losses) of unconsolidated ventures	(3,037)	16,631	(7,666)	3,907
Income tax benefit (expense)	(17)	(10)	(38)	(40)
Net income (loss)	(14,697)	(6,670)	(50,826)	(74,763)
Net (income) loss attributable to non-controlling interests	73	66	439	397
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	\$ (14,624)	\$ (6,604)	\$ (50,387)	\$ (74,366)
Net income (loss) per share of common stock, basic/diluted	\$ (0.08)	\$ (0.04)	\$ (0.27)	\$ (0.40)
Weighted average number of shares of common stock outstanding, basic/diluted	189,094,572	187,432,091	189,061,291	187,278,444
Distributions declared per share of common stock	\$ —	\$ 0.09	\$ 0.03	\$ 0.25

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in Thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss)	\$ (14,697)	\$ (6,670)	\$ (50,826)	\$ (74,763)
Other comprehensive income (loss)				
Foreign currency translation adjustments related to investment in unconsolidated venture	786	(515)	(88)	(1,401)
Total other comprehensive income (loss)	786	(515)	(88)	(1,401)
Comprehensive income (loss)	(13,911)	(7,185)	(50,914)	(76,164)
Comprehensive (income) loss attributable to non-controlling interests	73	66	439	397
Comprehensive income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	<u>\$ (13,838)</u>	<u>\$ (7,119)</u>	<u>\$ (50,475)</u>	<u>\$ (75,767)</u>

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(Dollars and Shares in Thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Company's Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount						
Balance as of December 31, 2017	186,709	\$ 1,867	\$ 1,681,040	\$ (744,090)	\$ (316)	\$ 938,501	\$ 6,298	\$ 944,799
Share-based payment of advisor asset management fees	294	3	2,497	—	—	2,500	—	2,500
Amortization of equity-based compensation	—	—	42	—	—	42	—	42
Non-controlling interests - contributions	—	—	—	—	—	—	71	71
Non-controlling interests - distributions	—	—	—	—	—	—	(150)	(150)
Shares redeemed for cash	(1,048)	(11)	(8,195)	—	—	(8,206)	—	(8,206)
Distributions declared	—	—	—	(15,560)	—	(15,560)	—	(15,560)
Proceeds from distribution reinvestment plan	1,274	13	10,818	—	—	10,831	—	10,831
Other comprehensive income (loss)	—	—	—	—	743	743	—	743
Net income (loss)	—	—	—	(33,668)	—	(33,668)	(220)	(33,888)
Balance as of March 31, 2018 (Unaudited)	187,229	\$ 1,872	\$ 1,686,202	\$ (793,318)	\$ 427	\$ 895,183	\$ 5,999	\$ 901,182
Share-based payment of advisor asset management fees	294	3	2,497	—	—	2,500	—	2,500
Issuance and amortization of equity-based compensation	21	—	42	—	—	42	—	42
Non-controlling interests - contributions	—	—	—	—	—	—	218	218
Non-controlling interests - distributions	—	—	—	—	—	—	(160)	(160)
Shares redeemed for cash	(1,003)	(10)	(7,857)	—	—	(7,867)	—	(7,867)
Distributions declared	—	—	—	(15,750)	—	(15,750)	—	(15,750)
Proceeds from distribution reinvestment plan	925	9	7,850	—	—	7,859	—	7,859
Other comprehensive income (loss)	—	—	—	—	(1,629)	(1,629)	—	(1,629)
Net income (loss)	—	—	—	(34,094)	—	(34,094)	(111)	(34,205)
Balance as of June 30, 2018 (Unaudited)	187,466	\$ 1,874	\$ 1,688,734	\$ (843,162)	\$ (1,202)	\$ 846,244	\$ 5,946	\$ 852,190
Share-based payment of advisor asset management fees	294	3	2,497	—	—	2,500	—	2,500
Amortization of equity-based compensation	—	—	45	—	—	45	—	45
Non-controlling interests - contributions	—	—	—	—	—	—	106	106
Non-controlling interests - distributions	—	—	—	—	—	—	(221)	(221)
Shares redeemed for cash	(977)	(9)	(7,721)	—	—	(7,730)	—	(7,730)
Distributions declared	—	—	—	(15,941)	—	(15,941)	—	(15,941)
Proceeds from distribution reinvestment plan	900	9	7,643	—	—	7,652	—	7,652
Other comprehensive income (loss)	—	—	—	—	(515)	(515)	—	(515)
Net income (loss)	—	—	—	(6,604)	—	(6,604)	(66)	(6,670)
Balance as of September 30, 2018 (Unaudited)	187,683	\$ 1,877	\$ 1,691,198	\$ (865,707)	\$ (1,717)	\$ 825,651	\$ 5,765	\$ 831,416

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY (Continued)
(Dollars and Shares in Thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Company's Stockholders' Equity	Non- controlling Interests	Total Equity
	Shares	Amount						
Balance as of December 31, 2018	188,495	\$ 1,885	\$ 1,697,998	\$ (958,924)	\$ (2,284)	\$ 738,675	\$ 5,699	\$ 744,374
Share-based payment of advisor asset management fees	352	4	2,496	—	—	2,500	—	2,500
Amortization of equity-based compensation	—	—	45	—	—	45	—	45
Non-controlling interests - contributions	—	—	—	—	—	—	256	256
Non-controlling interests - distributions	—	—	—	—	—	—	(72)	(72)
Shares redeemed for cash	(279)	(3)	(1,975)	—	—	(1,978)	—	(1,978)
Distributions declared	—	—	—	(5,413)	—	(5,413)	—	(5,413)
Proceeds from distribution reinvestment plan	687	7	4,869	—	—	4,876	—	4,876
Other comprehensive income (loss)	—	—	—	—	200	200	—	200
Net income (loss)	—	—	—	(18,617)	—	(18,617)	(52)	(18,669)
Balance as of March 31, 2019 (Unaudited)	189,255	\$ 1,893	\$ 1,703,433	\$ (982,954)	\$ (2,084)	\$ 720,288	\$ 5,831	\$ 726,119
Share-based payment of advisor asset management fees	352	4	2,496	—	—	2,500	—	2,500
Issuance and amortization of equity-based compensation	25	—	46	—	—	46	—	46
Non-controlling interests - contributions	—	—	—	—	—	—	62	62
Non-controlling interests - distributions	—	—	—	—	—	—	(67)	(67)
Shares redeemed for cash	(450)	(5)	(3,199)	—	—	(3,204)	—	(3,204)
Other comprehensive income (loss)	—	—	—	—	(1,074)	(1,074)	—	(1,074)
Net income (loss)	—	—	—	(17,146)	—	(17,146)	(314)	(17,460)
Balance as of June 30, 2019 (Unaudited)	189,182	\$ 1,892	\$ 1,702,776	\$ (1,000,100)	\$ (3,158)	\$ 701,410	\$ 5,512	\$ 706,922
Share-based payment of advisor asset management fees	352	4	2,496	—	—	2,500	—	2,500
Amortization of equity-based compensation	—	—	45	—	—	45	—	45
Non-controlling interests - contributions	—	—	—	—	—	—	112	112
Non-controlling interests - distributions	—	—	—	—	—	—	(74)	(74)
Shares redeemed for cash	(315)	(3)	(2,231)	—	—	(2,234)	—	(2,234)
Other comprehensive income (loss)	—	—	—	—	786	786	—	786
Net income (loss)	—	—	—	(14,624)	—	(14,624)	(73)	(14,697)
Balance as of September 30, 2019 (Unaudited)	189,219	\$ 1,893	\$ 1,703,086	\$ (1,014,724)	\$ (2,372)	\$ 687,883	\$ 5,477	\$ 693,360

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income (loss)	\$ (50,826)	\$ (74,763)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Equity in (earnings) losses of unconsolidated ventures	7,666	(3,907)
Depreciation and amortization	54,525	81,943
Impairment loss	10,146	5,239
Amortization of below market debt	2,253	2,190
Straight-line rental income, net and amortization of lease inducements	(478)	628
Amortization of premium/accretion of discount on investments	(83)	(75)
Amortization of deferred financing costs	1,367	1,439
Amortization of equity-based compensation	136	129
Realized (gain) loss on investments and other	(5,926)	(4,221)
Allowance for uncollectible accounts	595	2,105
Changes in assets and liabilities:		
Receivables	(790)	2,257
Other assets	(644)	1,918
Due to related party	6,170	8,945
Escrow deposits payable	1,739	1,599
Accounts payable and accrued expenses	(5,064)	(5,691)
Other liabilities	(743)	265
Net cash provided by (used in) operating activities	<u>20,043</u>	<u>20,000</u>
Cash flows from investing activities:		
Capital expenditures for operating real estate investments	(14,644)	(20,003)
Sale of operating real estate	19,618	11,784
Sale of healthcare-related securities	—	35,771
Investment in unconsolidated ventures	(39,801)	(4,470)
Distributions from unconsolidated ventures	16,846	10,020
Other assets	934	1,589
Net cash provided by (used in) investing activities	<u>(17,047)</u>	<u>34,691</u>
Cash flows from financing activities:		
Borrowings from mortgage notes	12,800	—
Repayment of mortgage notes	(45,868)	(20,492)
Payment of deferred financing costs	(708)	(284)
Debt extinguishment costs	—	(97)
Shares redeemed for cash	(7,416)	(23,803)
Payments under finance leases	(424)	(453)
Distributions paid on common stock	(10,813)	(52,758)
Proceeds from distribution reinvestment plan	4,876	26,342
Contributions from non-controlling interests	430	395
Distributions to non-controlling interests	(213)	(531)
Net cash provided by (used in) financing activities	<u>(47,336)</u>	<u>(71,681)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	(44,340)	(16,990)
Cash, cash equivalents and restricted cash—beginning of period	94,508	80,488
Cash, cash equivalents and restricted cash—end of period	<u>\$ 50,168</u>	<u>\$ 63,498</u>

	Nine Months Ended September 30,	
	2019	2018
Supplemental disclosure of non-cash investing and financing activities:		
Accrued distribution payable	\$ —	\$ 5,197
Accrued capital expenditures	835	461
Issuance of common stock as payment for asset management fees	7,500	7,500
Deconsolidation of securitization trust (VIE asset/liability)	—	512,772
Acquisition of operating real estate under capital lease obligations	—	2,108

Refer to accompanying notes to consolidated financial statements.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Business and Organization

NorthStar Healthcare Income, Inc., together with its consolidated subsidiaries (the “Company”), was formed to acquire, originate and asset manage a diversified portfolio of equity, debt and securities investments in healthcare real estate, directly or through joint ventures, with a focus on the mid-acuity senior housing sector, which the Company defines as assisted living (“ALF”), memory care (“MCF”), skilled nursing (“SNF”), independent living (“ILF”) facilities and continuing care retirement communities (“CCRC”), which may have independent living, assisted living, skilled nursing and memory care available on one campus. The Company also invests in other healthcare property types, including medical office buildings (“MOB”), hospitals, rehabilitation facilities and ancillary healthcare services businesses. The Company’s investments are predominantly in the United States, but it also selectively makes international investments.

The Company was formed in October 2010 as a Maryland corporation and commenced operations in February 2013. The Company elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), commencing with the taxable year ended December 31, 2013. The Company conducts its operations so as to continue to qualify as a REIT for U.S. federal income tax purposes.

Substantially all of the Company’s business is conducted through NorthStar Healthcare Income Operating Partnership, LP (the “Operating Partnership”). The Company is the sole general partner of the Operating Partnership. The limited partners of the Operating Partnership are NorthStar Healthcare Income Advisor, LLC (the “Prior Advisor”) and NorthStar Healthcare Income OP Holdings, LLC (the “Special Unit Holder”), each an affiliate of the Company’s sponsor. The Prior Advisor invested \$1,000 in the Operating Partnership in exchange for common units and the Special Unit Holder invested \$1,000 in the Operating Partnership and was issued a separate class of limited partnership units (the “Special Units”), which are collectively recorded as non-controlling interests on the accompanying consolidated balance sheets as of September 30, 2019 and December 31, 2018. As the Company issued shares, it contributed substantially all of the proceeds from its continuous, public offerings to the Operating Partnership as a capital contribution. As of September 30, 2019, the Company’s limited partnership interest in the Operating Partnership was 99.99%.

The Company’s charter authorizes the issuance of up to 400.0 million shares of common stock with a par value of \$0.01 per share and up to 50.0 million shares of preferred stock with a par value of \$0.01 per share. The board of directors of the Company is authorized to amend its charter, without the approval of the stockholders, to increase the aggregate number of authorized shares of capital stock or the number of shares of any class or series that the Company has authority to issue.

The Company completed its initial public offering (the “Initial Offering”) on February 2, 2015 by raising gross proceeds of \$1.1 billion, including 108.6 million shares issued in its initial primary offering (the “Initial Primary Offering”) and 2.0 million shares issued pursuant to its distribution reinvestment plan (the “DRP”). In addition, the Company completed its follow-on offering (the “Follow-On Offering”) on January 19, 2016 by raising gross proceeds of \$700.0 million, including 64.9 million shares issued in its follow-on primary offering (the “Follow-on Primary Offering”) and 4.2 million shares issued pursuant to the DRP. The Company refers to its Initial Primary Offering and its Follow-on Primary Offering collectively as the “Primary Offering” and its Initial Offering and Follow-On Offering collectively as the “Offering.” In December 2015, the Company registered an additional 30.0 million shares to be offered pursuant to the DRP and continues to offer such shares, however, as of February 1, 2019, the Company suspended payment of monthly distributions to stockholders. From inception through November 7, 2019, the Company raised total gross proceeds of \$2.0 billion, including \$232.6 million in DRP proceeds.

The Company is externally managed and has no employees. The Company is sponsored by Colony Capital, Inc. (NYSE: CLNY) (“Colony Capital” or the “Sponsor”), which was formed as a result of the mergers of NorthStar Asset Management Group Inc. (“NSAM”), its prior sponsor, with Colony Capital, Inc. (“Colony”) and NorthStar Realty Finance Corp. (“NorthStar Realty”) in January 2017. Effective June 25, 2018, the Sponsor changed its name from Colony NorthStar, Inc. to Colony Capital, Inc. and its ticker symbol from “CLNS” to “CLNY.” Following the mergers, the Sponsor became an internally-managed equity REIT, with a diversified real estate and investment management platform.

Colony Capital manages capital on behalf of its stockholders, as well as institutional and retail investors in private funds, non-traded and traded REITs and registered investment companies. The Company’s advisor, CNINSHC Advisors, LLC (the “Advisor”), is a subsidiary of Colony Capital and manages its day-to-day operations pursuant to an advisory agreement.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

2. Summary of Significant Accounting Policies

Basis of Accounting

Basis of Quarterly Presentation

The accompanying unaudited consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and note disclosures normally included in the consolidated financial statements prepared under U.S. GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company’s financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which was filed with the U.S. Securities and Exchange Commission (“SEC”), on March 22, 2019, as amended by Amendment No. 1 on Form 10-K/A, which was filed with the SEC on September 16, 2019.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Operating Partnership and their consolidated subsidiaries. The Company consolidates variable interest entities (“VIEs”) where the Company is the primary beneficiary and voting interest entities which are generally majority owned or otherwise controlled by the Company. All significant intercompany balances are eliminated in consolidation.

Variable Interest Entities

A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The determination of whether an entity is a VIE includes both a qualitative and quantitative analysis. The Company bases its qualitative analysis on its review of the design of the entity, its organizational structure including decision-making ability and relevant financial agreements and the quantitative analysis on the forecasted cash flow of the entity. The Company reassesses its initial evaluation of an entity as a VIE upon the occurrence of certain reconsideration events.

A VIE must be consolidated only by its primary beneficiary, which is defined as the party who, along with its affiliates and agents, has both the: (i) power to direct the activities that most significantly impact the VIE’s economic performance; and (ii) obligation to absorb the losses of the VIE or the right to receive the benefits from the VIE, which could be significant to the VIE. The Company determines whether it is the primary beneficiary of a VIE by considering qualitative and quantitative factors, including, but not limited to: which activities most significantly impact the VIE’s economic performance and which party controls such activities; the amount and characteristics of its investment; the obligation or likelihood for the Company or other interests to provide financial support; consideration of the VIE’s purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders and the similarity with and significance to the business activities of the Company and the other interests. The Company reassesses its determination of whether it is the primary beneficiary of a VIE each reporting period. Significant judgments related to these determinations include estimates about the current and future fair value and performance of investments held by these VIEs and general market conditions.

The Company evaluates its investments and financings, including investments in unconsolidated ventures and securitization financing transactions to determine whether each investment or financing is a VIE. The Company analyzes new investments and financings, as well as reconsideration events for existing investments and financings, which vary depending on type of investment or financing.

As of September 30, 2019, the Company has identified certain consolidated and unconsolidated VIEs. Assets of each of the VIEs, other than the Operating Partnership, may only be used to settle obligations of the respective VIE. Creditors of each of the VIEs have no recourse to the general credit of the Company.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Consolidated VIEs

The most significant consolidated VIEs are the Operating Partnership and certain properties that have non-controlling interests. These entities are VIEs because the non-controlling interests do not have substantive kick-out or participating rights. The Operating Partnership consolidates certain properties that have non-controlling interests. Included in operating real estate, net on the Company's consolidated balance sheets as of September 30, 2019 is \$597.3 million related to such consolidated VIEs. Included in mortgage and other notes payable, net on the Company's consolidated balance sheet as of September 30, 2019 is \$463.6 million, collateralized by the real estate assets of the related consolidated VIEs.

Investing VIEs

The Company's investment in a securitization financing entity ("Investing VIE") consisted of subordinate first-loss certificates in a securitization trust, generally referred to as Class B certificates, which represents interests in such VIE. Investing VIEs are structured as pass through entities that receive principal and interest payments from the underlying debt collateral assets and distribute those payments to the securitization trust's certificate holders, including the Class B certificates. A securitization trust will name a directing certificate holder, who is generally afforded the unilateral right to terminate and appoint a replacement for the special servicer, and as such may qualify as the primary beneficiary of the trust.

The Company held Class B certificates in an Investing VIE for which the Company had determined it was the primary beneficiary because it had the power to direct the activities that most significantly impacted the economic performance of the securitization trust. As a result, all of the assets, liabilities (obligations to the certificate holders of the securitization trust, less the Company's retained interest from the Class B certificates of the securitization), income and expense of the entire Investing VIE were presented in the consolidated financial statements of the Company as required by U.S. GAAP. The Company's Class B certificates, which represented the retained interest and related interest income, were eliminated in consolidation. Regardless of the presentation, the Company's consolidated financial statements of operations ultimately reflect the net income attributable to its retained interest in the Class B certificates.

In March 2018, the Company sold the Class B certificates of its consolidated Investing VIE, relinquishing its rights as directing certificate holder. As a result, the Company was no longer deemed the primary beneficiary of the securitization trust and, accordingly, did not present the assets or liabilities of the securitization trust on its consolidated balance sheets as of September 30, 2019 and December 31, 2018. The Company has presented the income and expenses of the securitization trust on its consolidated statements of operations for the period that the Company owned the Class B certificates and was considered the primary beneficiary in 2018.

Unconsolidated VIEs

As of September 30, 2019, the Company identified unconsolidated VIEs related to its real estate equity investments with a carrying value of \$282.6 million. The Company's maximum exposure to loss as of September 30, 2019 would not exceed the carrying value of its investment in the VIEs and its investment in a mezzanine loan to a subsidiary of one of the VIEs. Based on management's analysis, the Company determined that it is not the primary beneficiary of these VIEs and, accordingly, they are not consolidated in the Company's financial statements as of September 30, 2019. The Company did not provide financial support to its unconsolidated VIEs during the nine months ended September 30, 2019, except for funding its proportionate share of capital call contributions. As of September 30, 2019, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to its unconsolidated VIEs.

Voting Interest Entities

A voting interest entity is an entity in which the total equity investment at risk is sufficient to enable it to finance its activities independently and the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. If the Company has a majority voting interest in a voting interest entity, the entity will generally be consolidated. The Company does not consolidate a voting interest entity if there are substantive participating rights by other parties and/or kick-out rights by a single party or through a simple majority vote.

The Company performs on-going reassessments of whether entities previously evaluated under the voting interest framework have become VIEs, based on certain events, and therefore subject to the VIE consolidation framework.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Investments in Unconsolidated Ventures

A non-controlling, unconsolidated ownership interest in an entity may be accounted for using the equity method or the Company may elect the fair value option.

The Company will account for an investment under the equity method of accounting if it has the ability to exercise significant influence over the operating and financial policies of an entity, but does not have a controlling financial interest. Under the equity method, the investment is adjusted each period for capital contributions and distributions and its share of the entity's net income (loss). Capital contributions, distributions and net income (loss) of such entities are recorded in accordance with the terms of the governing documents. An allocation of net income (loss) may differ from the stated ownership percentage interest in such entity as a result of preferred returns and allocation formulas, if any, as described in such governing documents. Equity method investments are recognized using a cost accumulation model, in which the investment is recognized based on the cost to the investor, which includes acquisition fees. The Company records as an expense certain acquisition costs and fees associated with consolidated investments deemed to be business combinations and capitalizes these costs for investments deemed to be acquisitions of an asset, including an equity method investment.

Non-controlling Interests

A non-controlling interest in a consolidated subsidiary is defined as the portion of the equity (net assets) in a subsidiary not attributable, directly or indirectly, to the Company. A non-controlling interest is required to be presented as a separate component of equity on the consolidated balance sheets and presented separately as net income (loss) and comprehensive income (loss) attributable to controlling and non-controlling interests. An allocation to a non-controlling interest may differ from the stated ownership percentage interest in such entity as a result of a preferred return and allocation formula, if any, as described in such governing documents.

Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that could affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates and assumptions.

Comprehensive Income (Loss)

The Company reports consolidated comprehensive income (loss) in separate statements following the consolidated statements of operations. Comprehensive income (loss) is defined as the change in equity resulting from net income (loss) and other comprehensive income (loss) ("OCI"). The only component of OCI for the Company is foreign currency translation adjustments related to its investment in an unconsolidated venture.

Fair Value Option

The fair value option provides an election that allows a company to irrevocably elect to record certain financial assets and liabilities at fair value on an instrument-by-instrument basis at initial recognition. The Company may elect to apply the fair value option for certain investments due to the nature of the instrument. Any change in fair value for assets and liabilities for which the election is made is recognized in earnings.

The Company elected the fair value option to account for the eligible financial assets and liabilities of its consolidated Investing VIEs in order to mitigate potential accounting mismatches between the carrying value of the instruments and the related assets and liabilities to be consolidated. The Company adopted guidance issued by the Financial Accounting Standards Board ("FASB") allowing the Company to measure both the financial assets and liabilities of a qualifying collateralized financing entity ("CFE") it consolidated using the fair value of either the CFE's financial assets or financial liabilities, whichever is more observable.

Cash, Cash Equivalents and Restricted Cash

The Company considers all highly-liquid investments with an original maturity date of three months or less to be cash equivalents. Cash, including amounts restricted, may at times exceed the Federal Deposit Insurance Corporation deposit insurance limit of \$250,000 per institution. The Company mitigates credit risk by placing cash and cash equivalents with major financial institutions. To date, the Company has not experienced any losses on cash and cash equivalents.

Restricted cash consists of amounts related to loan origination (escrow deposits) and operating real estate (escrows for taxes, insurance, capital expenditures, security deposits received from tenants and payments required under certain lease agreements).

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following table provides a reconciliation of cash, cash equivalents, and restricted cash as reported on the consolidated balance sheets to the total of such amounts as reported on the consolidated statements of cash flows (dollars in thousands):

	<u>September 30, 2019</u> <u>(Unaudited)</u>	<u>December 31, 2018</u>
Cash and cash equivalents	\$ 29,183	\$ 73,811
Restricted cash	20,985	20,697
Total cash, cash equivalents and restricted cash	<u>\$ 50,168</u>	<u>\$ 94,508</u>

Operating Real Estate

The Company evaluates whether a real estate acquisition constitutes a business and whether business combination accounting is appropriate. The Company accounts for purchases of operating real estate that qualify as business combinations using the acquisition method, where the purchase price is allocated to tangible assets such as land, building, furniture, fixtures, and equipment, improvements and other identified intangibles such as in-place leases, goodwill and above or below market mortgages assumed, as applicable. Costs directly related to an acquisition deemed to be a business combination are expensed and included in transaction costs in the consolidated statements of operations.

Major replacements and betterments which improve or extend the life of the asset are capitalized and depreciated over their useful life. Ordinary repairs and maintenance are expensed as incurred. Operating real estate is carried at historical cost less accumulated depreciation. Operating real estate is depreciated using the straight-line method over the estimated useful life of the assets, summarized as follows:

<u>Category:</u>	<u>Term:</u>
Building	30 to 50 years
Building improvements	Lesser of the useful life or remaining life of the building
Land improvements	9 to 15 years
Tenant improvements	Lesser of the useful life or remaining term of the lease
Furniture, fixtures and equipment	5 to 14 years

Construction costs incurred in connection with the Company's investments are capitalized and included in operating real estate, net on the consolidated balance sheets. Construction in progress is not depreciated until the development is substantially completed.

In a situation in which a net lease(s) associated with a significant tenant has been, or is expected to be, terminated early, the Company evaluates the remaining useful life of depreciable or amortizable assets in the asset group related to the lease that will be terminated (i.e., tenant improvements, above- and below-market lease intangibles, in-place lease value and deferred leasing costs). Based upon consideration of the facts and circumstances surrounding the termination, the Company may write-off or accelerate the depreciation and amortization associated with the asset group. Such amounts are included within rental and other income for above- and below-market lease intangibles and depreciation and amortization for the remaining lease related asset groups in the consolidated statements of operations.

When the Company acquires a controlling interest in an existing unconsolidated joint venture, the Company records the consolidated investment at the updated purchase price, which is reflective of fair value. The difference between the carrying value of the Company's investment in the existing unconsolidated joint venture on the acquisition date and the Company's share of the fair value of the investment's purchase price is recorded in gain (loss) on consolidation of unconsolidated venture in the Company's consolidated statements of operations.

Lessee Accounting

A leasing arrangement, a right to control the use of an identified asset for a period of time in exchange for consideration, is classified by the lessee either as a finance lease, which represents a financed purchase of the leased asset, or as an operating lease. For leases with terms greater than 12 months, a lease asset and a lease liability are recognized on the balance sheet at commencement date based on the present value of lease payments over the lease term.

Lease renewal or termination options are included in the lease asset and lease liability only if it is reasonably certain that the option to extend would be exercised or the option to terminate would not be exercised. As the implicit rate in most leases are not readily determinable, the Company's incremental borrowing rate for each lease at commencement date is used to determine the present value of lease payments. Consideration is given to the Company's recent debt financing transactions, as well as publicly available

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

data for instruments with similar characteristics, adjusted for the respective lease term, when estimating incremental borrowing rates.

Lease expense is recognized over the lease term based on an effective interest method for finance leases and on a straight-line basis for operating leases.

Finance Leases

The Company has entered into finance leases for equipment totaling \$3.2 million, which is included in furniture, fixtures, and equipment within operating real estate, net on the Company's consolidated balance sheets. The leased equipment is amortized on a straight-line basis.

For the nine months ended September 30, 2019 and 2018, payments for finance leases totaled \$0.5 million, respectively. The following table presents the future minimum lease payments under finance leases and the present value of the minimum lease payments as of September 30, 2019, which is included in other liabilities on the Company's consolidated balance sheets (dollars in thousands):

October 1 to December 31, 2019	\$	163
Years Ending December 31:		
2020		636
2021		597
2022		505
2023		83
Thereafter		—
Total minimum lease payments	\$	1,984
Less: Amount representing interest	\$	(175)
Present value of minimum lease payments	\$	1,809

The weighted average interest rate related to the finance lease obligations is 5.8% with a weighted average lease term of 3.2 years.

As of September 30, 2019, there were no leases that had yet to commence which would create significant rights and obligations to the Company as lessee.

Assets Held For Sale

The Company classifies certain long-lived assets as held for sale once the criteria, as defined by U.S. GAAP, have been met and are expected to sell within one year. Long-lived assets to be disposed of are reported at the lower of their carrying amount or fair value minus cost to sell, with any write-down recorded to impairment loss on the consolidated statements of operations. Depreciation and amortization is not recorded for assets classified as held for sale. As of September 30, 2019 and December 31, 2018, the Company had one operating real estate property in the Peregrine portfolio classified as held for sale, as presented on its consolidated balance sheets. In May 2019, the Company completed the sale of two properties within the Peregrine portfolio for a sale price totaling \$19.7 million. The properties had been reclassified as held for sale during the three months ended March 31, 2019.

Real Estate Debt Investments

Real estate debt investments are generally intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan fees, premium, discount and unfunded commitments. Debt investments that are deemed to be impaired record an allowance for loan losses, which is generally measured as the difference between the carrying value of the loan and either the present value of cash flows expected to be collected, discounted at the original effective interest rate of the loan, or an observable market price for the loan. Debt investments where the Company does not have the intent to hold the loan for the foreseeable future or until its expected payoff are classified as held for sale and recorded at the lower of cost or estimated fair value.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Deferred Costs and Intangible Assets*Deferred Costs*

Deferred costs primarily include deferred financing costs and deferred lease costs. Deferred financing costs represent commitment fees, legal and other third-party costs associated with obtaining financing. These costs are recorded against the carrying value of such financing and are amortized to interest expense over the term of the financing using the effective interest method. Unamortized deferred financing costs are expensed to realized gain (loss) on investments and other, when the associated borrowing is repaid before maturity. Costs incurred in seeking financing transactions, which do not close, are expensed in the period in which it is determined that the financing will not occur. Deferred lease costs consist of fees incurred to initiate and renew operating leases, which are amortized on a straight-line basis over the remaining lease term and are recorded to depreciation and amortization in the consolidated statements of operations.

Identified Intangibles

The Company records acquired identified intangibles, which includes intangible assets (such as the value of the above-market leases, in-place leases, goodwill and other intangibles) and intangible liabilities (such as the value of below-market leases), based on estimated fair value. The value allocated to the identified intangibles are amortized over the remaining lease term. Above/below-market leases for which the Company is the lessor are amortized into rental income, above/below-market leases for which the Company is the lessee are amortized into real estate properties-operating expense and in-place leases are amortized into depreciation and amortization expense.

Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination and is not amortized. The Company performs an annual impairment test for goodwill and evaluates the recoverability whenever events or changes in circumstances indicate that the carrying value of goodwill may not be fully recoverable. In making such assessment, qualitative factors are used to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If the estimated fair value of the reporting unit is less than its carrying value, then an impairment charge is recorded.

Identified intangible assets are recorded in deferred costs and intangible assets, net on the consolidated balance sheets. The following table presents a summary of deferred costs and intangible assets, net as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019 (Unaudited)	December 31, 2018
<i>Deferred costs and intangible assets, net:</i>		
In-place lease value, net	\$ 6,888	\$ 14,559
Goodwill	21,387	21,387
Other intangible assets	380	380
Subtotal intangible assets	28,655	36,326
Deferred costs, net	167	670
Total	<u>\$ 28,822</u>	<u>\$ 36,996</u>

The following table presents future amortization of in-place lease value and deferred costs (dollars in thousands):

October 1 to December 31, 2019	\$ 468
Years Ending December 31:	
2020	1,871
2021	1,871
2022	591
2023	336
Thereafter	1,918
Total	<u>\$ 7,055</u>

Acquisition Fees and Expenses

The total of all acquisition fees and expenses for an investment, including acquisition fees to the Advisor, cannot exceed, in the aggregate, 6.0% of the contract purchase price of such investment unless such excess is approved by a majority of the Company's

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

directors, including a majority of its independent directors. Effective January 1, 2018, the Advisor no longer receives an acquisition fee in connection with the Company's acquisitions of real estate properties or debt investments. For the nine months ended September 30, 2019, the Company did not incur any acquisition fees or expenses to the Advisor or third parties. The Company records as an expense certain acquisition costs and fees associated with transactions deemed to be business combinations in which it consolidates the asset and capitalizes these costs for transactions deemed to be acquisitions of an asset, including an equity investment.

Other Assets

The following table presents a summary of other assets as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019 (Unaudited)	December 31, 2018
<i>Other assets:</i>		
Healthcare facility regulatory reserve deposit	\$ 6,000	\$ 6,000
Remainder interest in condominium units ⁽¹⁾	2,579	3,025
Prepaid expenses	3,829	3,536
Lease / rent inducements, net	1,719	1,254
Utility deposits	316	325
Other	316	320
Total	<u>\$ 14,759</u>	<u>\$ 14,460</u>

(1) Represents future interests in property subject to life estates ("Remainder Interest").

Revenue Recognition

Operating Real Estate

Rental income from operating real estate is derived from leasing of space to various types of tenants and healthcare operators, including rent received from the Company's net lease properties as well as rent, ancillary service fees and other related revenue earned from ILF residents. Rental revenue recognition commences when the tenant takes legal possession of the leased space and the leased space is substantially ready for its intended use. The leases are for fixed terms of varying length and generally provide for rentals and expense reimbursements to be paid in monthly installments. Rental income from leases is recognized on a straight-line basis over the term of the respective leases. ILF resident agreements are generally short-term in nature and may allow for termination with 30 days notice. The excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in receivables, net on the consolidated balance sheets. The Company amortizes any tenant inducements as a reduction of revenue utilizing the straight-line method over the term of the lease.

The Company also generates operating income from operating healthcare properties. Revenue related to operating healthcare properties includes resident room and care charges, ancillary fees and other resident service charges. Rent is charged and revenue is recognized when such services are provided, generally defined per the resident agreement as of the date upon which a resident occupies a room or uses the services. Resident agreements are generally short-term in nature and may allow for termination with 30 days notice. Income derived from our ALF, MCF and CCRCs is recorded in resident fee income in the consolidated statements of operations.

Real Estate Debt Investments

Interest income is recognized on an accrual basis and any related premium, discount, origination costs and fees are amortized over the life of the investment using the effective interest method. The amortization is reflected as an adjustment to interest income in the consolidated statements of operations. The amortization of a premium or accretion of a discount is discontinued if such investment is reclassified to held for sale.

Healthcare-Related Securities

Interest income is recognized using the effective interest method with any premium or discount amortized or accreted through earnings based on expected cash flow through the expected maturity date of the security. Changes to expected cash flow may result in a change to the yield which is then applied retrospectively for high-credit quality securities that cannot be prepaid or otherwise settled in such a way that the holder would not recover substantially all of the investment or prospectively for all other securities to recognize interest income.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Credit Losses and Impairment on Investments

Generally, the carrying value of the Company's investments represent depreciated historical cost bases or, for investments that have been previously impaired, fair value or net realizable value. Such amounts are based upon the Company's reasonable assumptions about the highest and best use of the investments and the intent and ability to hold the investments for a reasonable period that would allow for the recovery of the investments' carrying values. If such assumptions change, including shortening the expected hold period, impairment losses on investments may be required to adjust carrying values to fair value or fair value less costs to sell.

Operating Real Estate

The Company's real estate portfolio is reviewed on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value of its operating real estate may be impaired or that its carrying value may not be recoverable. A property's value is considered impaired if the Company's estimate of the aggregate expected future undiscounted cash flow generated by the property is less than the carrying value. In conducting this review, the Company considers U.S. macroeconomic factors, real estate and healthcare sector conditions, together with asset specific and other factors. To the extent an impairment has occurred, the loss is measured as the excess of the carrying value of the property over the estimated fair value and recorded in impairment loss in the consolidated statements of operations.

The Company recorded impairment losses totaling \$10.1 million on its operating real estate and held for sale investments during the nine months ended September 30, 2019. The impairment recognized in 2019 to date includes \$10.0 million for an operating property within the Rochester portfolio with continuing poor performance and sustained declines in occupancy, as well as \$0.1 million to reflect an updated estimated fair value for a net lease property previously designated held for sale.

Refer to "—Note 3, Operating Real Estate" for additional information regarding impairment of operating real estate.

Lease income from tenants/operators/residents is recognized at lease commencement only to the extent collection is expected to be probable in consideration of tenants'/operators'/residents' creditworthiness. If collection is assessed to not be probable thereafter, lease income recognized is limited to lease payments collected, with the reversal of any income recognized to date in excess of amounts received. If collection is subsequently reassessed to be probable, lease income is adjusted to reflect the amount of income that would have been recognized had collection always been assessed as probable.

Real Estate Debt Investments

Real estate debt investments are considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all principal and interest amounts due according to the contractual terms. The Company assesses the credit quality of the portfolio and adequacy of reserves on a quarterly basis or more frequently as necessary. Significant judgment of the Company is required in this analysis. The Company considers the estimated net recoverable value of the investment as well as other factors, including but not limited to the fair value of any collateral, the amount and the status of any senior debt, the quality and financial condition of the borrower and the competitive situation of the area where the underlying collateral is located. Because this determination is based on projections of future economic events, which are inherently subjective, the amount ultimately realized may differ materially from the carrying value as of the consolidated balance sheets date. If upon completion of the assessment, the estimated fair value of the underlying collateral is less than the net carrying value of the investment, a reserve is recorded with a corresponding charge to a credit provision. The reserve for each investment is maintained at a level that is determined to be adequate by management to absorb probable losses.

Income recognition is suspended for an investment at the earlier of the date at which payments become 90-days past due or when, in the opinion of the Company, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired investment is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired investment is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the investment becomes contractually current and performance is demonstrated to be resumed. Interest accrued and not collected will be reversed against interest income. An investment is written off when it is no longer realizable and/or legally discharged. As of September 30, 2019, the Company did not have any impaired real estate debt investments.

Investments in Unconsolidated Ventures

The Company reviews its investments in unconsolidated ventures for which the Company did not elect the fair value option on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value may be impaired or that

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its carrying value may not be recoverable. An investment is considered impaired if the projected net recoverable amount over the expected holding period is less than the carrying value. In conducting this review, the Company considers global macroeconomic factors, including real estate sector conditions, together with investment specific and other factors. To the extent an impairment has occurred and is considered to be other than temporary, the loss is measured as the excess of the carrying value of the investment over the estimated fair value and recorded in equity in earnings (losses) of unconsolidated ventures in the consolidated statements of operations.

During the nine months ended September 30, 2019, the Company did not impair any of its investments in unconsolidated ventures.

Foreign Currency

Assets and liabilities denominated in a foreign currency for which the functional currency is a foreign currency are translated using the currency exchange rate in effect at the end of the period presented and the results of operations for such entities are translated into U.S. dollars using the average currency exchange rate in effect during the period. The resulting foreign currency translation adjustment is recorded as a component of accumulated OCI in the consolidated statements of equity.

Assets and liabilities denominated in a foreign currency for which the functional currency is the U.S. dollar are remeasured using the currency exchange rate in effect at the end of the period presented and the results of operations for such entities are remeasured into U.S. dollars using the average currency exchange rate in effect during the period. The resulting foreign currency remeasurement adjustment is recorded in unrealized gain (loss) on investments and other in the consolidated statements of operations.

As of September 30, 2019 and December 31, 2018, the Company had exposure to foreign currency through an investment in an unconsolidated venture.

Equity-Based Compensation

The Company accounts for equity-based compensation awards using the fair value method, which requires an estimate of fair value of the award at the time of grant. All fixed equity-based awards to directors, which have no vesting conditions other than time of service, are amortized to compensation expense over the awards' vesting period on a straight-line basis. Equity-based compensation is classified within general and administrative expenses in the consolidated statements of operations.

Income Taxes

The Company elected to be taxed as a REIT and to comply with the related provisions of the Internal Revenue Code beginning in its taxable year ended December 31, 2013. Accordingly, the Company will generally not be subject to U.S. federal income tax to the extent of its distributions to stockholders as long as certain asset, gross income and share ownership tests are met. To maintain its qualification as a REIT, the Company must annually distribute dividends equal to at least 90.0% of its REIT taxable income (with certain adjustments) to its stockholders and meet certain other requirements. The Company believes that all of the criteria to maintain the Company's REIT qualification have been met for the applicable periods, but there can be no assurance that these criteria will continue to be met in subsequent periods. If the Company were to fail to meet these requirements, it would be subject to U.S. federal income tax and potential interest and penalties, which could have a material adverse impact on its results of operations and amounts available for distributions to its stockholders. The Company's accounting policy with respect to interest and penalties is to classify these amounts as a component of income tax expense, where applicable. The Company has assessed its tax positions for all open tax years, which include 2015 to 2018, and concluded there were no material uncertainties to be recognized.

The Company may also be subject to certain state, local and franchise taxes. Under certain circumstances, federal income and excise taxes may be due on its undistributed taxable income.

The Company made a joint election to treat certain subsidiaries as taxable REIT subsidiaries ("TRS") which may be subject to U.S. federal, state and local income taxes. In general, a TRS of the Company may perform services for tenants/operators/residents of the Company, hold assets that the Company cannot hold directly and may engage in any real estate or non-real estate-related business.

Certain subsidiaries of the Company are subject to taxation by federal, state and foreign authorities for the periods presented. Income taxes are accounted for by the asset/liability approach in accordance with U.S. GAAP. Deferred taxes, if any, represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. Such amounts arise from differences between the financial reporting and tax bases of assets and liabilities and are adjusted for changes in tax laws and tax rates in the period which such changes are enacted. A provision for income tax represents the total of income taxes paid or payable for the current period, plus the change in deferred taxes. Current and deferred taxes are provided on the portion of earnings (losses) recognized by the Company with respect to its interest in the TRS. Deferred income tax assets and liabilities

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are calculated based on temporary differences between the Company's U.S. GAAP consolidated financial statements and the federal and state income tax basis of assets and liabilities as of the consolidated balance sheets date. The Company evaluates the realizability of its deferred tax assets (e.g., net operating loss and capital loss carryforwards) and recognizes a valuation allowance if, based on the available evidence, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers estimates of expected future taxable income, existing and projected book/tax differences, tax planning strategies available and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires the Company to forecast its business and general economic environment in future periods. Changes in estimate of deferred tax asset realizability, if any, are included in provision for income tax benefit (expense) in the consolidated statements of operations. The Company has a deferred tax asset, which as of September 30, 2019 totaled \$12.7 million and continues to have a full valuation allowance recognized, as there are no changes in the facts and circumstances to indicate that the Company should release the valuation allowance.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted, which provides for a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. The effects of the tax rate change did not have a material impact on the Company's existing deferred tax balances.

The Company recorded an income tax expense of approximately \$17,000 and \$38,000 for the three and nine months ended September 30, 2019, respectively. The Company recorded an income tax expense of approximately \$10,000 and \$40,000 for the three and nine months ended September 30, 2018, respectively.

Recent Accounting Pronouncements

Recently Adopted

Leases—In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which amended existing lease accounting standards. ASU 2016-02, along with several clarifying amendments were codified in Accounting Standards Codification ("ASC") Topic 842. The new standard primarily requires lessees to recognize their rights and obligations under most leases on balance sheet, to be capitalized as a right-of-use ("ROU") asset and a corresponding liability for future lease obligations. Targeted changes were made to lessor accounting, primarily to align to the lessee model and the new revenue recognition standard.

The Company adopted the new lease standard and related amendments on January 1, 2019 using the modified retrospective method to leases existing or commencing on or after January 1, 2019, with a cumulative effect adjustment to beginning retained earnings. Comparative periods presented have not been restated and continue to be reported under the standards in effect for those prior periods.

ASC 842 limits the definition of initial direct costs to only the incremental costs of obtaining a lease, such as leasing commissions, for both lessee and lessor accounting. Indirect costs such as allocated overhead, certain legal fees and negotiation costs are no longer capitalized under the new standard. The application of ASC 842 did not have a material impact on the statements of operations.

The Company applied the package of practical expedients, which exempts the Company from having to reassess whether any expired or expiring contracts contain leases, revisit lease classification for any expired or expiring leases and reassess initial direct costs for any existing leases. The Company also elected the practical expedient related to land easements, allowing us to carry forward the accounting treatment for land easements on existing agreements. The Company did not, however, elect the hindsight practical expedient to determine the lease terms for existing leases.

The Company reclassified its capital lease assets to ROU-finance assets as of January 1, 2019, which had no material impact to the Company's consolidated financial statements and related disclosures.

The Company determined if an arrangement contained a lease and determined the classification of leasing arrangements at inception. The Company has operating leases with property tenants that expire at various dates with renewal options typically exercised at the lessee's election. Therefore, such options are only recognized once they are deemed reasonably certain, typically at the time the option is exercised.

As lessor, the Company made the accounting policy election to treat the lease and nonlease components in a contract as a single component to the extent that the timing and pattern of transfer are similar for the lease and nonlease components and the lease component qualifies as an operating lease. Nonlease components of tenant reimbursements for net leases and resident fee income qualify for the practical expedient to be combined with their respective lease component and accounted for as a single component under the lease standard as the lease component is predominant.

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Rental and resident fee income is made up of a tenant/resident lease component, which includes the effect of minimum rent increases and rent abatements, and non-lease components. The services provided by the Company under the non-lease components have the same pattern of transfer as their respective lease components and have been combined with the lease components, which are predominant.

For the three months ended September 30, 2019 and 2018, total property and other revenues includes variable lease revenues of \$4.2 million and \$2.2 million, respectively. For the nine months ended September 30, 2019 and 2018, total property and other revenues includes variable lease revenues of \$12.3 million and \$10.4 million, respectively. Variable lease income includes ancillary services provided to tenant/residents, as well as non-recurring services and fees at the Company's operating facilities.

Under the new standard, lessors are required to evaluate collectability of all lease payments based upon the creditworthiness of the lessee. Rental and resident fee income is recognized only to the extent collection is determined to be probable. If collection is subsequently determined to no longer be probable, any previously accrued revenue that has not been collected is subject to reversal. If collection is subsequently determined to be probable, revenue and the corresponding receivable would be reestablished to an amount that would have been recognized if collection had always been deemed to be probable. The initial application of the collectability guidance did not have a material impact on the Company's consolidated financial statements.

Goodwill Impairment—In January 2017, the FASB issued ASU No. 2017-04, *Intangibles- Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which removes Step 2 from the goodwill impairment test that requires a hypothetical purchase price allocation. Goodwill impairment is now measured as the excess in carrying value over fair value of the reporting unit, with the loss recognized not to exceed the amount of goodwill assigned to that reporting unit. The guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, to be applied prospectively. Early adoption is permitted as of the first interim or annual impairment test of goodwill after January 1, 2017. The Company adopted the standard on January 1, 2019. This guidance did not have a material impact on its consolidated financial statements and related disclosures.

Pending Adoption

Credit Losses—In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments- Credit Losses*, which amends the credit impairment model for financial instruments. The existing incurred loss model will be replaced with a lifetime current expected credit loss ("CECL") model for financial instruments carried at amortized cost and off-balance sheet credit exposures, such as loans, loan commitments, held-to-maturity ("HTM") debt securities, financial guarantees, net investment in leases, reinsurance and trade receivables, which will generally result in earlier recognition of allowance for losses. For available-for-sale ("AFS") debt securities, unrealized credit losses will be recognized as allowances rather than reductions in amortized cost basis and elimination of the OTTI concept will result in more frequent estimation of credit losses. The accounting model for purchased credit impaired loans and debt securities will be simplified, including elimination of some of the asymmetrical treatment between credit losses and credit recoveries, to be consistent with the CECL model for originated and purchased non-credit impaired assets. The existing model for beneficial interests that are not of high credit quality will be amended to conform to the new impairment models for HTM and AFS debt securities. Expanded disclosures on credit risk include credit quality indicators by vintage for financing receivables and net investment in leases. Transition will generally be on a modified retrospective basis, with prospective application for other-than-temporarily impaired debt securities and purchased credit impaired assets.

ASU No. 2016-13 is effective for fiscal years and interim periods beginning after December 15, 2019. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company has identified its mezzanine loan debt investment to be within the scope of ASU No. 2016-13. The Company continues to develop the policies, systems and controls that will be required for the implementation and ongoing management of CECL and is currently evaluating the impact of this new guidance and does not expect the adoption of this standard to have a material effect on its consolidated financial statements or related disclosures.

Variable Interest Entities—In November 2018, the FASB issued ASU No. 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*. The ASU amends the VIE guidance to align the evaluation of a decision maker's or service provider's fee in assessing a variable interest with the guidance in the primary beneficiary test. Specifically, indirect interests held by a related party that is under common control will now be considered on a proportionate basis, rather than in their entirety, when assessing whether the fee qualifies as a variable interest. The proportionate basis approach is consistent with the treatment of indirect interests held by a related party under common control when evaluating the primary beneficiary of a VIE. This effectively means that when a decision maker or service provider has an interest in a related party, regardless of whether they are under common control, it will consider that related party's interest in a VIE on a proportionate basis throughout the VIE model, for both the assessment of a variable interest and the determination of a primary beneficiary. Transition is generally on a modified

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retrospective basis, with the cumulative effect adjusted to retained earnings at the beginning of the earliest period presented. ASU No. 2018-17 is effective for fiscal years and interim periods beginning after December 15, 2019, with early adoption permitted in an interim period for which financial statements have not been issued. The Company is currently evaluating the impact of this new guidance but does not expect the adoption of this standard to have a material effect on its financial condition or results of operations.

3. Operating Real Estate

The following table presents operating real estate, net as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
	(Unaudited)	
Land	\$ 236,036	\$ 236,736
Land improvements	22,939	22,453
Buildings and improvements	1,561,978	1,580,058
Tenant improvements	14,642	11,774
Construction in progress	6,852	5,605
Furniture, fixtures and equipment	97,182	93,371
Subtotal	<u>\$ 1,939,629</u>	<u>\$ 1,949,997</u>
Less: Accumulated depreciation	(215,610)	(171,083)
Operating real estate, net	<u><u>\$ 1,724,019</u></u>	<u><u>\$ 1,778,914</u></u>

Within the table above, buildings and improvements have been reduced by impairment totaling \$41.0 million and \$31.0 million as of September 30, 2019 and December 31, 2018, respectively. Impairment loss, as presented on the consolidated statements of operations, totaled \$10.1 million and \$5.2 million for the nine months ended September 30, 2019 and 2018, respectively.

Future Minimum Rental Income

Minimum rental amounts due under leases are generally either subject to scheduled fixed increases or adjustments. The following table presents approximate future minimum rental income under noncancelable operating leases to be received over the next five years and thereafter as of September 30, 2019 (dollars in thousands):

October 1 to December 31, 2019 ⁽¹⁾	\$ 8,360
Years Ending December 31:⁽¹⁾	
2020	34,282
2021	35,139
2022	14,910
2023	10,919
Thereafter	68,268
Total	<u><u>\$ 171,878</u></u>

(1) Excludes rental income from residents at ILFs that are subject to short-term leases.

As of December 31, 2018, approximate future minimum rental income under noncancelable operating leases to be received over the next five years and thereafter was as follows (dollars in thousands):

Years Ending December 31:⁽¹⁾	
2019	\$ 33,405
2020	34,240
2021	35,096
2022	14,635
2023	10,919
Thereafter	68,268
Total	<u><u>\$ 196,563</u></u>

(1) Excludes rental income from residents at ILFs that are subject to short-term leases.

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Net lease rental properties owned as of September 30, 2019 are leased under noncancelable operating leases with current expirations ranging from 2021 to 2029, with certain tenant renewal rights. These net lease arrangements require the tenant to pay rent and substantially all the expenses of the leased property including maintenance, taxes, utilities and insurance. For certain properties, the tenants pay the Company, in addition to the contractual base rent, their pro rata share of real estate taxes and operating expenses. The Company's net lease agreements provide for periodic rental increases based on the greater of certain percentages or increase in the consumer price index.

Dispositions

In May 2019, the Company completed the sale of two properties within the Peregrine portfolio for \$19.7 million. The sale generated net proceeds of \$3.3 million after the repayment of the outstanding mortgage principal balance of \$16.4 million and transaction costs.

4. Investments in Unconsolidated Ventures

All investments in unconsolidated ventures are accounted for under the equity method. The following tables present the Company's investments in unconsolidated ventures as of September 30, 2019 and December 31, 2018 and activity for the three and nine months ended September 30, 2019 and 2018 (dollars in thousands):

Portfolio	Partner	Acquisition Date	Ownership	Purchase Price ⁽²⁾	Equity Investment ⁽³⁾	Properties as of September, 2019 ⁽¹⁾				
						Senior Housing Facilities	MOB	SNF	Hospitals	Total
Eclipse ⁽⁴⁾	Colony Capital/Formation Capital, LLC	May-2014	5.6%	\$ 1,048,000	\$ 23,400	44	—	23	—	67
Griffin-American	Colony Capital	Dec-2014	14.3%	3,238,547	243,544	92	108	41	9	250
Espresso	Formation Capital, LLC/Safanad Management Limited	Jul-2015	36.7%	870,000	55,146	6	—	149	—	155
Trilogy ⁽⁵⁾	Griffin-American Healthcare REIT III & IV /Management Team of Trilogy Investors, LLC	Dec-2015	23.2%	1,162,613	189,032	9	—	68	—	77
Subtotal				\$ 6,319,160	\$ 511,122	151	108	281	9	549
Operator Platform ⁽⁶⁾		Jul-2017	20.0%	2	2	—	—	—	—	—
Total				\$ 6,319,162	\$ 511,124	151	108	281	9	549

- (1) Excludes properties classified as held for sale.
- (2) Purchase price represents the actual or implied gross purchase price for the joint venture on the acquisition date. Purchase price is not adjusted for subsequent acquisitions or dispositions of interest.
- (3) Represents initial and subsequent contributions to the underlying joint venture through September 30, 2019. During the nine months ended September 30, 2019, the Company funded an additional capital contribution of \$2.4 million into the Trilogy joint venture and \$37.4 million into the Griffin-American joint venture. The additional funding for Trilogy related to certain business initiatives, including the development of additional senior housing and SNFs. The additional funding for Griffin-American was provided in connection with the joint venture refinancing existing mortgage debt.
- (4) In September 2019, the Eclipse joint venture completed the sale of nine properties within the portfolio. The Company's proportionate share of the net proceeds generated from the sale totaled approximately \$2.1 million.
- (5) In October 2018, the Company sold 20.0% of its ownership interest in the Trilogy joint venture, which reduced its ownership interest in the joint venture from approximately 29% to 23%.
- (6) Represents the Company's investment in Solstice Senior Living, LLC ("Solstice"), the manager of the Winterfell portfolio. Solstice is a joint venture between affiliates of Integral Senior Living, LLC ("ISL"), a leading management company of ILF, ALF and MCF founded in 2000, which owns 80.0%, and the Company, which owns 20.0%.

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Portfolio	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018			Carrying Value	
	Equity in Earnings (Losses)	Select Revenues and (Expenses), net ⁽¹⁾	Cash Distributions	Equity in Earnings (Losses)	Select Revenues and (Expenses), net ⁽¹⁾	Cash Distributions	September 30, 2019 (Unaudited) ⁽²⁾	December 31, 2018 ⁽²⁾
Eclipse ⁽³⁾	\$ 1,090	\$ 750	\$ 2,286	\$ (69)	\$ (462)	\$ 176	\$ 9,950	\$ 11,765
Envoy ⁽⁴⁾	—	—	—	339	64	283	474	4,717
Griffin - American	(3,626)	(6,234)	1,030	(1,805)	(4,688)	1,771	138,060	113,982
Espresso ⁽⁵⁾	(667)	(2,274)	—	17,886	15,982	—	—	—
Trilogy ⁽⁶⁾	156	(3,776)	1,451	239	(3,659)	1,450	133,997	133,764
Subtotal	\$ (3,047)	\$ (11,534)	\$ 4,767	\$ 16,590	\$ 7,237	\$ 3,680	\$ 282,481	\$ 264,228
Operator Platform ⁽⁷⁾	10	—	—	41	—	15	72	91
Total	\$ (3,037)	\$ (11,534)	\$ 4,767	\$ 16,631	\$ 7,237	\$ 3,695	\$ 282,553	\$ 264,319

- (1) Represents the net amount of the Company's proportionate share of select revenues and expenses, including: straight-line rental income (expense), (above)/below market lease and in-place lease amortization, (above)/below market debt and deferred financing costs amortization, depreciation and amortization expense, acquisition fees and transaction costs, loan loss reserves, liability extinguishment gains, debt extinguishment losses, impairment, as well as unrealized and realized gain (loss) from sales of real estate and investments.
- (2) Includes \$1.3 million, \$13.4 million, \$7.6 million, and \$9.8 million of capitalized acquisition costs for the Company's investments in the Eclipse, Griffin-American, Espresso and Trilogy joint ventures, respectively.
- (3) Equity in earnings for three months ended September 30, 2019 includes a gain on the sale of nine properties within the portfolio. The Company's proportionate share of the net proceeds generated from the sale totaled approximately \$2.1 million.
- (4) In March 2019, the Envoy joint venture completed the sale of its remaining 11 properties for a sales price of \$118.0 million.
- (5) As a result of impairments and other non-cash reserves recorded by the joint venture, the Company's carrying value of its Espresso unconsolidated investment was reduced to zero in the fourth quarter of 2018. The Company has recorded the excess equity in losses related to its unconsolidated venture as a reduction to the carrying value of its mezzanine loan, which was originated to a subsidiary of the Espresso joint venture.
- (6) In October 2018, the Company sold 20.0% of its ownership interest in the Trilogy joint venture, which generated gross proceeds of \$48.0 million and reduced the Company's ownership interest in the joint venture from approximately 29% to 23%.
- (7) Represents the Company's investment in Solstice.

Portfolio	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
	Equity in Earnings (Losses)	Select Revenues and (Expenses), net ⁽¹⁾	Cash Distributions	Equity in Earnings (Losses)	Select Revenues and (Expenses), net ⁽¹⁾	Cash Distributions
Eclipse	\$ 758	\$ (402)	\$ 2,573	\$ 11	\$ (1,304)	\$ 621
Envoy	96	(822)	4,339	(29)	(300)	283
Griffin - American	(7,654)	(16,046)	5,581	(3,692)	(13,500)	4,193
Espresso	(3,034)	(6,324)	—	6,331	2,296	—
Trilogy	2,188	(10,433)	4,353	1,137	(11,244)	4,816
Subtotal	\$ (7,646)	\$ (34,027)	\$ 16,846	\$ 3,758	\$ (24,052)	\$ 9,913
Operator Platform ⁽²⁾	(20)	—	—	149	—	107
Total	\$ (7,666)	\$ (34,027)	\$ 16,846	\$ 3,907	\$ (24,052)	\$ 10,020

- (1) Represents the net amount of the Company's proportionate share of select revenues and expenses, including: straight-line rental income (expense), (above)/below market lease and in-place lease amortization, (above)/below market debt and deferred financing costs amortization, depreciation and amortization expense, acquisition fees and transaction costs, loan loss reserves, liability extinguishment gains, debt extinguishment losses, impairment, as well as unrealized and realized gain (loss) from sales of real estate and investments.
- (2) Represents the Company's investment in Solstice.

5. Real Estate Debt Investments

The following table presents the Company's one debt investment as of September 30, 2019 and December 31, 2018 (dollars in thousands):

Asset Type:	Principal Amount	Carrying Value ⁽²⁾		Fixed Rate	Unlevered Current Yield
		September 30, 2019 (Unaudited)	December 31, 2018		
Mezzanine loan ⁽¹⁾	\$ 75,000	\$ 55,649	\$ 58,600	10.0%	10.3%

- (1) Loan has a final maturity date of January 30, 2021.
- (2) As a result of impairments and other non-cash reserves recorded by the joint venture, the Company's carrying value of its Espresso unconsolidated investment was reduced to zero in the fourth quarter of 2018. The Company has recorded the excess equity in losses related to its unconsolidated investment as a

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reduction to the carrying value of its mezzanine loan, which was originated to a subsidiary of the Espresso joint venture. As of September 30, 2019 and December 31, 2018, the cumulative excess equity in losses included in the mezzanine loan carrying value were \$19.2 million and \$16.2 million, respectively.

Credit Quality Monitoring

The Company evaluates its debt investments at least quarterly and differentiates the relative credit quality principally based on: (i) whether the borrower is currently paying contractual debt service in accordance with its contractual terms; and (ii) whether the Company believes the borrower will be able to perform under its contractual terms in the future, as well as the Company's expectations as to the ultimate recovery of principal at maturity. The Company categorizes a debt investment for which it expects to receive full payment of contractual principal and interest payments as "performing." The Company will categorize a weaker credit quality debt investment that is currently performing, but for which it believes future collection of all or some portion of principal and interest is in doubt, into a category called "performing with a loan loss reserve." The Company will categorize a weaker credit quality debt investment that is not performing, which the Company defines as a loan in maturity default and/or past due at least 90 days on its contractual debt service payments, as a non-performing loan ("NPL"). The Company's definition of an NPL may differ from that of other companies that track NPLs.

As of September 30, 2019, the Company's debt investment was not performing in accordance with the contractual terms of its governing documents. The Company's debt investment is a mezzanine loan to the Espresso joint venture that has several sub-portfolios, one of which has a tenant lease in default. The underlying tenant default has resulted in a default under the senior loan with respect to the applicable sub-portfolio, which in turn resulted in a default under the mezzanine loan. The Company is actively monitoring the actions of the senior lender and assessing the Company's rights and remedies. The Company continues to assess the collectability of principal and interest. As of September 30, 2019, contractual debt service has been paid in accordance with contractual terms and the Company expects to receive full payment of contractual principal and interest. Accordingly, the debt investment was categorized as a performing loan.

For the nine months ended September 30, 2019, the debt investment contributed 100.0% of the Company's interest income on debt investments as presented on the consolidated statements of operations.

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6. Borrowings

The following table presents the Company's borrowings as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	Recourse vs. Non-Recourse	Final Maturity	Contractual Interest Rate ⁽¹⁾	September 30, 2019 (Unaudited)		December 31, 2018	
				Principal Amount ⁽²⁾	Carrying Value ^{(2)P}	Principal Amount ⁽²⁾	Carrying Value ^{(2)P}
Mortgage notes payable, net							
<i>Peregrine Portfolio⁽³⁾</i>							
Various locations	Non-recourse	Dec-19	LIBOR + 3.50%	\$ —	\$ —	\$ 16,545	\$ 16,277
<i>Watermark Aqua Portfolio</i>							
Denver, CO	Non-recourse	Feb-21	LIBOR + 2.92%	20,635	20,576	20,866	20,774
Frisco, TX	Non-recourse	Mar-21	LIBOR + 3.04%	19,250	19,197	19,460	19,377
Milford, OH	Non-recourse	Sep-26	LIBOR + 2.68%	18,760	18,339	18,760	18,288
<i>Rochester Portfolio</i>							
Rochester, NY	Non-recourse	Feb-25	4.25%	20,385	20,282	20,849	20,734
Rochester, NY ⁽⁴⁾	Non-recourse	Aug-27	LIBOR + 2.34%	101,224	100,239	101,224	100,162
Rochester, NY ⁽⁵⁾	Non-recourse	Aug-21	LIBOR + 2.90%	12,800	12,147	—	—
<i>Arbors Portfolio⁽⁶⁾</i>							
Various locations	Non-recourse	Feb-25	3.99%	89,465	88,403	90,751	89,508
<i>Watermark Fountains Portfolio⁽⁷⁾</i>							
Various locations	Non-recourse	Jun-22	3.92%	394,059	392,101	399,023	396,421
Various locations	Non-recourse	Jun-22	5.56%	74,455	73,945	75,401	74,776
<i>Winterfell Portfolio⁽⁸⁾</i>							
Various locations	Non-recourse	Jun-25	4.17%	634,818	616,448	642,954	622,329
<i>Avamere Portfolio⁽⁹⁾</i>							
Various locations	Non-recourse	Feb-27	4.66%	71,733	71,172	72,466	71,848
Subtotal mortgage notes payable, net				\$ 1,457,584	\$ 1,432,849	\$ 1,478,299	\$ 1,450,494
Other notes payable							
<i>Oak Cottage</i>							
Santa Barbara, CA	Non-recourse	Feb-22	6.00%	3,693	3,693	3,500	3,500
<i>Rochester Portfolio</i>							
Rochester, NY ⁽⁵⁾	Non-recourse	Aug-19	6.00%	—	—	12,355	12,355
Subtotal other notes payable, net				\$ 3,693	\$ 3,693	\$ 15,855	\$ 15,855
Total mortgage and other notes payable, net				\$ 1,461,277	\$ 1,436,542	\$ 1,494,154	\$ 1,466,349

- (1) Floating rate borrowings are comprised of \$172.7 million principal amount at one-month London Interbank Offered Rate ("LIBOR").
- (2) The difference between principal amount and carrying value of mortgage notes payable is attributable to deferred financing costs, net for all borrowings other than the Winterfell portfolio which is attributable to below market debt intangibles.
- (3) Mortgage note arrangement was secured and collateralized by three healthcare real estate properties and was repaid in May 2019.
- (4) Comprised of seven individual mortgage notes payable secured by seven healthcare real estate properties, cross-collateralized and subject to cross-default.
- (5) In July 2019, an existing \$12.4 million seller note payable secured by one healthcare real estate property was refinanced with a \$12.8 million mortgage note payable.
- (6) Comprised of four individual mortgage notes payable secured by four healthcare real estate properties, cross-collateralized and subject to cross-default.
- (7) Includes \$394.1 million principal amount of fixed rate borrowings, secured by 14 healthcare real estate properties, cross-collateralized and subject to cross-default as well as a supplemental financing totaling \$74.5 million of principal, secured by seven healthcare real estate properties, cross-collateralized and subject to cross-default.
- (8) Comprised of 32 individual mortgage notes payable secured by 32 healthcare real estate properties, cross-collateralized and subject to cross-default.
- (9) Comprised of five individual mortgage notes payable secured by five healthcare real estate properties, cross-collateralized and subject to cross-default.

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The following table presents scheduled principal payments on borrowings based on final maturity as of September 30, 2019 (dollars in thousands):

October 1 to December 31, 2019	\$	5,765
Years Ending December 31:		
2020		23,760
2021		76,253
2022		466,622
2023		18,820
Thereafter		870,057
Total	\$	<u>1,461,277</u>

As of September 30, 2019, the operating performance of a property within the Company's Rochester portfolio did not maintain certain minimum financial coverage ratios required under the contractual terms of its mortgage note, which resulted in a default. The Company is currently in discussions with the lender to cure or otherwise waive the default.

Colony Capital Line of Credit

In October 2017, the Company obtained a revolving line of credit from an affiliate of Colony Capital, the Sponsor, for up to \$15.0 million at an interest rate of 3.5% plus LIBOR (the "Sponsor Line"). The Sponsor Line had an initial one year term, with an extension option of six months. In November 2017, the borrowing capacity under the Sponsor Line was increased to \$35.0 million. During 2017, the Company had drawn and fully repaid \$25.0 million under the Sponsor Line. In March 2018, the Sponsor Line maturity was extended through December 2020 and in May 2019, the maturity date was further extended through December 2021. The Company did not utilize the Sponsor Line during the nine months ended September 30, 2019.

Corporate Credit Facility

In December 2017, the Company executed a corporate credit facility with Key Bank (the "Corporate Facility"), for up to \$25.0 million. The Corporate Facility had a three year term at interest rates ranging between 2.5% and 3.5% plus LIBOR and was not utilized. In April 2019, the Company terminated the Corporate Facility.

7. Related Party Arrangements

Advisor

Subject to certain restrictions and limitations, the Advisor is responsible for managing the Company's affairs on a day-to-day basis and for identifying, acquiring, originating and asset managing investments on behalf of the Company. The Advisor may delegate certain of its obligations to affiliated entities, which may be organized under the laws of the United States or foreign jurisdictions. References to the Advisor include the Advisor and any such affiliated entities. For such services, to the extent permitted by law and regulations, the Advisor receives fees and reimbursements from the Company. Pursuant to the advisory agreement, the Advisor may defer or waive fees in its discretion. Below is a description and table of the fees and reimbursements incurred to the Advisor.

In December 2017, the advisory agreement was amended with changes to the asset management and acquisition fee structure as further described below. In June 2019, the advisory agreement was renewed for an additional one-year term commencing on June 30, 2019, with terms identical to those in effect through June 30, 2019.

Fees to Advisor

Asset Management Fee

From inception through December 31, 2017, the Advisor received a monthly asset management fee equal to one-twelfth of 1.0% of the sum of the amount funded or allocated for investments, including expenses and any financing attributable to such investments, less any principal received on debt and securities investments (or the proportionate share thereof in the case of an investment made through a joint venture).

Effective January 1, 2018, the Advisor receives a monthly asset management fee equal to one-twelfth of 1.5% of the Company's most recently published aggregate estimated net asset value, as may be subsequently adjusted for any special distribution declared by the board of directors in connection with a sale, transfer or other disposition of a substantial portion of the Company's assets,

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with \$2.5 million per calendar quarter of such fee paid in shares of the Company's common stock at a price per share equal to the most recently published net asset value per share.

The Advisor has also agreed that all shares of the Company's common stock issued to it in consideration of the asset management fee will be subordinate in the share repurchase program to shares of the Company's common stock held by third party stockholders for a period of two years, unless the advisory agreement is earlier terminated.

Incentive Fee

The Advisor is entitled to receive distributions equal to 15.0% of net cash flows of the Company, whether from continuing operations, repayment of loans, disposition of assets or otherwise, but only after stockholders have received, in the aggregate, cumulative distributions equal to their invested capital plus a 6.75% cumulative, non-compounded annual pre-tax return on such invested capital.

Acquisition Fee

From inception through December 31, 2017, the Advisor received fees for providing structuring, diligence, underwriting advice and related services in connection with real estate acquisitions equal to 2.25% of each real estate property acquired by the Company, including acquisition costs and any financing attributable to an equity investment (or the proportionate share thereof in the case of an indirect equity investment made through a joint venture or other investment vehicle) and 1.0% of the amount funded or allocated by the Company to acquire or originate debt investments, including acquisition costs and any financing attributable to such investments (or the proportionate share thereof in the case of an indirect investment made through a joint venture or other investment vehicle).

Effective January 1, 2018, the Advisor no longer receives an acquisition fee in connection with the Company's acquisitions of real estate properties or debt investments.

Disposition Fee

For substantial assistance in connection with the sale of investments and based on the services provided, as determined by the Company's independent directors, the Advisor may receive a disposition fee of 2.0% of the contract sales price of each property sold and 1.0% of the contract sales price of each debt investment sold. The Company does not pay a disposition fee upon the maturity, prepayment, workout, modification or extension of a debt investment unless there is a corresponding fee paid by the borrower, in which case the disposition fee is the lesser of: (i) 1.0% of the principal amount of the debt investment prior to such transaction; or (ii) the amount of the fee paid by the borrower in connection with such transaction. If the Company takes ownership of a property as a result of a workout or foreclosure of a debt investment, the Company will pay a disposition fee upon the sale of such property. A disposition fee from the sale of an investment is generally expensed and included in asset management and other fees - related party in the Company's consolidated statements of operations. A disposition fee for a debt investment incurred in a transaction other than a sale is included in debt investments, net on the consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method.

Reimbursements to Advisor

Operating Costs

The Advisor is entitled to receive reimbursement for direct and indirect operating costs incurred by the Advisor in connection with administrative services provided to the Company. The Advisor allocates, in good faith, indirect costs to the Company related to the Advisor's and its affiliates' employees, occupancy and other general and administrative costs and expenses in accordance with the terms of, and subject to the limitations contained in, the advisory agreement with the Advisor. The indirect costs include the Company's allocable share of the Advisor's compensation and benefit costs associated with dedicated or partially dedicated personnel who spend all or a portion of their time managing the Company's affairs, based upon the percentage of time devoted by such personnel to the Company's affairs. The indirect costs also include rental and occupancy, technology, office supplies, travel and entertainment and other general and administrative costs and expenses. However, there is no reimbursement for personnel costs related to executive officers (although there may be reimbursement for certain executive officers of the Advisor) and other personnel involved in activities for which the Advisor receives an acquisition fee or a disposition fee. The Advisor allocates these costs to the Company relative to its and its affiliates' other managed companies in good faith and has reviewed the allocation with the Company's board of directors, including its independent directors. The Advisor updates the board of directors on a quarterly basis of any material changes to the expense allocation and provides a detailed review to the board of directors, at least annually, and as otherwise requested by the board of directors. The Company reimburses the Advisor quarterly for operating costs (including

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the asset management fee) based on a calculation for the four preceding fiscal quarters not to exceed the greater of: (i) 2.0% of its average invested assets; or (ii) 25.0% of its net income determined without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves and excluding any gain from the sale of assets for that period. Notwithstanding the above, the Company may reimburse the Advisor for expenses in excess of this limitation if a majority of the Company’s independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. The Company calculates the expense reimbursement quarterly based upon the trailing twelve-month period.

Summary of Fees and Reimbursements

The following table presents the fees and reimbursements incurred and paid to the Advisor for the nine months ended September 30, 2019 and the amount due to related party as of September 30, 2019 and December 31, 2018 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2018	Nine Months Ended September 30, 2019		Due to Related Party as of September 30, 2019 (Unaudited)
			Incurred	Paid	
<i>Fees to Advisor Entities⁽¹⁾</i>					
Asset management ⁽²⁾	Asset management and other fees-related party	\$ 1,665	\$ 14,983	\$ (14,983) ⁽²⁾	\$ 1,665
<i>Reimbursements to Advisor Entities</i>					
Operating costs ⁽³⁾	General and administrative expenses	4,010	7,589	(8,918)	2,681
Total		\$ 5,675	\$ 22,572	\$ (23,901)	\$ 4,346

- (1) The Company did not incur any disposition fees during the nine months ended September 30, 2019, nor were any such fees outstanding as of September 30, 2019.
(2) Includes \$7.5 million paid in shares of the Company’s common stock.
(3) As of September 30, 2019, the Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to the Company.

Issuance of Common Stock to the Advisor

Pursuant to the advisory agreement, for the nine months ended September 30, 2019, the Company issued 1.1 million shares totaling \$7.5 million, based on the share price on the date of each issuance, to an affiliate of the Advisor as part of its asset management fee.

Investments in Joint Ventures

Solstice, the manager of the Winterfell portfolio, is a joint venture between affiliates of ISL, a leading management company of ILF, ALF and MCF founded in 2000, which owns 80.0%, and the Company, which owns 20.0%. For the nine months ended September 30, 2019, the Company recognized property management fee expense of \$3.9 million paid to Solstice related to the Winterfell portfolio.

The below table indicates the Company’s investments for which Colony Capital is also an equity partner in the joint venture. Each investment was approved by the Company’s board of directors, including all of its independent directors. Refer to Note 4, “Investments in Unconsolidated Ventures” for further discussion of these investments:

Portfolio	Partner(s)	Acquisition Date	Ownership
Eclipse	Colony Capital/ Formation Capital, LLC	May-2014	5.6%
Griffin-American	Colony Capital	Dec-2014	14.3%

In connection with the acquisition of the Griffin-American portfolio by NorthStar Realty, now a subsidiary of Colony Capital, and the Company, the Sponsor acquired a 43.0%, as adjusted, ownership interest in American Healthcare Investors, LLC (“AHI”) and Mr. James F. Flaherty III, a partner of the Sponsor, acquired a 12.3% ownership interest in AHI. AHI is a healthcare-focused real estate investment management firm that co-sponsored and advised Griffin-American, until Griffin-American was acquired by the Company and NorthStar Realty.

In December 2015, the Company, through a joint venture with Griffin-American Healthcare REIT III, Inc., a REIT sponsored and advised by AHI, acquired a 29.0% interest in the Trilogy portfolio, a \$1.2 billion healthcare portfolio and contributed \$201.7 million for its interest. The purchase was approved by the Company’s board of directors, including all of its independent directors.

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In October 2018, the Company sold 20.0% of its ownership interest in the Trilogy joint venture, which generated gross proceeds of \$48.0 million and reduced its ownership interest in the joint venture from approximately 29% to 23%. The Company sold the ownership interest to a wholly-owned subsidiary of the operating partnership of Griffin-American Healthcare REIT IV, Inc., a REIT sponsored by AHI.

Origination of Mezzanine Loan

In July 2015, the Company originated a \$75.0 million mezzanine loan to a subsidiary of Espresso, which bears interest at a fixed rate of 10.0% per year and matures in January 2021. Refer to Note 5, “Real Estate Debt Investments” for further discussion.

Colony Capital Line of Credit

In October 2017, the Company obtained the Sponsor Line, which provides up to \$35.0 million at an interest rate of 3.5% plus LIBOR. Refer to Note 6, “Borrowings” for further discussion.

8. Equity-Based Compensation

The Company adopted a long-term incentive plan, as amended (the “Plan”), which it may use to attract and retain qualified officers, directors, employees and consultants, as well as an independent directors compensation plan, which is a component of the Plan. Pursuant to the Plan, as of September 30, 2019, the Company’s independent directors were granted a total of 121,977 shares of restricted common stock for an aggregate \$1.1 million, based on the share price on the date of each grant. The restricted stock granted prior to 2015 generally vested quarterly over four years and the restricted stock granted in and subsequent to 2015 generally vests quarterly over two years. However, the stock will become fully vested on the earlier occurrence of: (i) the termination of the independent director’s service as a director due to his or her death or disability; or (ii) a change in control of the Company.

The Company recognized equity-based compensation expense of \$45,000 for the three months ended September 30, 2019 and 2018, respectively and \$135,500 and \$129,490 for the nine months ended September 30, 2019 and 2018, respectively. Equity-based compensation expense is related to the issuance of restricted stock to the independent directors and is recorded in general and administrative expenses in the consolidated statements of operations. Unrecognized equity-based compensation for unvested shares totaled \$0.2 million as of September 30, 2019 and December 31, 2018, respectively. Unvested shares totaled 30,124 and 20,827 as of September 30, 2019 and December 31, 2018, respectively.

9. Stockholders’ Equity

Common Stock

The Company stopped accepting subscriptions for the Follow-On Offering on December 17, 2015 and all of the shares initially registered for the Follow-On Offering were issued on or before January 19, 2016. The Company issued 173.4 million shares of common stock generating gross proceeds of \$1.7 billion in the Primary Offering.

Distribution Reinvestment Plan

The Company adopted the DRP through which common stockholders may elect to reinvest an amount equal to the distributions declared on their shares in additional shares of the Company’s common stock in lieu of receiving cash distributions. The purchase price under the Company’s Initial DRP was \$9.50. In connection with its determination of the offering price for shares of the Company’s common stock in the Follow-On Offering, the board of directors determined that distributions may be reinvested in shares of the Company’s common stock at a price of \$9.69 per share, which was approximately 95% of the offering price of \$10.20 per share established for purposes of the Follow-On Offering. In April 2016, the board of directors determined that distributions may be reinvested in shares of the Company’s common stock at a price equal to the most recent estimated value per share of the shares of common stock. The following table presents the price at which dividends were invested based on when the price became effective:

<u>Effective Date</u>	<u>Estimated Value per Share</u>	<u>Valuation Date</u>
April 2016	\$ 8.63	12/31/2015
December 2016	9.10	6/30/2016
December 2017	8.50	6/30/2017
December 2018	7.10	6/30/2018

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No selling commissions or dealer manager fees were paid on shares issued pursuant to the DRP. The board of directors of the Company may amend, suspend or terminate the DRP for any reason upon ten-days' notice to participants, except that the Company may not amend the DRP to eliminate a participant's ability to withdraw from the DRP.

For the nine months ended September 30, 2019, the Company issued 0.7 million shares of common stock totaling \$4.9 million of gross offering proceeds pursuant to the DRP. For the year ended December 31, 2018, the Company issued 4.0 million shares of common stock totaling \$33.7 million of gross offering proceeds pursuant to the DRP. From inception through September 30, 2019, the Company issued 25.7 million shares of common stock, generating gross offering proceeds of \$232.6 million pursuant to the DRP.

Distributions

From inception through December 31, 2017, distributions to stockholders were declared quarterly by the board of directors of the Company and paid monthly based on a daily amount of \$0.00184932 per share, equivalent to an annualized distribution amount of \$0.675 per share of the Company's common stock.

During the year ended December 31, 2018, the Company's board of directors approved daily cash distributions of \$0.000924658 per share of common stock, equivalent to an annualized distribution amount of \$0.3375 per share.

The Company's board of directors approved daily cash distributions of \$0.000924658 per share of common stock for the month ending January 31, 2019. Effective February 1, 2019, the Company's board of directors determined to suspend distributions in order to preserve capital and liquidity.

Distributions were generally paid to stockholders on the first business day of the month following the month for which the distribution was accrued.

In order to continue to qualify as a REIT, the Company must distribute annually dividends equal to at least 90% of its REIT taxable income (with certain adjustments). For the nine months ended September 30, 2019, the Company generated net operating losses for tax purposes. If the Company does not have positive REIT taxable income for its taxable year ending December 31, 2019, it will not be required to make distributions to its stockholders in 2019 to qualify as a REIT. The Company's most recently filed tax return is for the year ended December 31, 2018 and includes a net operating loss carry-forward of \$73.5 million.

Share Repurchase Program

The Company adopted a share repurchase program that may enable stockholders to sell their shares to the Company in limited circumstances (the "Share Repurchase Program"). The Company is not obligated to repurchase shares under the Share Repurchase Program. The Company may amend, suspend or terminate the Share Repurchase Program at its discretion at any time, subject to certain notice requirements.

In December 2017, the Company's board of directors approved the following amendments to the Share Repurchase Program:

- Limit the amount of shares that may be repurchased pursuant to the Share Repurchase Program (including repurchases in the case of death or qualifying disability) as follows: (a) for repurchase requests made during the calendar quarter ending December 31, 2017, \$8.0 million in aggregate repurchases and (b) for repurchase requests made in 2018 and thereafter, the lesser of (1) 5% of the weighted average number of shares of the Company's common stock outstanding during the prior calendar year, less shares repurchased during the current calendar year, or (2) the net proceeds received by the Company during the calendar quarter in which such repurchase requests were made from the sale of shares pursuant to the Company's DRP;
- The price paid for shares was: (a) for shares repurchased in connection with a death or disability, the lesser of the price paid for the shares or the most recently published estimated value per share and (b) for all other shares, 90.0% of the Company's most recently published estimated value per share; and
- In the event all repurchase requests in a given quarter could not be satisfied, the Company first repurchased shares submitted in connection with a stockholder's qualifying death or disability and thereafter repurchased shares pro rata, and the Company sought to honor any unredeemed shares in a future quarter (unless the stockholder withdrew its request).

In October 2018, the Company's board of directors approved an amended and restated Share Repurchase Program, under which the Company will only repurchase shares in connection with the death or qualifying disability of a stockholder at a price equal to the lesser of the price paid for the shares, as adjusted for any stock dividends, combinations, splits, recapitalizations or any similar transactions, or the most recently published estimated value per share. The amended and restated Share Repurchase Program became effective October 29, 2018.

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For the nine months ended September 30, 2019, the Company repurchased 1.0 million shares of common stock for \$7.4 million at an average price of \$7.10 per share. For the year ended December 31, 2018, the Company repurchased 3.3 million shares of common stock for \$25.9 million at an average price of \$7.91 per share pursuant to the Share Repurchase Program.

The Company has funded repurchase requests received during a quarter with cash on hand, borrowings or other available capital. Repurchases pursuant to the Share Repurchase Program did not exceed proceeds received from its DRP in 2018. Prior to the most recent amendments to the Share Repurchase Program, the Company had a total of 12.0 million shares, or \$85.0 million, based on its most recently published estimated value per share of \$7.10, in unfulfilled repurchase requests. Refer to Note 14, "Subsequent Events" for additional information regarding the Share Repurchase Program.

10. Non-controlling Interests

Operating Partnership

Non-controlling interests include the aggregate limited partnership interests in the Operating Partnership held by limited partners, other than the Company. Income (loss) attributable to the non-controlling interests is based on the limited partners' ownership percentage of the Operating Partnership. Income (loss) allocated to the Operating Partnership non-controlling interests for the nine months ended September 30, 2019 and 2018 was de minimis.

Other

Other non-controlling interests represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net loss attributable to the other non-controlling interests was \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2019, respectively. Net loss attributable to the other non-controlling interests was \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2018, respectively.

11. Fair Value

Fair Value Measurement

The fair value of financial instruments is categorized based on the priority of the inputs to the valuation technique and categorized into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1. Quoted prices for identical assets or liabilities in an active market.

Level 2. Financial assets and liabilities whose values are based on the following:

- a) Quoted prices for similar assets or liabilities in active markets.
- b) Quoted prices for identical or similar assets or liabilities in non-active markets.
- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability.
- d) Pricing models whose inputs are derived principally from or corroborated by observable market data for substantially the full term of the asset or liability.

Level 3. Prices or valuation techniques based on inputs that are both unobservable and significant to the overall fair value measurement.

Fair Value of Financial Instruments

U.S. GAAP requires disclosure of fair value about all financial instruments. The following disclosure of estimated fair value of financial instruments was determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value.

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The following table presents the principal amount, carrying value and fair value of certain financial assets and liabilities as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019 (Unaudited)			December 31, 2018		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial assets:⁽¹⁾						
Real estate debt investments, net	\$ 75,000	\$ 55,649	\$ 75,000	\$ 75,000	\$ 58,600	\$ 75,000
Financial liabilities:⁽¹⁾						
Mortgage and other notes payable, net	\$ 1,461,277	\$ 1,436,542	\$ 1,444,387	\$ 1,494,154	\$ 1,466,349	\$ 1,464,533

(1) The fair value of other financial instruments not included in this table is estimated to approximate their carrying value.

Disclosure about fair value of financial instruments is based on pertinent information available to management as of the reporting date. Although management is not aware of any factors that would significantly affect fair value, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

Real Estate Debt Investments, Net

For commercial real estate (“CRE”) debt investments, fair values were determined by comparing the current yield to the estimated yield for newly originated loans with similar credit risk or the market yield at which a third party might expect to purchase such investment; or based on discounted cash flow projections of principal and interest expected to be collected, which includes consideration of the financial standing of the borrower or sponsor as well as operating results of the underlying collateral. As of the reporting date, the Company believes that principal amount approximates fair value. These fair value measurements of CRE debt are generally based on unobservable inputs, and as such, are classified as Level 3 of the fair value hierarchy.

Mortgage and Other Notes Payable, Net

For mortgage and other notes payable, the Company primarily uses rates currently available with similar terms and remaining maturities to estimate fair value. These measurements are determined using comparable U.S. Treasury rates as of the end of the reporting period. These fair value measurements are based on observable inputs, and as such, are classified as Level 2 of the fair value hierarchy.

12. Segment Reporting

The Company conducts its business through the following five segments, which are based on how management reviews and manages its business.

- *Direct Investments - Net Lease* - Healthcare properties operated under net leases with a tenant operator.
- *Direct Investments - Operating* - Healthcare properties operated pursuant to management agreements with healthcare operators.
- *Unconsolidated Investments* - Healthcare joint ventures, including properties operated under net leases or pursuant to management agreements with healthcare operators, in which we own a minority interest.
- *Debt and Securities Investments* - Mortgage loans or mezzanine loans to owners of healthcare real estate and commercial mortgage backed securities backed primarily by loans secured by healthcare properties.
- *Corporate* - The corporate segment includes corporate level asset management and other fees - related party and general and administrative expenses.

The Company primarily generates rental and resident fee income from its direct investments and net interest income on real estate debt and securities investments.

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The following table presents the operators and tenants of the Company's properties, excluding properties owned through unconsolidated joint ventures as of September 30, 2019 (dollars in thousands):

Operator / Tenant	Properties Under Management	Units Under Management ⁽¹⁾	Nine Months Ended September 30, 2019	
			Property and Other Revenues	% of Total Property and Other Revenues
Watermark Retirement Communities	30	5,265	\$ 114,092	51.8%
Solstice Senior Living ⁽²⁾	32	4,000	79,652	36.2%
Avamere Health Services	5	453	12,587	5.7%
Arcadia Management	4	572	7,961	3.6%
Integral Senior Living ⁽²⁾	3	162	4,704	2.1%
Peregrine Senior Living ⁽³⁾	—	—	598	0.3%
Senior Lifestyle Corporation ⁽⁴⁾	1	63	—	—%
Other ⁽⁵⁾	—	—	677	0.3%
Total	75	10,515	\$ 220,271	100.0%

(1) Represents rooms for ALF and ILF and beds for MCF and SNF, based on predominant type.

(2) Solstice is a joint venture of which affiliates of ISL own 80%.

(3) In May 2019, the Company sold the two properties leased to Peregrine Senior Living.

(4) Tenant has failed to remit rental payments during the nine months ended September 30, 2019. Properties and unit counts exclude one property held for sale.

(5) Consists primarily of interest income earned on corporate-level cash accounts.

The following tables present segment reporting for the three months ended September 30, 2019 and 2018 (dollars in thousands):

Three Months Ended September 30, 2019	Direct Investments		Unconsolidated Investments	Debt and Securities	Corporate ⁽¹⁾	Total
	Net Lease	Operating				
Rental and resident fee income	\$ 8,204	\$ 64,489	\$ —	\$ —	\$ —	\$ 72,693
Net interest income on debt and securities	—	—	—	1,946	—	1,946
Other revenue	—	7	—	10	68	85
Property operating expenses	(5)	(45,354)	—	—	—	(45,359)
Interest expense	(3,025)	(14,193)	—	—	—	(17,218)
Transaction costs	—	(29)	—	—	—	(29)
Asset management and other fees - related party	—	—	—	—	(4,994)	(4,994)
General and administrative expenses	(47)	19	—	(10)	(2,769)	(2,807)
Depreciation and amortization	(3,595)	(12,569)	—	—	—	(16,164)
Impairment loss	—	—	—	—	—	—
Realized gain (loss) on investments and other	—	204	—	—	—	204
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	1,532	(7,426)	—	1,946	(7,695)	(11,643)
Equity in earnings (losses) of unconsolidated ventures	—	—	(3,037)	—	—	(3,037)
Income tax benefit (expense)	—	(17)	—	—	—	(17)
Net income (loss)	\$ 1,532	\$ (7,443)	\$ (3,037)	\$ 1,946	\$ (7,695)	\$ (14,697)

(1) Includes unallocated asset management fee-related party and general and administrative expenses.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Three Months Ended September 30, 2018⁽¹⁾	Direct Investments		Unconsolidated Investments	Debt and Securities	Corporate⁽²⁾	Total
	Net Lease	Operating				
Rental and resident fee income	\$ 8,788	\$ 63,667	\$ —	\$ —	\$ —	\$ 72,455
Net interest income on debt and securities	—	—	—	1,943	—	1,943
Other revenue	—	846	—	—	169	1,015
Property operating expenses	(255)	(47,100)	—	—	—	(47,355)
Interest expense	(3,270)	(14,325)	—	—	(82)	(17,677)
Transaction costs	—	—	—	—	—	—
Asset management and other fees - related party	—	—	—	—	(5,951)	(5,951)
General and administrative expenses	(14)	(218)	—	(10)	(2,576)	(2,818)
Depreciation and amortization	(3,468)	(22,161)	—	—	—	(25,629)
Impairment loss	—	—	—	—	—	—
Realized gain (loss) on investments and other	—	726	—	—	—	726
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	1,781	(18,565)	—	1,933	(8,440)	(23,291)
Equity in earnings (losses) of unconsolidated ventures	—	—	16,631	—	—	16,631
Income tax benefit (expense)	—	(10)	—	—	—	(10)
Net income (loss)	\$ 1,781	\$ (18,575)	\$ 16,631	\$ 1,933	\$ (8,440)	\$ (6,670)

- (1) For the three months ended September 30, 2018, the Company did not own any healthcare-related securities as a result of having sold the Class B certificates of its consolidated Investing VIE in March 2018. Subsequent to the sale, the Company was not required to consolidate the related interest income and interest expense of the Investing VIE on the consolidated statements of operations.
- (2) Includes unallocated asset management fee-related party and general and administrative expenses.

The following tables present segment reporting for the nine months ended September 30, 2019 and 2018 (dollars in thousands):

Nine Months Ended September 30, 2019	Direct Investments		Unconsolidated Investments	Debt and Securities	Corporate⁽¹⁾	Total
	Net Lease	Operating				
Rental and resident fee income	\$ 25,202	\$ 193,624	\$ —	\$ —	\$ —	\$ 218,826
Net interest income on debt and securities	—	—	—	5,771	—	5,771
Other revenue	1	767	—	29	648	1,445
Property operating expenses	(5)	(135,208)	—	—	—	(135,213)
Interest expense	(9,424)	(42,382)	—	—	(102)	(51,908)
Transaction costs	—	(105)	—	—	—	(105)
Asset management and other fees - related party	—	—	—	—	(14,983)	(14,983)
General and administrative expenses	(159)	(17)	—	(28)	(8,006)	(8,210)
Depreciation and amortization	(10,657)	(43,868)	—	—	—	(54,525)
Impairment loss	(146)	(10,000)	—	—	—	(10,146)
Realized gain (loss) on investments and other	5,871	431	—	—	(376)	5,926
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	10,683	(36,758)	—	5,772	(22,819)	(43,122)
Equity in earnings (losses) of unconsolidated ventures	—	—	(7,666)	—	—	(7,666)
Income tax benefit (expense)	—	(38)	—	—	—	(38)
Net income (loss)	\$ 10,683	\$ (36,796)	\$ (7,666)	\$ 5,772	\$ (22,819)	\$ (50,826)

- (1) Includes unallocated asset management fee-related party and general and administrative expenses.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Nine Months Ended September 30, 2018	Direct Investments		Unconsolidated Investments	Debt and Securities	Corporate ⁽¹⁾	Subtotal	Investing VIE ⁽²⁾	Total
	Net Lease	Operating						
Rental and resident fee income	\$ 25,484	\$ 192,374	\$ —	\$ —	\$ —	\$ 217,858	\$ —	\$ 217,858
Net interest income on debt and securities	—	—	—	6,591 ⁽³⁾	(314) ⁽³⁾	6,277	811	7,088
Other revenue	—	2,228	—	—	464	2,692	—	2,692
Property operating expenses	(1,089)	(140,421)	—	—	—	(141,510)	—	(141,510)
Interest expense	(9,978)	(42,237)	—	—	(193)	(52,408)	—	(52,408)
Other expenses related to securitization trust	—	—	—	—	—	—	(811)	(811)
Transaction costs	—	(762)	—	—	(44)	(806)	—	(806)
Asset management and other fees - related party	—	—	—	—	(17,845)	(17,845)	—	(17,845)
General and administrative expenses	(70)	(664)	—	(34)	(9,159)	(9,927)	—	(9,927)
Depreciation and amortization	(10,187)	(71,756)	—	—	—	(81,943)	—	(81,943)
Impairment loss	(2,456)	(2,783)	—	—	—	(5,239)	—	(5,239)
Unrealized gain (loss) on senior housing mortgage loans and debt held in securitization trust, net	—	—	—	(314)	314	—	—	—
Realized gain (loss) on investments and other	—	726	—	3,495	—	4,221	—	4,221
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)	1,704	(63,295)	—	9,738	(26,777)	(78,630)	—	(78,630)
Equity in earnings (losses) of unconsolidated ventures	—	—	3,907	—	—	3,907	—	3,907
Income tax benefit (expense)	—	(40)	—	—	—	(40)	—	(40)
Net income (loss)	\$ 1,704	\$ (63,335)	\$ 3,907	\$ 9,738	\$ (26,777)	\$ (74,763)	\$ —	\$ (74,763)

(1) Includes unallocated asset management fee-related party and general and administrative expenses.

(2) Investing VIEs are not considered to be a segment that the Company conducts its business through, however, U.S. GAAP requires the Company, as the primary beneficiary, to present the assets and liabilities of the securitization trust on its consolidated balance sheets and recognize the related interest income and interest expense, as net interest income on the consolidated statements of operations. Though U.S. GAAP requires this presentation, the Company views its investment in the securitization trust as a net investment in healthcare-related securities.

(3) Represents income earned from the healthcare-related securities purchased at a discount, recognized using the effective interest method had the transaction been recorded as an available for sale security, at amortized cost. During the nine months ended September 30, 2018, \$0.3 million was attributable to discount accretion income and was eliminated in consolidation in the corporate segment.

The following table presents total assets by segment as of September 30, 2019 and December 31, 2018 (dollars in thousands):

Total Assets:	Direct Investments		Unconsolidated Investments	Debt and Securities	Corporate ⁽¹⁾	Total
	Net Lease	Operating				
September 30, 2019	\$ 376,041	\$ 1,442,651	\$ 282,551	\$ 56,678	\$ 15,097	\$ 2,173,018
December 31, 2018	394,697	1,481,522	264,317	59,620	64,260	2,264,416

(1) Represents primarily corporate cash and cash equivalent balances.

13. Commitments and Contingencies

Litigation and Claims

The Company may be involved in various litigation matters arising in the ordinary course of its business. Although the Company is unable to predict with certainty the eventual outcome of any litigation, any current legal proceedings are not expected to have a material adverse effect on its financial position or results of operations.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The Company's tenants, operators and managers may be involved in various litigation matters arising in the ordinary course of their business. The unfavorable resolution of any such actions, investigations or claims could, individually or in the aggregate, materially adversely affect such tenants', operators' or managers' liquidity, financial condition or results of operations and their ability to satisfy their respective obligations to the Company, which, in turn, could have a material adverse effect on the Company.

Environmental Matters

The Company follows a policy of monitoring its properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist at its properties, the Company is not currently aware of any environmental liability with respect to its properties that would have a material effect on its consolidated financial position, results of operations or cash flows. Further, the Company is not aware of any material environmental liability or any unasserted claim or assessment with respect to an environmental liability that it believes would require additional disclosure or the recording of a loss contingency.

General Uninsured Losses

The Company obtains various types of insurance to mitigate the impact of property, business interruption, liability, flood, windstorm, earthquake, environmental and terrorism related losses. The Company attempts to obtain appropriate policy terms, conditions, limits and deductibles considering the relative risk of loss, the cost of such coverage and current industry practice. There are, however, certain types of extraordinary losses, such as those due to acts of war or other events that may be either uninsurable or not economically insurable.

Other

Other commitments and contingencies include the usual obligations of real estate owners and operators in the normal course of business, as well as commitments to fund capital expenditures for certain net lease properties. These commitments do not have a required minimum funding and are limited by agreed upon maximum annual funding amounts.

14. Subsequent Events

Share Repurchases

For the period from October 1, 2019 through November 7, 2019, the Company repurchased 0.5 million shares for a total of \$3.3 million or a price of \$7.10 per share under the Share Repurchase Program. Prior to the most recent amendments to the Share Repurchase program, the Company had a total of 12.0 million shares, or \$85.0 million, based on its most recently published estimated value per share of \$7.10, in unfulfilled repurchase requests. Refer to Note 9, "Stockholders' Equity" for additional information regarding the Share Repurchase Program.

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

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included in Part I, Item 1. “Financial Statements” and the risk factors in Part II, Item 1A. “Risk Factors.” References to “we,” “us” or “our” refer to NorthStar Healthcare Income, Inc. and its subsidiaries unless the context specifically requires otherwise.

Overview

We were formed to acquire, originate and asset manage a diversified portfolio of equity, debt and securities investments in healthcare real estate, directly or through joint ventures, with a focus on the mid-acuity senior housing sector, which we define as assisted living, memory care, skilled nursing and independent living facilities and continuing care retirement communities. We also invest in other healthcare property types, including medical office buildings, hospitals, rehabilitation facilities and ancillary healthcare services businesses. Our investments are predominantly in the United States, but we also selectively make international investments.

We were formed in October 2010 as a Maryland corporation and commenced operations in February 2013. We elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, commencing with the taxable year ended December 31, 2013. We conduct our operations so as to continue to qualify as a REIT for U.S. federal income tax purposes.

We completed our initial public offering, or our Initial Offering, on February 2, 2015 by raising gross proceeds of \$1.1 billion, including 108.6 million shares issued in our initial primary offering, or our Initial Primary Offering, and 2.0 million shares issued pursuant to our distribution reinvestment plan, or our DRP. In addition, we completed our follow-on offering, or our Follow-On Offering, on January 19, 2016 by raising gross proceeds of \$700.0 million, including 64.9 million shares issued in our follow-on primary offering, or our Follow-on Primary Offering, and 4.2 million shares issued pursuant to our DRP. We refer to our Initial Primary Offering and our Follow-on Primary Offering collectively as our Primary Offering and our Initial Offering and Follow-On Offering collectively as our Offering. In December 2015, we registered an additional 30.0 million shares to be offered pursuant to our DRP and continue to offer such shares, however, as of February 1, 2019, we suspended payment of monthly distributions to stockholders. From inception through November 7, 2019, we raised total gross proceeds of \$2.0 billion, including \$232.6 million in DRP proceeds.

We are externally managed and have no employees. We are sponsored by Colony Capital, Inc. (NYSE: CLNY), or Colony Capital or our Sponsor, which was formed as a result of the mergers of NorthStar Asset Management Group Inc., or NSAM, our prior sponsor, with Colony Capital, Inc., or Colony, and NorthStar Realty Finance Corp., or NorthStar Realty, in January 2017. Effective June 25, 2018, the Sponsor changed its name from Colony NorthStar, Inc. to Colony Capital, Inc. and its ticker symbol from “CLNS” to “CLNY.” Following the mergers, our Sponsor became an internally-managed equity REIT, with a diversified real estate and investment management platform.

Colony Capital manages capital on behalf of its stockholders, as well as institutional and retail investors in private funds, non-traded and traded REITs and registered investment companies, which we refer to collectively as the Managed Companies. As of September 30, 2019, our Sponsor had \$53 billion of assets under management, including Colony Capital’s balance sheet investments and third-party managed investments. Our advisor, CNI NSHC Advisors, LLC, or our Advisor, is a subsidiary of Colony Capital and manages our day-to-day operations pursuant to an advisory agreement.

2019 Significant Developments

Performance Summary

On a same store basis (which excludes properties placed in service and sold during 2018 or 2019), direct operating investments’ rental and resident fee income, net of property operating expenses, decreased to \$19.2 million for the three months ended September 30, 2019 as compared to \$21.0 million for the three months ended June 30, 2019. The decrease was primarily attributable to non-recurring revenues and service provider incentives recognized during the three months ended June 30, 2019. During the three months ended September 30, 2019, average occupancy of our direct operating investments increased to approximately 81.9% as compared to 81.5% for the three months ended June 30, 2019. Overall, for the nine months ended September 30, 2019, on a same store basis, performance of our direct operating investments has improved, generating rental and resident fee income, net of property operating expenses, of \$58.7 million as compared to \$51.4 million during the nine months ended September 30, 2018.

Similarly, the operating real estate in our unconsolidated investment portfolios has started to stabilize after performance declines experienced in 2018. In particular, the investments in the Espresso joint venture have completed operator transitions and the Griffin-American joint venture completed a significant refinancing of mortgage debt. However, overall decreases in cash flows from our unconsolidated ventures continue to impact our liquidity position.

For additional information on financial results, refer to “—Results of Operations.”

Investments and Dispositions

- In March 2019, we executed a purchase and sale agreement totaling \$19.7 million for two properties within the Peregrine portfolio. The sale was completed in May 2019, generating net proceeds of \$3.3 million, after the repayment of the outstanding mortgage principal balance of \$16.4 million and transaction costs.
- In March 2019, the Envoy joint venture, of which we own 11.4%, completed the sale of the remaining 11 properties in the portfolio, for a sales price of \$118.0 million. Our proportionate share of the net proceeds generated from the sale totaled \$4.3 million.
- In March 2019, we contributed \$2.4 million to the Trilogy joint venture for development initiatives, including senior housing campus development.
- In June 2019, we contributed \$37.4 million to the Griffin-American joint venture to refinance outstanding mortgage debt.
- In September 2019, the Eclipse joint venture, of which we own 5.6%, sold nine properties within the portfolio. Our proportionate share of the net proceeds generated from the sale totaled \$2.1 million.

Liquidity, Capital and Dividends

- Effective February 1, 2019, our board of directors determined to suspend distributions in order to preserve capital and liquidity.
- In April 2019, we terminated our revolving credit facility, or our Corporate Facility, which we had not previously drawn upon.
- In May 2019, we extended the maturity date of our revolving line of credit from an affiliate of Colony Capital, or the Sponsor Line, through December 2021.
- In July 2019, we refinanced an existing \$12.4 million seller note payable, collateralized by a property within the Rochester portfolio, with a \$12.8 million mortgage note payable. The new mortgage note carries an interest rate of 2.90% plus LIBOR, with an initial maturity date of August 2021.

Portfolio

- During the three months ended September 30, 2019, our Winterfell portfolio's average occupancy was approximately 80%, consistent with the three months ended June 30, 2019.
- The operating portfolios managed by Watermark Retirement Communities maintained an overall average occupancy of approximately 83% during the three months ended September 30, 2019, consistent with the three months ended June 30, 2019.

Our Investments

We have invested in independent living facilities, or ILF, assisted living facilities, or ALF, memory care facilities, or MCF, and continuing care retirement communities, or CCRC, which we collectively refer to as senior housing facilities, skilled nursing facilities, or SNF, medical office buildings, or MOB, and hospitals.

Our primary investment segments are as follows:

- Direct Investments - Net Lease - Healthcare properties operated under net leases with a tenant operator.
- Direct Investments - Operating - Healthcare properties operated pursuant to management agreements with healthcare operators.
- Unconsolidated Investments - Healthcare joint ventures, including properties operated under net leases or pursuant to management agreements with healthcare operators, in which we own a minority interest.
- Debt and Securities Investments - Mortgage loans or mezzanine loans to owners of healthcare real estate and commercial mortgage backed securities, or CMBS, backed primarily by loans secured by healthcare properties. As of September 30, 2019, we had one mezzanine loan.

For financial information regarding our reportable segments, refer to Note 12, "Segment Reporting" in our accompanying consolidated financial statements included in Part I, Item 1. "Financial Statements."

The following table presents a summary of investments as of September 30, 2019 (dollars in thousands):

Investment Type / Portfolio	Amount ⁽³⁾	Properties ⁽¹⁾⁽²⁾					Total	Primary Locations	Ownership Interest
		Senior Housing	MOB	SNF	Hospitals				
Direct Investments - Net Lease									
Watermark Fountains ⁽⁴⁾	\$ 288,836	6	—	—	—	6	Various	100.0%	
Arbors	126,825	4	—	—	—	4	Northeast	100.0%	
Peregrine	10,000	1	—	—	—	1	Northeast/Southeast	100.0%	
Subtotal	\$ 425,661	11	—	—	—	11			
Direct Investments - Operating									
Winterfell	\$ 904,985	32	—	—	—	32	Various	100.0%	
Watermark Fountains ⁽⁴⁾	356,914	9	—	—	—	9	Various	97.0%	
Rochester	219,518	10	—	—	—	10	Northeast	97.0%	
Watermark Aqua	116,216	5	—	—	—	5	West/Southwest/Midwest	97.0%	
Avamere	99,438	5	—	—	—	5	Northwest	100.0%	
Oak Cottage	19,427	1	—	—	—	1	West	100.0%	
Kansas City	15,000	2	—	—	—	2	Midwest	100.0%	
Subtotal	\$ 1,731,498	64	—	—	—	64			
Unconsolidated Investments									
Griffin-American	\$ 456,639	92	108	41	9	250	Various	14.3%	
Trilogy ⁽⁵⁾	350,081	9	—	68	—	77	Various	23.2%	
Espresso	318,565	6	—	149	—	155	Various	36.7%	
Eclipse ⁽⁶⁾	50,437	44	—	23	—	67	Various	5.6%	
Solstice ⁽⁷⁾	—	—	—	—	—	—	Various	20.0%	
Subtotal	\$ 1,175,722	151	108	281	9	549			
Debt and Securities Investments									
Mezzanine Loan ⁽⁸⁾	\$ 75,000	—	—	—	—	—			
Total Investments	\$ 3,407,881	226	108	281	9	624			

(1) Classification based on predominant services provided, but may include other services.

(2) Excludes properties held for sale.

(3) Based on cost for real estate equity investments, which includes purchase price allocations related to net intangibles, deferred costs, other assets, if any, and adjusted for subsequent capital expenditures. Does not include cost of properties held for sale. For real estate debt, based on principal amount. For real estate equity investments, includes cost associated with purchased land parcels that are not included in the count.

(4) Watermark Fountains portfolio consists of six wholly-owned net lease properties totaling \$288.8 million and nine operating facilities totaling \$356.9 million, in which we own a 97.0% interest. One of the operating facilities consists of nine condominium units in which we hold future interests, or the Remainder Interests.

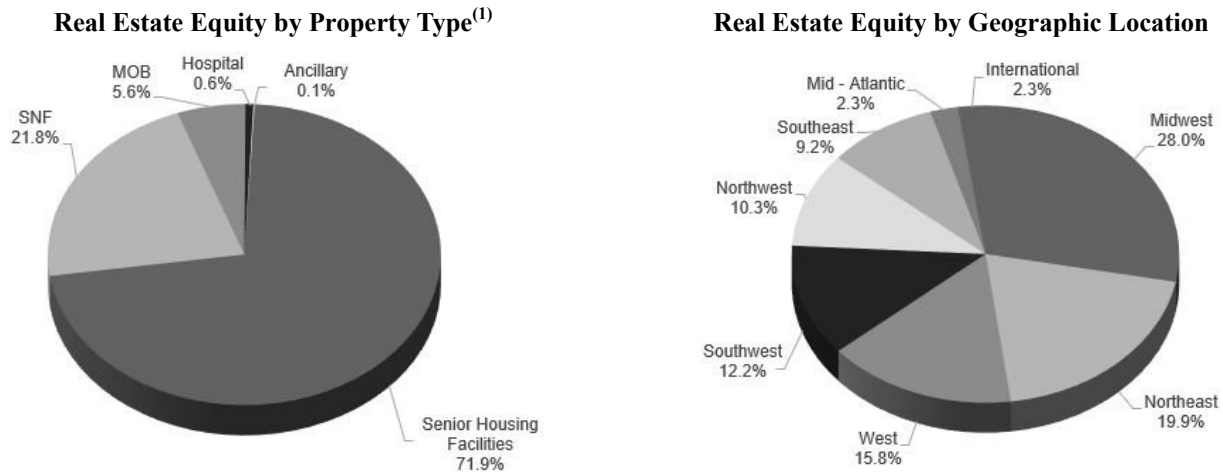
(5) Includes institutional pharmacy, therapy businesses and lease purchase buy-out options in connection with the Trilogy investment, which are not subject to property count.

(6) In September 2019, the Eclipse joint venture completed the sale of nine properties within the portfolio. Our proportionate share of the net proceeds generated from the sale totaled approximately \$2.1 million.

(7) Represents our investment in Solstice Senior Living, LLC (“Solstice”), the manager of the Winterfell portfolio. Solstice is a joint venture between affiliates of Integral Senior Living, LLC, or ISL, a leading management company of ILF, ALF and MCF founded in 2000, which owns 80.0%, and us, who owns 20.0%.

(8) Our mezzanine loan was originated to a subsidiary of our joint venture with Formation Capital, LLC, or Formation, and Safanad Management Limited, which we refer to as Espresso.

The following presents our real estate equity portfolio diversity across property type and geographic location based on cost:



(1) Classification based on predominant services provided, but may include other services.

Our investments include the following types of healthcare facilities as of September 30, 2019:

- **Senior Housing.** We define senior housing to include ILFs, ALFs, MCFs and CCRCs, as described in further detail below. Revenues generated by senior housing facilities typically come from private pay sources, including private insurance, and to a much lesser extent government reimbursement programs, such as Medicare and Medicaid.
 - *Assisted living facilities.* ALFs provide services that include minimal assistance for activities in daily living and permit residents to maintain some of their privacy and independence as they do not require constant supervision and assistance. Services bundled within one regular monthly fee usually include three meals per day in a central dining room, daily housekeeping, laundry, medical reminders and 24-hour availability of assistance with the activities of daily living, such as eating, dressing and bathing. Professional nursing and healthcare services are usually available at the facility on call or at regularly scheduled times. ALFs typically are comprised of one and two bedroom suites equipped with private bathrooms and efficiency kitchens.
 - *Independent living facilities.* ILFs are age-restricted multi-family properties with central dining facilities that provide services that include security, housekeeping, nutrition and limited laundry services. ILFs are designed specifically for independent seniors who are able to live on their own, but desire the security and conveniences of community living. ILFs typically offer several services covered under a regular monthly fee.
 - *Memory care facilities.* MCFs offer specialized options for seniors with Alzheimer’s disease and other forms of dementia. Purpose built, free-standing MCFs offer an attractive alternative for private-pay residents affected by memory loss in comparison to other accommodations that typically have been provided within a secured unit of an ALF or SNF. These facilities offer dedicated care and specialized programming for various conditions relating to memory loss in a secured environment that is typically smaller in scale and more residential in nature than traditional ALFs. Residents require a higher level of care and more assistance with activities of daily living than in ALFs. Therefore, these facilities have staff available 24 hours a day to respond to the unique needs of their residents.
 - *Continuing care retirement community.* CCRCs provide, as a continuum of care, the services described for ILFs, ALFs and SNFs in an integrated campus. CCRCs can be structured to offer services covered under a regular monthly rental fee or under a one-time upfront entrance fee, which is partially refundable in certain circumstances. Residents under entrance fee agreements may also pay a monthly service fee, which entitles them to the use of certain amenities and services, however, the monthly fees are generally less than fees at a comparable rental community. The refundable portion of a resident’s entrance fee is generally refundable within a certain period following contract termination or upon the resale of the unit, or in some agreements, upon the resale of a comparable unit or after the resident vacates the unit. Some entrance fee agreements entitle the resident to a refund of the original entrance fee paid plus a percentage of the appreciation of the unit upon resale.
- **Skilled Nursing Facilities.** SNFs provide services that include daily nursing, therapeutic rehabilitation, social services, housekeeping, nutrition and administrative services for individuals requiring certain assistance for activities in daily

living. A typical SNF includes mostly one and two bed units, each equipped with a private or shared bathroom and community dining facilities. Revenues generated from SNFs typically come from government reimbursement programs, including Medicare and Medicaid, as well as private pay sources, including private insurance.

- *Medical Office Buildings.* MOB are typically either single-tenant properties associated with a specialty group or multi-tenant properties leased to several unrelated medical practices. Tenants include physicians, dentists, psychologists, therapists and other healthcare providers, who require space devoted to patient examination and treatment, diagnostic imaging, outpatient surgery and other outpatient services. MOB are similar to commercial office buildings, although they require greater plumbing, electrical and mechanical systems to accommodate physicians' requirements such as sinks in every room, brighter lights and specialized medical equipment.
- *Hospitals.* Services provided by operators and tenants in hospitals are paid for by private sources, third-party payers (e.g., insurance and Health Maintenance Organizations), or through the Medicare and Medicaid programs. Our hospital properties typically will include acute care, long-term acute care, specialty and rehabilitation hospitals and generally are leased to single tenants or operators under triple-net lease structures.

Direct Investments - Operating

For our operating properties, we enter in management agreements that generally provide for the payment of a fee to a manager, typically 4-5% of gross revenues with the potential for certain incentive compensation, and have direct exposure to the revenues and operating expenses of a property. As a result, our operating properties allow us to participate in the risks and rewards of the operations of healthcare facilities. Revenue derived from ILFs within our direct operating investments is classified as rental income on our consolidated statements of operations. Revenue derived from ALFs, MCFs and CCRCs within our direct operating investments is classified as resident fee income on our consolidated statements of operations.

The weighted average resident occupancy of our operating properties was 81.5% during the nine months ended September 30, 2019.

Direct Investments - Net Lease

For our net lease properties, we enter into net leases that generally provide for fixed rental payments, subject to periodic increases based on certain percentages or the consumer price index, and obligate the tenant to pay all property-related expenses, including maintenance, utilities, repairs, taxes, insurance and capital expenditures. Revenue derived from our net lease properties is classified as rental income on our consolidated statements of operations.

Our net lease properties are leased to three operators, with a remaining weighted average lease term of 7.5 years as of September 30, 2019.

Operators and Tenants

The following table presents the operators and tenants of our direct investments as of September 30, 2019 (dollars in thousands):

Operator / Tenant	Properties Under Management	Units Under Management ⁽¹⁾	Nine Months Ended September 30, 2019	
			Property and Other Revenues	% of Total Property and Other Revenues
Watermark Retirement Communities	30	5,265	\$ 114,092	51.8%
Solstice Senior Living ⁽²⁾	32	4,000	79,652	36.2%
Avamere Health Services	5	453	12,587	5.7%
Arcadia Management	4	572	7,961	3.6%
Integral Senior Living ⁽²⁾	3	162	4,704	2.1%
Peregrine Senior Living ⁽³⁾	—	—	598	0.3%
Senior Lifestyle Corporation ⁽⁴⁾	1	63	—	—%
Other ⁽⁵⁾	—	—	677	0.3%
Total	75	10,515	\$ 220,271	100.0%

(1) Represents rooms for ALF and ILF and beds for MCF and SNF, based on predominant type.
(2) Solstice is a joint venture of which affiliates of ISL own 80%.
(3) In May 2019, we sold the two properties leased to Peregrine Senior Living.
(4) Tenant has failed to remit rental payments during the nine months ended September 30, 2019. Properties and unit counts exclude one property held for sale.
(5) Consists primarily of interest income earned on corporate-level cash accounts.

Watermark Retirement Communities and Solstice, together with their affiliates, manage substantially all of our operating properties. As a result, we are dependent upon their personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our properties efficiently and effectively. Through our 20.0% ownership of Solstice, we are entitled to certain rights and minority protections.

Unconsolidated Investments

As of September 30, 2019, our unconsolidated investments included the following:

- *Griffin-American*. We own a 14.3% interest in a \$3.2 billion portfolio, based on cost, of SNFs, ALFs, MOBs and hospitals across the United States and care homes in the United Kingdom. Our Sponsor and other minority partners own the remaining 85.7% of this portfolio.
- *Trilogy*. We own a 23.2% interest in a \$1.5 billion portfolio, based on cost, of predominantly SNFs located in the Midwest and operated pursuant to management agreements with Trilogy Health Services, as well as ancillary services businesses, including a therapy business and a pharmacy business. The joint venture continues to be active in the development of new facilities as part of its business plan and has grown, in both property count and net operating income, year-over-year. Griffin-American Healthcare REIT III, Inc., or GAHR3, Griffin-American Healthcare REIT IV, Inc., or GAHR4, and management of Trilogy own the remaining 76.8% of this portfolio.
- *Espresso*. We own a 36.7% interest in a \$0.9 billion portfolio, based on cost, of predominantly SNFs, located in various regions across the United States, and organized in six sub-portfolios and currently leased to nine different operators under net leases. Three of the sub-portfolios within the Espresso joint venture have executed operator transitions plans. An affiliate of Formation acts as the general partner and manager of this investment. We also have a mezzanine loan relating to this portfolio. Refer to “—Real Estate Debt and Securities Investments Overview” below.
- *Eclipse*. We own a 5.6% interest in a \$0.9 billion portfolio, based on cost, of SNFs and ALFs leased to, or managed by, a variety of different operators across the United States. Our Sponsor and other minority partners and Formation own 86.4% and 8.0% of this portfolio, respectively.
- *Solstice*. We own a 20.0% interest in an operator platform joint venture established to manage the operations of the Winterfell portfolio. An affiliate of Integral Senior Living, LLC, a leading management company of ILF, ALF and MCF founded in 2000, owns the remaining 80.0%.

In March 2019, the Envoy joint venture, of which we own an 11.4% interest, completed the sale of its remaining 11 properties, for a sales price of \$118.0 million.

Real Estate Debt and Securities Investments Overview

As of September 30, 2019, our investments in real estate debt secured by healthcare facilities consisted of one mezzanine loan, which matures on January 30, 2021. Our mezzanine loan relates to the Espresso portfolio, in which we also have an equity investment. Refer to “—Unconsolidated Investments” above.

The following table presents a summary of our debt investment as of September 30, 2019 (dollars in thousands):

Investment Type:	Count	Principal Amount	Carrying Value⁽²⁾	Fixed Rate	Unleveraged Current Yield
Espresso Mezzanine loan ⁽¹⁾	1	\$ 75,000	\$ 55,649	10.0%	10.3%

(1) Property types underlying the mezzanine loan predominately include SNFs, which are located primarily in the Midwest, Northeast and Southeast regions of the United States.

(2) As a result of impairments and other non-cash reserves recorded by the joint venture, the carrying value of our Espresso unconsolidated investment was reduced to zero in the fourth quarter of 2018. We have recorded the excess equity in losses related to our unconsolidated investment as a reduction to the carrying value of our mezzanine loan, which was originated to a subsidiary of the Espresso joint venture. As of September 30, 2019 and December 31, 2018, the cumulative excess equity in losses included in our mezzanine loan carrying value were \$19.2 million and \$16.2 million, respectively.

As of September 30, 2019, our debt investment was not performing in accordance with the contractual terms of its governing documents. The Espresso mezzanine loan is secured by a joint venture that has several sub-portfolios, one of which has a tenant lease in default. The underlying tenant default has resulted in default under the senior loan with respect to the applicable sub-portfolio, which in turn resulted in a default under our mezzanine loan as of September 30, 2019. We are actively monitoring the actions of the senior lender and assessing our rights and remedies. We continue to assess the collectability of principal and interest. As of November 7, 2019, contractual debt service on the Espresso mezzanine loan has been paid in accordance with contractual terms.

Our Strategy

Our primary objective is to invest and manage our portfolio to maximize shareholder value by generating attractive risk-adjusted returns, while maintaining stable cash flow for distributions. The key elements of our strategy include:

- *Grow the Operating Income Generated by Our Portfolio.* Through active portfolio management, we will continue to review and implement operating strategies and initiatives in order to enhance the performance of our existing investment portfolio.
- *Pursue Strategic Capital Expenditures and Development Opportunities.* We will continue to invest capital into our operating portfolio in order to maintain market position as well as functional and operating standards. In addition, we will continue to execute on and identify strategic development opportunities for our existing investments that may involve replacing, converting or renovating facilities in our portfolio which, in turn, would allow us to provide an optimal mix of services and enhance the overall value of our assets.
- *Consider Selective Dispositions and Opportunities for Asset Repositioning.* We will consider selective dispositions of assets in connection with strategic repositioning of assets or otherwise where we believe the disposition will achieve a desired return or opportunities exist to enhance overall returns or improve our liquidity position. As the healthcare industry evolves, we will continue to assess the need for strategic asset repositioning, including evaluating assets, operators and markets to position our portfolio for optimal performance.
- *Maintain a Diversified Portfolio.* We believe that mid-acuity senior housing facilities provide an opportunity to generate risk-adjusted returns and benefit from positive future demographic trends. In addition, we believe that maintaining a balanced portfolio of assets diversified by investment type, geographic location, asset type, revenue source and operating model may mitigate the risk that any single factor or event could materially harm our business. Portfolio diversification also enhances the reliability of our cash flows by reducing our exposure to single-state regulatory or reimbursement changes, regional climate events and local economic downturns.
- *Financing Strategy.* We use asset-level financing as part of our investment strategy to leverage our investments while managing refinancing and interest rate risk. We typically finance our investments with medium to long-term, non-recourse mortgage loans, though our borrowing levels and terms vary depending upon the nature of the assets and the related financing. In addition, we have a revolving line of credit to provide additional short-term liquidity as needed. Refer to “—Liquidity and Capital Resources” for additional information.

Portfolio Management

Our Advisor and its affiliates, directly or together with third party sub-advisors, maintain a comprehensive portfolio management process that generally includes oversight by an asset management team, regular management meetings and an exhaustive quarterly credit and operating results review process. These processes are designed to enable management to evaluate and proactively identify asset-specific credit issues and trends on a portfolio-wide, sub-portfolio or by asset type basis. Nevertheless, we cannot be certain that our Advisor’s review, or any third parties acting on our or our Advisor’s behalf, will identify all issues within our portfolio due to, among other things, adverse economic conditions or events adversely affecting specific assets; therefore, potential future losses may also stem from issues that are not identified during these portfolio reviews or the asset and portfolio management process.

Formation provides asset management services to us in connection with the Eclipse and Espresso joint ventures. Our Advisor, under the direction of its investment committee, supervises Formation and retains ultimate oversight and responsibility for the management of our portfolio.

Our Advisor, together with Formation (referred to herein as our Advisor’s asset management team), are experienced and use many methods to actively manage our asset base to enhance or preserve our income, value and capital and mitigate risk. Our Advisor’s asset management team seeks to identify strategic development opportunities for our existing and future investments that may involve replacing, converting or renovating facilities in our portfolio which, in turn, would allow us to provide optimal mix of services and enhance the overall value of our assets. To manage risk, our Advisor’s asset management team engages in frequent review and dialogue with operators/managers/borrowers/third party advisors and periodic inspections of our owned properties and collateral. In addition, our Advisor’s asset management team considers the impact of regulatory changes on the performance of our portfolio. During the quarterly credit and operating results review, or more frequently as necessary, investments are put on highly-monitored status, as appropriate, based upon several factors, including missed or late contractual payments, significant declines in performance and other data which may indicate a potential issue in our ability to recover our invested capital from an investment. Each situation depends on many factors, including the number of properties, the type of property, macro and local market conditions impacting supply/demand, cash flow and the financial condition of our operators/managers/borrowers.

We will continue to monitor the performance of, and actively manage, all of our investments. However, there can be no assurance that our investments will continue to perform in accordance with the contractual terms of the governing documents or underwriting and we may, in the future, record impairment, as appropriate, if required.

Sources of Operating Revenues and Cash Flows

We generate revenues from resident fees, rental income and net interest income. Resident fee income from our senior housing operating facilities is recorded when services are rendered and includes resident room and care charges and other resident charges. Rental income is generated from our real estate for the leasing of space to various types of healthcare operators/tenants/residents. Net interest income is generated from our debt and securities investments. Additionally, we report our proportionate interest of revenues and expenses from unconsolidated joint ventures, which own healthcare real estate, through equity in earnings (losses) of unconsolidated ventures on our consolidated statements of operations.

Profitability and Performance Metrics

We calculate Funds from Operations, or FFO, and Modified Funds from Operations, or MFFO (see “Non-GAAP Financial Measures—Funds from Operations and Modified Funds from Operations” for a description of these metrics) to evaluate the profitability and performance of our business.

Outlook and Recent Trends

The healthcare real estate equity and finance markets tend to attract new equity and debt capital more slowly than more traditional commercial real estate property types because of barriers to entry for new investors or lenders to healthcare property owners. Investing in and lending to the healthcare real estate sector requires an in-depth understanding of the specialized nature of healthcare facility operations and the healthcare regulatory environment. While these competitive constraints may create opportunities for attractive investments in the healthcare property sector, they may also provide challenges and risks when seeking attractive terms for our investments.

We believe owners and operators of senior housing facilities and other healthcare properties may benefit from demographic and economic trends, specifically the aging of the United States population whereby Americans aged 65 years old and older are expected to increase from 47.8 million in 2015 to 79.2 million in 2035 (source: U.S. Census Bureau 2014 National Population Projections), and the increasing demand for care for seniors outside of their homes. As a result of these demographic trends, we expect healthcare costs to increase at a faster rate than the available funding from both private sources and government-sponsored healthcare programs. Healthcare spending in the U.S. is projected to increase from \$2.6 trillion in 2010 to \$4.1 trillion in 2020 (source: Centers for Medicare and Medicaid Services, or CMS) and, as healthcare costs increase, insurers, individuals and the U.S. government are pursuing lower cost options for healthcare, and senior housing facilities, such as ALF, MCF, SNF and ILF, are generally more cost effective than higher acuity healthcare settings, such as short or long-term acute-care hospitals, in-patient rehabilitation facilities and other post-acute care settings. The growth in total demand for healthcare, cost constraints, new regulations, broad U.S. demographic changes and the shift towards cost effective community-based settings is resulting in dynamic changes to the healthcare delivery system.

Notwithstanding the growth in the industry and demographics, economic and healthcare market uncertainty has had a negative impact, weakening the market’s fundamentals and ultimately reducing tenants/operators’ ability to make rent payments in accordance with the contractual terms of the respective leases, as well as reduced income for our operating investments. In addition, increased development and competitive pressures has had an impact on some of our assets. During the third quarter of 2019, the industry seniors housing occupancy averaged 88.0%; an increase of 30 basis points from the second quarter of 2019 (source: The National Investment Centers for Senior Housing & Care, or NIC). However, occupancy has declined or remained flat in 13 of the last 15 quarters (source: NIC). Seniors housing under construction as a share of inventory declined to 6.7% in the second quarter of 2019, compared to a peak of 7.7% in the fourth quarter of 2017 (source: NIC). Further, a tight labor market and competition to attract quality staff continues to drive increased wages and personnel costs, resulting in lower margins. To the extent that occupancy and market rental rates decline, property-level cash flow could be negatively affected and decreased cash flow, in turn, is expected to impact the value of underlying properties and the borrowers’ ability to service their outstanding loans and repay the loans at maturity.

Our SNF operators receive a majority of their revenues from governmental payors, primarily Medicare and Medicaid. Changes in reimbursement rates and limits on the scope of services reimbursed to SNFs could have a material impact on a SNF operator’s liquidity and financial condition. SNF operators are currently facing various operational, reimbursement, legal and regulatory challenges due to, among other things, increased wages and labor costs, narrowing of referral networks, shorter lengths of stay, staffing shortages, expenses associated with increased government investigations, enforcement proceedings and legal actions related to professional and general liability claims. With a dependence on government reimbursement as the primary source of their revenues, SNF operators are also subject to intensified efforts to impose pricing pressures and more stringent cost controls,

through value-based payments, managed care and similar programs, which could result in lower daily reimbursement rates, lower lease coverage, decreased occupancies and declining operating margins.

Further third-party payor rules and regulatory changes that are being implemented by the federal and even some state governments and commercial payors to improve quality of care and control healthcare spending may continue to affect reimbursement and increase operating costs to our operators and tenants. We continue to monitor reimbursement program requirements and assess the potential impact that changes in the political environment may have on such programs and the ability of our tenants/operators to meet their payment obligations.

Despite the barriers and constraints to investing in the senior housing sector, demographic and other market dynamics continue to attract investors and capital to the sector. The supply and demand fundamentals that are driven by the increasing need for healthcare services by an aging population have created investment opportunities for investors and thus acquisition activity within the sector continues to be strong.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. For critical accounting policies, refer to Note 2, “Summary of Significant Accounting Policies” in our accompanying consolidated financial statements included in Part I, Item 1. “Financial Statements.”

Recent Accounting Pronouncements

For recent accounting pronouncements, refer to Note 2, “Summary of Significant Accounting Policies” in our accompanying consolidated financial statements included in Part I, Item 1. “Financial Statements.”

Impairment

Our investments are reviewed on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value of our investments may be impaired or that carrying value may not be recoverable. In conducting these reviews, we consider macroeconomic factors, including healthcare sector conditions, together with asset and market specific circumstance, among other factors. To the extent an impairment has occurred, the loss will be measured as compared to the carrying amount of the investment. An allowance for a doubtful account for a tenant/operator/resident receivable is established based on a periodic review of aged receivables resulting from estimated losses due to the inability of tenant/operator/resident to make required rent and other payments contractually due. Additionally, we establish, on a current basis, an allowance for future operator/tenant credit losses on unbilled rents receivable based upon an evaluation of the collectability of such amounts.

We will continue to monitor the performance of, and actively manage, all of our investments. However, there can be no assurance that our investments will continue to perform in accordance with the contractual terms of the governing documents or underwriting and we may, in the future, record impairment, as appropriate and if required.

We recorded impairment losses totaling \$10.1 million on our operating real estate and held for sale investments during the nine months ended September 30, 2019. The impairment recognized in 2019 to date includes \$10.0 million for an operating property within the Rochester portfolio with continuing poor performance and sustained declines in occupancy, as well as \$0.1 million to reflect an updated estimated fair value for a net lease property previously designated held for sale.

During the year ended December 31, 2018, we recorded impairment losses totaling \$31.0 million for operating real estate and held for sale assets that are included on our consolidated balance sheets as of September 30, 2019. Impairment was recorded as a result of occupancy and performance declines for specific properties, as well as a result of designating a property and its operations as held for sale. Further, the unconsolidated ventures in which we invest recorded impairments and reserves during the year ended December 31, 2018, of which we recorded our proportionate share through equity in earnings on our consolidated statements of operations. Refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as amended by Amendment No. 1 on Form 10-K/A, for additional information regarding impairment recorded in prior years.

Results of Operations

Comparison of the Three Months Ended September 30, 2019 to September 30, 2018 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Property and other revenues				
Resident fee income	\$ 32,283	\$ 32,469	\$ (186)	(0.6)%
Rental income	40,410	39,986	424	1.1 %
Other revenue	85	1,015	(930)	(91.6)%
Total property and other revenues	72,778	73,470	(692)	(0.9)%
Net interest income				
Interest income on debt investments	1,946	1,943	3	0.2 %
Interest income on mortgage loans held in a securitized trust	—	—	—	NA
Interest expense on mortgage obligations issued by a securitization trust	—	—	—	NA
Net interest income	1,946	1,943	3	0.2 %
Expenses				
Real estate properties - operating expenses	45,359	47,355	(1,996)	(4.2)%
Interest expense	17,218	17,677	(459)	(2.6)%
Other expenses related to securitization trust	—	—	—	NA
Transaction costs	29	—	29	NA
Asset management and other fees-related party	4,994	5,951	(957)	(16.1)%
General and administrative expenses	2,807	2,818	(11)	(0.4)%
Depreciation and amortization	16,164	25,629	(9,465)	(36.9)%
Total expenses	86,571	99,430	(12,859)	(12.9)%
Other income (loss)				
Realized gain (loss) on investments and other	204	726	(522)	(71.9)%
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)				
	(11,643)	(23,291)	11,648	(50.0)%
Equity in earnings (losses) of unconsolidated ventures	(3,037)	16,631	(19,668)	(118.3)%
Income tax benefit (expense)	(17)	(10)	(7)	70.0 %
Net income (loss)	\$ (14,697)	\$ (6,670)	\$ (8,027)	120.3 %

Revenues

Resident Fee Income

The following table presents resident fee income generated during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Same store AL/MC/CCRC properties (placed in service - 2017 and prior)	\$ 31,903	\$ 31,089	\$ 814	2.6 %
Properties placed in service - 2018	380	—	380	NA
Properties sold	—	1,380	(1,380)	(100.0)%
Total resident fee income	\$ 32,283	\$ 32,469	\$ (186)	(0.6)%

Resident fee income decreased \$0.2 million primarily as a result of the sale of an operating facility in the Fountains portfolio in the fourth quarter of 2018, partially offset by billing rate increases for the Watermark Aqua and Fountains portfolios and revenue generated from the Pinebrook memory care facility opened in October 2018.

Rental Income

The following table presents rental income generated during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Same store IL properties (placed in service - 2017 and prior)	\$ 32,207	\$ 31,198	\$ 1,009	3.2 %
Same store net lease properties (placed in service - 2017 and prior)	8,203	8,435	(232)	(2.8)%
Properties sold	—	353	(353)	(100.0)%
Total rental income	\$ 40,410	\$ 39,986	\$ 424	1.1 %

Rental income increased \$0.4 million primarily due to non-recurring services and fees at our IL properties, which were recorded as rental income during the three months ended September 30, 2019 as a result of the adoption of the new lease accounting standard and were previously recorded as other revenue. The increase was partially offset by lower rental income recognized from our net lease properties as a result of tenants not remitting rental payments and properties sold.

Other Revenue

As a result of the adoption of the new lease accounting standard, non-recurring services and fees at our operating facilities were reclassified into rental and resident fee income beginning in the first quarter of 2019. For the three months ended September 30, 2019, other revenue primarily represents non-recurring service provider incentives recognized by the Winterfell portfolio, as well as interest earned on uninvested cash.

Net Interest Income

Net interest income for the three months ended September 30, 2019 and 2018 was generated from our mezzanine loan, which carries a 10.0% fixed interest rate. Accordingly, net interest income for the three months ended September 30, 2019 is comparable to the three months ended September 30, 2018.

Expenses

Real Estate Properties - Operating Expenses

The following table presents property operating expenses incurred during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Same store (placed in service - 2017 and prior)				
AL/MC/CCRC properties	\$ 23,526	\$ 23,319	\$ 207	0.9 %
IL properties	21,392	22,434	(1,042)	(4.6)%
Net lease properties	5	255	(250)	(98.0)%
Properties placed in service - 2018	436	14	422	3,014.3 %
Properties sold	—	1,333	(1,333)	(100.0)%
Total property operating expenses	\$ 45,359	\$ 47,355	\$ (1,996)	(4.2)%

Property operating expenses decreased \$2.0 million, primarily due to the sale of an operating facility in the Fountains portfolio in the fourth quarter of 2018, as well as expense savings realized in the Winterfell portfolio throughout 2019.

Interest Expense

The following table presents interest expense incurred during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Same store (placed in service - 2017 and prior)				
AL/MC/CCRC properties	\$ 5,187	\$ 5,241	\$ (54)	(1.0)%
IL properties	9,006	9,035	(29)	(0.3)%
Net lease properties	3,025	3,159	(134)	(4.2)%
Properties sold	—	160	(160)	(100.0)%
Corporate	—	82	(82)	(100.0)%
Total interest expense	\$ 17,218	\$ 17,677	\$ (459)	(2.6)%

Interest expense decreased \$0.5 million, primarily as a result of early repayment of the Peregrine portfolio's mortgage note, as well as lower borrowings balances during the three months ended September 30, 2019 due to continued principal amortization.

Transaction Costs

Transaction costs for the three months ended September 30, 2019 are primarily costs incurred for the Rochester operator license transfer.

Asset Management and Other Fees - Related Party

Our Advisor receives a monthly asset management fee equal to one-twelfth of 1.5% of our most recently published aggregate estimated net asset value. Asset management and other fees - related party decreased \$1.0 million as a result of a lower estimated net asset value established in December 2018.

General and Administrative Expenses

General and administrative expenses remained consistent during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018.

Depreciation and Amortization

The following table presents depreciation and amortization expense incurred during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Same store (placed in service - 2017 and prior)				
AL/MC/CCRC properties	\$ 4,938	\$ 4,614	\$ 324	7.0 %
IL properties	7,586	17,547	(9,961)	(56.8)%
Net lease properties	3,595	3,365	230	6.8 %
Properties placed in service - 2018	45	—	45	NA
Properties sold	—	103	(103)	(100.0)%
Total depreciation and amortization expense	\$ 16,164	\$ 25,629	\$ (9,465)	(36.9)%

Depreciation and amortization expense decreased \$9.5 million, primarily as a result of intangible assets becoming fully amortized in the Winterfell and Rochester portfolios.

Other Income (Loss)

Realized Gain (Loss) on Investments and Other

During the three months ended September 30, 2019, realized gain of \$0.2 million primarily related to the sale of a Remainder Interest unit within the Watermark Fountains portfolio. During the three months ended September 30, 2018, realized gain of \$0.7 million primarily related to the sale of Remainder Interests, net of a loss generated from the sale of the Franklin facility in the Watermark Fountains portfolio.

Equity in Earnings (Losses) of Unconsolidated Ventures and Income Tax Benefit (Expense)

Equity in Earnings (Losses) of Unconsolidated Ventures (dollars in thousands):

Portfolio	Three Months Ended September 30,											
	2019		2018		2019		2018		2019		2018	
	Equity in Earnings (Losses)		Select Revenues and (Expenses), net ⁽¹⁾		Equity in Earnings, less Select Revenues and Expenses		Increase (Decrease)		Cash Distributions			
Eclipse	\$ 1,090	\$ (69)	\$ 750	\$ (462)	\$ 340	\$ 393	\$ (53)	(13.5)%	\$ 2,286	\$ 176		
Envoy	—	339	—	64	—	275	(275)	(100.0)%	—	283		
Griffin-American	(3,626)	(1,805)	(6,234)	(4,688)	2,608	2,883	(275)	(9.5)%	1,030	1,771		
Espresso	(667)	17,886	(2,274)	15,982	1,607	1,904	(297)	(15.6)%	—	—		
Trilogy	156	239	(3,776)	(3,659)	3,932	3,898	34	0.9 %	1,451	1,450		
Subtotal	\$ (3,047)	\$ 16,590	\$ (11,534)	\$ 7,237	\$ 8,487	\$ 9,353	\$ (866)	(9.3)%	\$ 4,767	\$ 3,680		
Operator Platform ⁽²⁾	10	41	—	—	10	41	(31)	(75.6)%	—	15		
Total	\$ (3,037)	\$ 16,631	\$ (11,534)	\$ 7,237	\$ 8,497	\$ 9,394	\$ (897)	(9.5)%	\$ 4,767	\$ 3,695		

(1) Represents our proportionate share of revenues and expenses excluded from the calculation of FFO and MFFO. Refer to “—Non-GAAP Financial Measures” for additional discussion.

(2) Represents our investment in Solstice.

Equity in earnings of unconsolidated ventures decreased by \$19.7 million to a loss of \$3.0 million, primarily due to one-time events in the Espresso joint venture, which recorded a liability extinguishment gain during the three months ended September 30, 2018. Our proportionate share of the gain totaled \$14.1 million.

Equity in earnings, net of select revenues and expenses, decreased \$0.9 million, primarily due to non-recurring income recognized by the Espresso joint venture during three months ended September 30, 2018, as well as declines in rental and reimbursement income recognized by the Griffin-American joint venture.

Income Tax Benefit (Expense)

Income tax expense for the three months ended September 30, 2019 was \$17,000 and related to our operating properties, which operate through a taxable REIT subsidiary structure. Income tax expense for the three months ended September 30, 2018 was \$10,000.

Comparison of the Nine Months Ended September 30, 2019 to September 30, 2018 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Property and other revenues				
Resident fee income	\$ 97,658	\$ 98,232	\$ (574)	(0.6)%
Rental income	121,168	119,626	1,542	1.3 %
Other revenue	1,445	2,692	(1,247)	(46.3)%
Total property and other revenues	220,271	220,550	(279)	(0.1)%
Net interest income				
Interest income on debt investments	5,771	5,763	8	0.1 %
Interest income on mortgage loans held in a securitized trust	—	5,149	(5,149)	(100.0)%
Interest expense on mortgage obligations issued by a securitization trust	—	(3,824)	3,824	(100.0)%
Net interest income	5,771	7,088	(1,317)	(18.6)%
Expenses				
Real estate properties - operating expenses	135,213	141,510	(6,297)	(4.4)%
Interest expense	51,908	52,408	(500)	(1.0)%
Other expenses related to securitization trust	—	811	(811)	(100.0)%
Transaction costs	105	806	(701)	(87.0)%
Asset management and other fees-related party	14,983	17,845	(2,862)	(16.0)%
General and administrative expenses	8,210	9,927	(1,717)	(17.3)%
Depreciation and amortization	54,525	81,943	(27,418)	(33.5)%
Impairment loss	10,146	5,239	4,907	93.7 %
Total expenses	275,090	310,489	(35,399)	(11.4)%
Other income (loss)				
Realized gain (loss) on investments and other	5,926	4,221	1,705	40.4 %
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense)				
	(43,122)	(78,630)	35,508	(45.2)%
Equity in earnings (losses) of unconsolidated ventures	(7,666)	3,907	(11,573)	(296.2)%
Income tax benefit (expense)	(38)	(40)	2	(5.0)%
Net income (loss)	\$ (50,826)	\$ (74,763)	\$ 23,937	(32.0)%

Revenues
Resident Fee Income

The following table presents resident fee income generated during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Same store AL/MC/CCRC properties (placed in service - 2017 and prior)	\$ 96,731	\$ 92,708	\$ 4,023	4.3 %
Properties placed in service - 2018	927	—	927	NA
Properties sold	—	5,524	(5,524)	(100.0)%
Total resident fee income	\$ 97,658	\$ 98,232	\$ (574)	(0.6)%

Resident fee income decreased \$0.6 million primarily due to the sale of an operating facility in the Fountains portfolio in the fourth quarter of 2018. On a same store basis, resident fee income increased \$4.0 million primarily as a result of non-recurring income recognized in the Fountains portfolio, billing rate increases for the Watermark Aqua and Fountains portfolios and a one-time adjustment recorded for properties within the Rochester portfolio during the nine months ended September 30, 2018.

Rental Income

The following table presents rental income generated during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Same store IL properties (placed in service - 2017 and prior)	\$ 95,966	\$ 94,142	\$ 1,824	1.9 %
Same store net lease properties (placed in service - 2017 and prior)	24,604	24,371	233	1.0 %
Properties sold	598	1,113	(515)	(46.3)%
Total rental income	\$ 121,168	\$ 119,626	\$ 1,542	1.3 %

Rental income increased \$1.5 million primarily due to non-recurring services and fees at our IL properties, which were recorded as rental income during the nine months ended September 30, 2019 as a result of the adoption of the new lease accounting standard and were previously recorded as other revenue. One-time lease incentive write-offs recorded during nine months ended September 30, 2018, as a result of a net lease tenant not remitting rental payments also contributed to the variance.

Other Revenue

As a result of the adoption of the new lease accounting standard, non-recurring services and fees at our operating facilities were reclassified into rental and resident fee income, which resulted in a decrease to other revenue for the nine months ended September 30, 2019 as compared to nine months ended September 30, 2018. The decrease was offset by non-recurring service provider incentives recognized by the Winterfell portfolio, as well as interest earned on uninvested cash.

Net Interest Income

Net interest income decreased \$1.3 million primarily as a result of the sale of our investment in the Freddie Mac securitization in the first quarter of 2018.

Expenses

Real Estate Properties - Operating Expenses

The following table presents property operating expenses incurred during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Same store (placed in service - 2017 and prior)				
AL/MC/CCRC properties	\$ 69,146	\$ 68,330	\$ 816	1.2 %
IL properties	64,863	67,075	(2,212)	(3.3)%
Net lease properties	5	1,089	(1,084)	(99.5)%
Properties placed in service - 2018	1,199	—	1,199	NA
Properties sold	—	5,016	(5,016)	(100.0)%
Total property operating expenses	\$ 135,213	\$ 141,510	\$ (6,297)	(4.4)%

Property operating expenses decreased \$6.3 million, primarily due to the sale of an operating facility in the Fountains portfolio in the fourth quarter of 2018, as well as expense savings realized in the Winterfell portfolio. One-time bad debt expense for straight-line rent was recorded during the nine months ended September 30, 2018, as a result of a net lease portfolio tenant not remitting rental payments, which also contributed to the variance.

Interest Expense

The following table presents interest expense incurred during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Same store (placed in service - 2017 and prior)				
AL/MC/CCRC properties	\$ 15,544	\$ 15,272	\$ 272	1.8 %
IL properties	26,837	26,722	115	0.4 %
Net lease properties	9,178	9,542	(364)	(3.8)%
Properties sold	247	679	(432)	(63.6)%
Corporate	102	193	(91)	(47.2)%
Total interest expense	\$ 51,908	\$ 52,408	\$ (500)	(1.0)%

Interest expense decreased by \$0.5 million, as a result of lower mortgage notes balances during the nine months ended September 30, 2019 due to continued principal amortization and loan payoffs, offset by increases in LIBOR.

Other Expenses Related to Securitization Trust

Other expenses related to securitization trust were not incurred during the nine months ended September 30, 2019 as our investment in the Freddie Mac securitization was sold in the first quarter of 2018. Securitization trust expenses were primarily comprised of fees paid to Freddie Mac, the original issuer, as guarantor of the interest and principal payments related to the investment grade securitization bonds.

Transaction Costs

Transaction costs for the nine months ended September 30, 2019 are primarily residual costs incurred for the Rochester operator license transfer. Transaction costs for the nine months ended September 30, 2018 are primarily as a result of costs incurred for the Winterfell and Bonaventure operator transition.

Asset Management and Other Fees - Related Party

Our Advisor receives a monthly asset management fee equal to one-twelfth of 1.5% of our most recently published aggregate estimated net asset value. Asset management and other fees - related party decreased \$2.9 million as a result of a lower estimated net asset value established in December 2018.

General and Administrative Expenses

General and administrative expenses decreased \$1.7 million, primarily as a result of lower corporate overhead costs and direct corporate expenses, including legal, accounting and other professional fees incurred during the nine months ended September 30, 2019.

Depreciation and Amortization

The following table presents depreciation and amortization expense incurred during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 (dollars in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	Amount	%
Same store (placed in service - 2017 and prior)				
AL/MC/CCRC properties	\$ 14,690	\$ 15,744	\$ (1,054)	(6.7)%
IL properties	29,042	55,907	(26,865)	(48.1)%
Net lease properties	10,555	9,879	676	6.8 %
Properties placed in service - 2018	135	—	135	NA
Properties sold	103	413	(310)	(75.1)%
Total depreciation and amortization expense	\$ 54,525	\$ 81,943	\$ (27,418)	(33.5)%

Depreciation and amortization expense decreased \$27.4 million, primarily as a result of intangible assets becoming fully amortized in the Winterfell and Rochester portfolios.

Impairment Loss

During the nine months ended September 30, 2019, impairment loss of \$10.1 million was recorded, consisting of \$10.0 million recognized for an operating property within the Rochester portfolio with continuing poor performance and sustained declines in occupancy, as well as \$0.1 million to reflect an updated estimated fair value for a net lease property within the Peregrine portfolio previously designated held for sale.

During the nine months ended September 30, 2018, impairment loss of \$5.2 million was recorded, consisting of \$2.8 million recognized as a result of estimating the fair value of an operating facility in the Fountains portfolio upon its reclassification to held for sale and \$2.4 million related to a property within the Peregrine net lease portfolio, due to deteriorating operating results of the tenant resulting in failure to remit rental payments.

Other Income (Loss)

Realized Gain (Loss) on Investments and Other

During the nine months ended September 30, 2019, realized gains of \$5.9 million related to the sale of the properties within the Peregrine portfolio and Remainder Interests in the Fountains portfolio. During the nine months ended September 30, 2018, realized gains totaled \$4.2 million, primarily recognized from the sale of our investment in the Freddie Mac securitization and sales of Remainder Interests, net of losses generated from the sale of the Franklin facility in the Watermark Fountains portfolio.

Equity in Earnings (Losses) of Unconsolidated Ventures and Income Tax Benefit (Expense)

Equity in Earnings (Losses) of Unconsolidated Ventures (dollars in thousands):

Portfolio	Nine Months Ended September 30,											
	2019		2018		2019		2018		2019		2018	
	Equity in Earnings (Losses)		Select Revenues and (Expenses), net ⁽¹⁾		Equity in Earnings, less Select Revenues and Expenses		Increase (Decrease)		Cash Distributions			
Eclipse	\$ 758	\$ 11	\$ (402)	\$ (1,304)	\$ 1,160	\$ 1,315	\$ (155)	(11.8)%	\$ 2,573	\$ 621		
Envoy	96	(29)	(822)	(300)	918	271	647	238.7 %	4,339	283		
Griffin-American	(7,654)	(3,692)	(16,046)	(13,500)	8,392	9,808	(1,416)	(14.4)%	5,581	4,193		
Espresso	(3,034)	6,331	(6,324)	2,296	3,290	4,035	(745)	(18.5)%	—	—		
Trilogy	2,188	1,137	(10,433)	(11,244)	12,621	12,381	240	1.9 %	4,353	4,816		
Subtotal	\$ (7,646)	\$ 3,758	\$ (34,027)	\$ (24,052)	\$ 26,381	\$ 27,810	\$ (1,429)	(5.1)%	\$ 16,846	\$ 9,913		
Operator Platform ⁽²⁾	(20)	149	—	—	(20)	149	(169)	(113.4)%	—	107		
Total	\$ (7,666)	\$ 3,907	\$ (34,027)	\$ (24,052)	\$ 26,361	\$ 27,959	\$ (1,598)	(5.7)%	\$ 16,846	\$ 10,020		

(1) Represents our proportionate share of revenues and expenses excluded from the calculation of FFO and MFFO. Refer to “—Non-GAAP Financial Measures” for additional discussion.

(2) Represents our investment in Solstice.

Equity in earnings of unconsolidated ventures decreased by \$11.6 million to a loss of \$7.7 million, primarily due to expenses recognized related to the Griffin-American joint venture debt refinancing during the nine months ended September 30, 2019 and a liability extinguishment gain recognized in the Espresso joint venture during the nine months ended September 30, 2018.

Equity in earnings, net of select revenues and expenses, decreased \$1.6 million, primarily due to declines in rental and reimbursement income recognized by the Griffin-American joint venture as well as non-recurring operating costs recognized by the Espresso joint venture during nine months ended September 30, 2019. The decrease was partially offset by an increase in the Envoy joint venture, which recognized residual earnings upon the completion of the sale of its remaining operating assets during the nine months ended September 30, 2019.

Income Tax Benefit (Expense)

Income tax expense for the nine months ended September 30, 2019 was \$38,000 and related to our operating properties, which operate through a taxable REIT subsidiary structure. Income tax expense for the nine months ended September 30, 2018 was \$40,000.

Liquidity and Capital Resources

Our current principal liquidity needs are to fund: (i) principal and interest payments on our borrowings and other commitments; (ii) operating expenses; (iii) capital expenditures, development and redevelopment activities, including capital calls in connection with our unconsolidated joint venture investments; and (iv) repurchases of our shares.

Our current primary sources of liquidity include the following: (i) cash on hand; (ii) cash flow generated by our investments, both from our operating activities and distributions from our unconsolidated joint ventures; (iii) secured or unsecured financings from banks and other lenders, including investment-level financing and/or a corporate credit facility; and (iv) proceeds from full or partial realization of investments.

Our investments generate cash flow in the form of rental revenues, resident fees and interest income, which are reduced by operating expenditures, debt service payments, capital expenditures and corporate general and administrative expenses. Our revenues have declined as a result of, among other things, declines in occupancy and rate pressures, while our operating expenses have increased due primarily to increased labor and benefits costs. Our debt service obligations have also increased over the same period, primarily due to recurring principal amortization and rising interest expense. At the same time, we believe we need to continue to invest capital into our properties in order to maintain market position, as well as functional and operating standards, or to add value to our properties. As a result, our board of directors has suspended distributions and limited share repurchases, as described in further detail below, in order to maintain adequate liquidity and flexibility to support the execution of our strategic objectives and drive long-term value for stockholders.

We currently believe that our capital resources are sufficient to meet our capital needs for the following 12 months. For additional information regarding our liquidity needs and capital resources, see below. As of November 7, 2019, we had approximately \$28.2 million of unrestricted cash.

Cash From Operations

We primarily generate cash flow from operations through net operating income from our operating properties, rental income from our net leased properties and interest from our debt investment, as well as distributions from our investments in unconsolidated ventures. Net cash provided by operating activities was \$20.0 million for the nine months ended September 30, 2019.

A substantial majority of our properties, or 79.8% of our assets, excluding our unconsolidated ventures and properties designated held for sale, are operating properties whereby we are directly exposed to various operational risks. During the nine months ended September 30, 2019, our cash flow from operations continues to be negatively impacted by, among other things, declines in occupancy, rate pressures and increases in operating expenses, particularly tied to increased labor and benefits costs.

In addition, we have significant joint ventures, with unconsolidated joint ventures and consolidated joint ventures representing 35.3% and 20.8%, respectively, of our total real estate equity investments as of September 30, 2019, and we may not be able to control the timing of distributions from these investments, if any.

Borrowings

We use asset-level financing as part of our investment strategy and are required to make recurring principal and interest payments on our borrowings. As of September 30, 2019, we had \$1.5 billion of consolidated asset-level borrowings outstanding. During nine months ended September 30, 2019, we paid \$17.1 million in recurring principal and interest payments on these borrowings.

Our unconsolidated joint ventures also have significant asset level borrowings. In June 2019, our Griffin-American joint venture completed the refinancing of its prior \$1.7 billion consolidated healthcare loan maturing in December 2019. The new interest-only loan totals \$1.5 billion with a five-year term, inclusive of extension options. The collateral package for the new loan includes 158 U.S. healthcare properties, but excludes certain assets that were collateral for the previous loan. We have contributed our proportionate share of additional equity to the joint venture to complete the refinancing, which totaled approximately \$37.4 million.

In addition, our Sponsor Line provides a revolving line of credit for up to \$35.0 million. We have not drawn on our Sponsor Line in 2019 and currently have no borrowings outstanding under our Sponsor Line.

For additional information regarding our borrowings, including principal repayments and timing of maturities, refer to Note 6, "Borrowings" in our accompanying consolidated financial statements included in Part I, Item 1. "Financial Statements."

Our charter limits us from incurring borrowings that would exceed 300.0% of our net assets. We cannot exceed this limit unless any excess in borrowing over such level is approved by a majority of our independent directors. We would need to disclose any such approval to our stockholders in our next quarterly report along with the justification for such excess. An approximation of this leverage limitation, excluding indirect leverage held through our unconsolidated joint venture investments and any securitized mortgage obligations to third parties, is 75.0% of our assets, other than intangibles, before deducting loan loss reserves, other non-

cash reserves and depreciation. As of September 30, 2019, our leverage was 61.4% of our assets, other than intangibles, before deducting loan loss reserves, other non-cash reserves and depreciation. As of September 30, 2019, indirect leverage on assets, other than intangibles, before deducting loan loss reserves, other non-cash reserves and depreciation, held through our unconsolidated joint ventures was 62.6%.

Capital Expenditures, Development and Redevelopment Activities

We are responsible for capital expenditures for our operating properties and, from time to time, may also fund capital expenditures for certain net leased properties. We continue to invest capital into our operating portfolio in order to maintain market position, as well as functional and operating standards. During the nine months ended September 30, 2019, we spent \$14.6 million on recurring capital expenditures for our direct investments. In addition, we will continue to execute on and identify strategic development opportunities for our existing investments that may involve replacing, converting or renovating facilities in our portfolio which, in turn, would allow us to provide an optimal mix of services, increase operating income, achieve property stabilization and enhance the overall value of our assets.

We are also party to certain agreements that contemplate development of healthcare properties funded by us and our joint venture partners. Although we may not be obligated to fund such capital contributions or capital projects, we may be subject to adverse consequences under our joint venture governing documents for any such failure to fund.

Disposition of Investments

We also evaluate dispositions of non-core investments to provide an additional source of liquidity. In March 2019, the Envoy joint venture, of which we own 11.4%, completed the sale of the remaining 11 properties in the portfolio, for a sales price of \$118.0 million. Our proportionate share of the net proceeds generated from the sale totaled \$4.3 million. In May 2019, we completed the sale of two properties within the Peregrine portfolio for \$19.7 million, generating net proceeds of \$3.3 million, after the repayment of the outstanding mortgage principal balance of \$16.4 million and transaction costs. In September 2019, the Eclipse joint venture, of which we own 5.6%, sold nine properties within the portfolio. Our proportionate share of the net proceeds generated from the sale totaled \$2.1 million.

Distributions

To continue to qualify as a REIT, we are required to distribute annually dividends equal to at least 90% of our taxable income, subject to certain adjustments, to stockholders. We have generated, and continue to generate net operating losses for tax purposes and, accordingly, are not required to make distributions to our stockholders to qualify as a REIT. Effective February 1, 2019, our board of directors determined to suspend distributions in order to preserve capital and liquidity. Refer to “Distributions Declared and Paid” for further information regarding our historical distributions.

Repurchases

We have adopted a Share Repurchase Program effective August 7, 2012, as most recently amended in October 2018, which enables stockholders to sell their shares to us in limited circumstances. In October 2018, our board of directors approved an amended and restated Share Repurchase Program, under which we will only repurchase shares in connection with the death or qualifying disability of a stockholder. However, our board of directors may amend, suspend or terminate our Share Repurchase Program at any time, subject to certain notice requirements. During the nine months ended September 30, 2019, we repurchased 1.0 million shares for an aggregate amount of \$7.4 million. Refer to Note 9, “Stockholders’ Equity” and Note 14, “Subsequent Events” in our accompanying consolidated financial statements included in Part I, Item 1. “Financial Statements.”

Other Commitments

We expect to continue to make payments to our Advisor, or its affiliates, pursuant to our advisory agreement, as applicable, in connection with the management of our assets and costs incurred by our Advisor in providing services to us. In December 2017, our advisory agreement was amended with changes to the asset management and acquisition fee structure. We renewed our advisory agreement with our Advisor on June 30, 2019 for an additional one-year term on terms identical to those previously in effect. Refer to “—Related Party Arrangements” for further information regarding our advisory fees.

Cash Flows

The following presents a summary of our consolidated statements of cash flows for the nine months ended September 30, 2019 and 2018 (dollars in thousands):

Cash flows provided by (used in):	Nine Months Ended September 30,		2019 vs. 2018 Change
	2019	2018	
Operating activities	\$ 20,043	\$ 20,000	\$ 43
Investing activities	(17,047)	34,691	(51,738)
Financing activities	(47,336)	(71,681)	24,345
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ (44,340)	\$ (16,990)	\$ (27,350)

Nine Months Ended September 30, 2019 compared to September 30, 2018

Operating Activities

Net cash provided by operating activities totaled \$20.0 million for the nine months ended September 30, 2019, which was comparable to operating activities cash flows for the nine months ended September 30, 2018. Improved performance in our operating investments was partially offset by lower interest income due to the sale of our investment in the Freddie Mac securitization in March 2018.

Investing Activities

Our cash flows from investing activities are generally used to fund investment improvements and acquisitions, net of any investment dispositions. Net cash used in investing activities was \$17.0 million for the nine months ended September 30, 2019 compared to net cash provided by investing activities of \$34.7 million for the nine months ended September 30, 2018. Cash flows used in investing activities for the nine months ended September 30, 2019 primarily relate to the Griffin-American capital contribution funded in June 2019, partially offset by the proceeds from the Peregrine properties sale and distributions received from the Envoy and Eclipse joint ventures upon the sale of underlying operating assets. Cash flows provided by investing activities for the nine months ended September 30, 2018 primarily relate to the sale of our investment in the Freddie Mac securitization, partially offset by additional capital improvements to existing investments.

The following table presents cash used for capital expenditures during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018, excluding capital expenditures made at our unconsolidated ventures (dollars in thousands):

Capital Expenditures	Nine Months Ended September 30,		2019 vs. 2018 Change
	2019	2018	
Development projects	\$ —	\$ 3,320	\$ (3,320)
Recurring	14,644	16,683	(2,039)
Total improvement of operating real estate investments	\$ 14,644	\$ 20,003	\$ (5,359)

Financing Activities

Our cash flows from financing activities are principally impacted by our distributions paid on common stock and changes in our mortgage notes payable. Cash flows used in financing activities was \$47.3 million for the nine months ended September 30, 2019 compared to \$71.7 million for the nine months ended September 30, 2018. The decrease in cash used of \$24.3 million was primarily attributable to the suspension of dividends in February 2019 and amended share repurchase program in October 2018, partially offset by the Peregrine portfolio mortgage repayment in May 2019.

Off-Balance Sheet Arrangements

As of September 30, 2019, we are not dependent on the use of any off-balance sheet financing arrangements for liquidity. We have made investments in unconsolidated ventures. Refer to Note 4, “Investments in Unconsolidated Ventures” in Part I. Item 1. “Financial Statements” for a discussion of such unconsolidated ventures in our consolidated financial statements. In each case, our exposure to loss is limited to the carrying value of our investment.

Inflation

Some of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors may influence our performance. A change in interest rates may correlate with the inflation rate. Substantially all of the leases allow for annual rent increases based on the greater of certain percentages or increase in the relevant consumer price index. Such types of leases generally minimize the risks of inflation on our healthcare properties.

Refer to Item 3. “Quantitative and Qualitative Disclosures About Market Risk” for additional details.

Related Party Arrangements

Advisor

Subject to certain restrictions and limitations, our Advisor is responsible for managing our affairs on a day-to-day basis and for identifying, acquiring, originating and asset managing investments on our behalf. Our Advisor may delegate certain of its obligations to affiliated entities, which may be organized under the laws of the United States or foreign jurisdictions. References to our Advisor include our Advisor and any such affiliated entities. For such services, to the extent permitted by law and regulations, our Advisor receives fees and reimbursements from us. Pursuant to our advisory agreement, our Advisor may defer or waive fees in its discretion. Below is a description and table of the fees and reimbursements incurred to our Advisor.

In December 2017, our advisory agreement was amended with changes to the asset management and acquisition fee structure as further described below. In June 2019, our advisory agreement was renewed for an additional one-year term commencing on June 30, 2019, with terms identical to those in effect through June 30, 2019.

Fees to Advisor

Asset Management Fee

From inception through December 31, 2017, our Advisor received a monthly asset management fee equal to one-twelfth of 1.0% of the sum of the amount funded or allocated for investments, including expenses and any financing attributable to such investments, less any principal received on debt and securities investments (or our proportionate share thereof in the case of an investment made through a joint venture).

Effective January 1, 2018, our Advisor receives a monthly asset management fee equal to one-twelfth of 1.5% of our most recently published aggregate estimated net asset value, as may be subsequently adjusted for any special distribution declared by our board of directors in connection with a sale, transfer or other disposition of a substantial portion of our assets, with \$2.5 million per calendar quarter of such fee paid in shares of our common stock at a price per share equal to the most recently published net asset value per share.

Our Advisor has also agreed that all shares of our common stock issued to it in consideration of the asset management fee will be subordinate in the share repurchase program to shares of our common stock held by third party stockholders for a period of two years, unless our advisory agreement is earlier terminated.

Incentive Fee

Our Advisor is entitled to receive distributions equal to 15.0% of our net cash flows, whether from continuing operations, repayment of loans, disposition of assets or otherwise, but only after stockholders have received, in the aggregate, cumulative distributions equal to their invested capital plus a 6.75% cumulative, non-compounded annual pre-tax return on such invested capital.

Acquisition Fee

From inception through December 31, 2017, our Advisor received fees for providing structuring, diligence, underwriting advice and related services in connection with real estate acquisitions equal to 2.25% of each real estate property acquired by us, including acquisition costs and any financing attributable to an equity investment (or the proportionate share thereof in the case of an indirect equity investment made through a joint venture or other investment vehicle) and 1.0% of the amount funded or allocated by us to acquire or originate debt investments, including acquisition costs and any financing attributable to such investments (or the proportionate share thereof in the case of an indirect investment made through a joint venture or other investment vehicle).

Effective January 1, 2018, our Advisor no longer receives an acquisition fee in connection with our acquisitions of real estate properties or debt investments.

Disposition Fee

For substantial assistance in connection with the sale of investments and based on the services provided, as determined by our independent directors, our Advisor may receive a disposition fee of 2.0% of the contract sales price of each property sold and 1.0%

of the contract sales price of each debt investment sold. We do not pay a disposition fee upon the maturity, prepayment, workout, modification or extension of a debt investment unless there is a corresponding fee paid by our borrower, in which case the disposition fee is the lesser of: (i) 1.0% of the principal amount of the debt investment prior to such transaction; or (ii) the amount of the fee paid by our borrower in connection with such transaction. If we take ownership of a property as a result of a workout or foreclosure of a debt investment, we will pay a disposition fee upon the sale of such property. A disposition fee from the sale of an investment is generally expensed and included in asset management and other fees - related party in our consolidated statements of operations. A disposition fee for a debt investment incurred in a transaction other than a sale is included in debt investments, net on our consolidated balance sheets and is amortized to interest income over the life of the investment using the effective interest method.

Reimbursements to Advisor

Operating Costs

Our Advisor is entitled to receive reimbursement for direct and indirect operating costs incurred by our Advisor in connection with administrative services provided to us. Our Advisor allocates, in good faith, indirect costs to us related to our Advisor's and its affiliates' employees, occupancy and other general and administrative costs and expenses in accordance with the terms of, and subject to the limitations contained in, the advisory agreement with our Advisor. The indirect costs include our allocable share of our Advisor's compensation and benefit costs associated with dedicated or partially dedicated personnel who spend all or a portion of their time managing our affairs, based upon the percentage of time devoted by such personnel to our affairs. The indirect costs also include rental and occupancy, technology, office supplies, travel and entertainment and other general and administrative costs and expenses. However, there is no reimbursement for personnel costs related to our executive officers (although there may be reimbursement for certain executive officers of our Advisor) and other personnel involved in activities for which our Advisor receives an acquisition fee or a disposition fee. Our Advisor allocates these costs to us relative to its and its affiliates' other managed companies in good faith and has reviewed the allocation with our board of directors, including our independent directors. Our Advisor updates our board of directors on a quarterly basis of any material changes to the expense allocation and provides a detailed review to the board of directors, at least annually, and as otherwise requested by the board of directors. We reimburse our Advisor quarterly for operating costs (including the asset management fee) based on a calculation for the four preceding fiscal quarters not to exceed the greater of: (i) 2.0% of our average invested assets; or (ii) 25.0% of our net income determined without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves and excluding any gain from the sale of assets for that period. Notwithstanding the above, we may reimburse our Advisor for expenses in excess of this limitation if a majority of our independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. We calculate the expense reimbursement quarterly based upon the trailing twelve-month period.

Summary of Fees and Reimbursements

The following table presents the fees and reimbursements incurred and paid to our Advisor for the nine months ended September 30, 2019 and the amount due to related party as of September 30, 2019 and December 31, 2018 (dollars in thousands):

Type of Fee or Reimbursement	Financial Statement Location	Due to Related Party as of December 31, 2018	Nine Months Ended September 30, 2019		Due to Related Party as of September 30, 2019 (Unaudited)
			Incurred	Paid	
<i>Fees to Advisor Entities⁽¹⁾</i>					
Asset management ⁽²⁾	Asset management and other fees-related party	\$ 1,665	\$ 14,983	\$ (14,983) ⁽²⁾	\$ 1,665
<i>Reimbursements to Advisor Entities</i>					
Operating costs ⁽³⁾	General and administrative expenses	4,010	7,589	(8,918)	2,681
Total		<u>\$ 5,675</u>	<u>\$ 22,572</u>	<u>\$ (23,901)</u>	<u>\$ 4,346</u>

- (1) We did not incur any disposition fees during the nine months ended September 30, 2019, nor were any such fees outstanding as of September 30, 2019.
- (2) Includes \$7.5 million paid in shares of our common stock.
- (3) As of September 30, 2019, our Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to us.

Pursuant to our advisory agreement, for the nine months ended September 30, 2019, we issued 1.1 million shares totaling \$7.5 million, based on the share price on the date of each issuance, to an affiliate of our Advisor as part of its asset management fee.

Investments in Joint Ventures

Solstice, the manager of the Winterfell portfolio, is a joint venture between affiliates of ISL, which owns 80.0%, and us, who owns 20.0%. For the nine months ended September 30, 2019, we recognized property management fee expense of \$3.9 million paid to Solstice related to the Winterfell portfolio.

The below table indicates our investments for which our Sponsor is also an equity partner in the joint venture. Each investment was approved by our board of directors, including all of its independent directors. Refer to Note 4, “Investments in Unconsolidated Ventures” of Part I, Item 1. “Financial Statements” for further discussion of these investments:

Portfolio	Partner(s)	Acquisition Date	Ownership
Eclipse	Colony Capital/ Formation Capital, LLC	May-2014	5.6%
Griffin-American	Colony Capital	Dec-2014	14.3%

In connection with the acquisition of the Griffin-American portfolio by NorthStar Realty, now a subsidiary of Colony Capital, and us, our Sponsor acquired a 43.0%, as adjusted, ownership interest in American Healthcare Investors, LLC, or AHI and Mr. James F. Flaherty III, a partner of our Sponsor, acquired a 12.3% ownership interest in AHI. AHI is a healthcare-focused real estate investment management firm that co-sponsored and advised Griffin-American, until Griffin-American was acquired by us and NorthStar Realty.

In December 2015, we, through a joint venture with GAHR3, a REIT sponsored and advised by AHI, acquired a 29.0% interest in the Trilogy portfolio, a \$1.2 billion healthcare portfolio and contributed \$201.7 million for our interest. The purchase was approved by our board of directors, including all of our independent directors. In October 2018, we sold 20.0% of our ownership interest in the Trilogy joint venture, which generated gross proceeds of \$48.0 million and reduced our ownership interest in the joint venture from approximately 29% to 23%. We sold the ownership interest to a wholly owned subsidiary of the operating partnership of GAHR4, a REIT sponsored by AHI.

Origination of Mezzanine Loan

In July 2015, we originated a \$75.0 million mezzanine loan to a subsidiary of our joint venture with Formation and Safanad Management Limited, or the Espresso joint venture, which bears interest at a fixed rate of 10.0% per year and matures in January 2021.

Colony Capital Line of Credit

In October 2017, we obtained our Sponsor Line for up to \$15.0 million at an interest rate of 3.5% plus LIBOR. Our Sponsor Line has an initial one year term, with an extension option of six months. Our Sponsor Line was approved by our board of directors, including all of our independent directors. In November 2017, the borrowing capacity under our Sponsor Line was increased to \$35.0 million. In March 2018, our Sponsor Line maturity was extended through December 2020. As of December 31, 2018, we had drawn and fully repaid \$25.0 million under our Sponsor Line. We did not utilize our Sponsor Line during the nine months ended September 30, 2019.

Recent Developments

Share Repurchases

For the period from October 1, 2019 through November 7, 2019, we repurchased 0.5 million shares for a total of \$3.3 million or a price of \$7.10 per share under our Share Repurchase Program. Prior to the most recent amendments to our Share Repurchase program, we had a total of 12.0 million shares, or \$85.0 million, based on our most recently published estimated value per share of \$7.10, in unfulfilled repurchase requests. Refer to Item 1. “Financial Statements,” Note 9, “Stockholders’ Equity” for additional information regarding our Share Repurchase Program.

Borrowings

In October 2019, the Griffin-American joint venture refinanced a £212 million loan on a portfolio of senior housing assets in the United Kingdom with an interest rate of LIBOR plus 4.25% with a new £223 million fully extended five-year loan with an interest rate of LIBOR plus 3.75%. The transaction did not require any additional capital from the joint venture partners.

Non-GAAP Financial Measures

Funds from Operations and Modified Funds from Operations

We believe that FFO and MFFO are additional appropriate measures of the operating performance of a REIT and of us in particular. We compute FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT, as net income (loss) (computed in accordance with U.S. GAAP), excluding gains (losses) from sales of depreciable property, the cumulative effect of changes in accounting principles, real estate-related depreciation and amortization, impairment on depreciable property owned directly or indirectly and after adjustments for unconsolidated ventures.

Changes in the accounting and reporting rules under U.S. GAAP that have been put into effect since the establishment of NAREIT's definition of FFO have prompted an increase in the non-cash and non-operating items included in FFO. For instance, the accounting treatment for acquisition fees related to business combinations has changed from being capitalized to being expensed. Additionally, publicly registered, non-traded REITs are typically different from traded REITs because they generally have a limited life followed by a liquidity event or other targeted exit strategy. Non-traded REITs typically have a significant amount of acquisition activity and are substantially more dynamic during their initial years of investment and operation as compared to later years when the proceeds from their initial public offering have been fully invested and when they may seek to implement a liquidity event or other exit strategy. However, it is likely that we will make investments past the acquisition and development stage, albeit at a substantially lower pace.

Acquisition fees paid to our Advisor in connection with the origination and acquisition of debt investments are amortized over the life of the investment as an adjustment to interest income, while fees paid to our Advisor in connection with the acquisition of equity investments are generally expensed under U.S. GAAP. In both situations, the fees are included in the computation of net income (loss) and income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax benefit (expense), both of which are performance measures under U.S. GAAP. We adjust MFFO for the amortization of acquisition fees in the period when such amortization is recognized under U.S. GAAP or in the period in which the acquisition fees are expensed. Acquisition fees are paid in cash that would otherwise be available to distribute to our stockholders. Such fees and expenses will not be reimbursed by our Advisor or its affiliates and third parties, and therefore, such fees and expenses will need to be paid from either additional debt, operating earnings, cash flow or net proceeds from the sale of investments or properties. However, in general, we earn origination fees for debt investments from our borrowers in an amount equal to the acquisition fees paid to our Advisor. Effective January 1, 2018, our Advisor no longer receives an acquisition fee in connection with our acquisition of real estate properties or debt investments.

Due to certain of the unique features of publicly-registered, non-traded REITs, the Investment Program Association, or IPA, an industry trade group, standardized a performance measure known as MFFO and recommends the use of MFFO for such REITs. Management believes MFFO is a useful performance measure to evaluate our business and further believes it is important to disclose MFFO in order to be consistent with the IPA recommendation and other non-traded REITs. MFFO adjusts for items such as acquisition fees would only be comparable to non-traded REITs that have completed the majority of their acquisition activity and have other similar operating characteristics as us. Neither the U. S. Securities and Exchange Commission, or SEC, nor any other regulatory body has approved the acceptability of the adjustments that we use to calculate MFFO. In the future, the SEC or another regulatory body may decide to standardize permitted adjustments across the non-listed REIT industry and we may need to adjust our calculation and characterization of MFFO.

MFFO is a metric used by management to evaluate our future operating performance once our organization and offering and acquisition and development stages are complete and is not intended to be used as a liquidity measure. Although management uses the MFFO metric to evaluate future operating performance, this metric excludes certain key operating items and other adjustments that may affect our overall operating performance. MFFO is not equivalent to net income (loss) as determined under U.S. GAAP. In addition, MFFO is not a useful measure in evaluating net asset value, since impairment is taken into account in determining net asset value but not in determining MFFO.

We define MFFO in accordance with the concepts established by the IPA, and adjust for certain items, such as accretion of a discount and amortization of a premium on borrowings and related deferred financing costs, as such adjustments are comparable to adjustments for debt investments and will be helpful in assessing our operating performance. We also adjust MFFO for the non-recurring impact of the non-cash effect of deferred income tax benefits or expenses, as applicable, as such items are not indicative of our operating performance. Similarly, we adjust for the non-cash effect of unrealized gains or losses on unconsolidated ventures. Our computation of MFFO may not be comparable to other REITs that do not calculate MFFO using the same method. MFFO is calculated using FFO. FFO, as defined by NAREIT, is a computation made by analysts and investors to measure a real estate company's operating performance. The IPA's definition of MFFO excludes from FFO the following items:

- acquisition fees and expenses;
- non-cash amounts related to straight-line rent and the amortization of above or below market and in-place intangible lease assets and liabilities (which are adjusted in order to reflect such payments from an accrual basis of accounting under U.S. GAAP to a cash basis of accounting);
- amortization of a premium and accretion of a discount on debt investments;
- non-recurring impairment of real estate-related investments that meet the specified criteria identified in the rules and regulations of the SEC;
- realized gains (losses) from the early extinguishment of debt;

- realized gains (losses) on the extinguishment or sales of hedges, foreign exchange, securities and other derivative holdings except where the trading of such instruments is a fundamental attribute of our business;
- unrealized gains (losses) from fair value adjustments on real estate securities, including CMBS and other securities, interest rate swaps and other derivatives not deemed hedges and foreign exchange holdings;
- unrealized gains (losses) from the consolidation from, or deconsolidation to, equity accounting;
- adjustments related to contingent purchase price obligations; and
- adjustments for consolidated and unconsolidated partnerships and joint ventures calculated to reflect MFFO on the same basis as above.

Certain of the above adjustments are also made to reconcile net income (loss) to net cash provided by (used in) operating activities, such as for the amortization of a premium and accretion of a discount on debt and securities investments, amortization of fees, any unrealized gains (losses) on derivatives, securities or other investments, as well as other adjustments.

MFFO excludes non-recurring impairment of real estate-related investments. We assess the credit quality of our investments and adequacy of reserves/impairment on a quarterly basis, or more frequently as necessary. Significant judgment is required in this analysis. With respect to debt investments, we consider the estimated net recoverable value of the loan as well as other factors, including but not limited to the fair value of any collateral, the amount and the status of any senior debt, the prospects for the borrower and the competitive situation of the region where the borrower does business. Fair value is typically estimated based on discounting expected future cash flow of the underlying collateral taking into consideration the discount rate, capitalization rate, occupancy, creditworthiness of major tenants and many other factors. This requires significant judgment and because it is based on projections of future economic events, which are inherently subjective, the amount ultimately realized may differ materially from the carrying value as of the consolidated balance sheets date. If the estimated fair value of the underlying collateral for the debt investment is less than its net carrying value, a loan loss reserve is recorded with a corresponding charge to provision for loan losses. With respect to a real estate investment, a property's value is considered impaired if a triggering event is identified and our estimate of the aggregate future undiscounted cash flow to be generated by the property is less than the carrying value of the property. The value of our investments may be impaired and their carrying values may not be recoverable due to our limited life. Investors should note that while impairment charges are excluded from the calculation of MFFO, investors are cautioned that due to the fact that impairments are based on estimated future undiscounted cash flow and the relatively limited term of a non-traded REIT's anticipated operations, it could be difficult to recover any impairment charges through operational net revenues or cash flow prior to any liquidity event.

We believe that MFFO is a useful non-GAAP measure for non-traded REITs. It is helpful to management and stockholders in assessing our future operating performance once our organization and offering, and acquisition and development stages are complete, because it eliminates from net income non-cash fair value adjustments on our real estate securities and acquisition fees and expenses that are incurred as part of our investment activities. However, MFFO may not be a useful measure of our operating performance or as a comparable measure to other typical non-traded REITs if we do not continue to operate in a similar manner to other non-traded REITs, including if we were to extend our acquisition and development stage or if we determined not to pursue an exit strategy.

However, MFFO does have certain limitations. For instance, the effect of any amortization or accretion on debt investments originated or acquired at a premium or discount, respectively, is not reported in MFFO. In addition, realized gains (losses) from acquisitions and dispositions and other adjustments listed above are not reported in MFFO, even though such realized gains (losses) and other adjustments could affect our operating performance and cash available for distribution. Stockholders should note that any cash gains generated from the sale of investments would generally be used to fund new investments. Any mark-to-market or fair value adjustments may be based on many factors, including current operational or individual property issues or general market or overall industry conditions.

We purchased Class B healthcare-related securities in a securitization trust at a discount to par value, and would have recorded the accretion of the discount as interest income (which we refer to as the effective yield) had we been able to record the transaction as an available for sale security. As we were granted certain rights with our purchase, U.S. GAAP required us to consolidate the whole securitization trust and eliminate the Class B securities. We believe that reporting the effective yield in MFFO provided better insight to the expected contractual cash flows and was more consistent with our review of operating performance. The effective yield computation under U.S. GAAP and MFFO was the same.

Neither FFO nor MFFO is equivalent to net income (loss) or cash flow provided by operating activities determined in accordance with U.S. GAAP and should not be construed to be more relevant or accurate than the U.S. GAAP methodology in evaluating our operating performance. Neither FFO nor MFFO is necessarily indicative of cash flow available to fund our cash needs including our ability to make distributions to our stockholders. FFO and MFFO 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. Furthermore, neither FFO nor MFFO should be considered as an alternative to net income (loss) as an indicator of our operating performance.

The following table presents a reconciliation of net income (loss) attributable to common stockholders to FFO and MFFO attributable to common stockholders (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Funds from operations:				
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	\$ (14,624)	\$ (6,604)	\$ (50,387)	\$ (74,366)
Adjustments:				
Depreciation and amortization	16,164	25,629	54,525	81,943
Impairment losses of depreciable real estate	—	—	10,146	4,514
Depreciation and amortization related to unconsolidated ventures	7,942	8,941	23,802	25,676
Depreciation and amortization related to non-controlling interests	(158)	(170)	(471)	(629)
Impairment loss on real estate related to non-controlling interests	—	—	(300)	(62)
Realized (gain) loss from sales of property	—	(63)	(6,104)	(63)
Realized gain (loss) from sales of property related to non-controlling interests	—	2	—	2
Realized (gain) loss from sales of property related to unconsolidated ventures	—	(9)	(85)	2,713
Impairment losses of depreciable real estate held by unconsolidated ventures	1,102	990	1,617	1,316
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	\$ 10,426	\$ 28,716	\$ 32,743	\$ 41,044
Modified funds from operations:				
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	\$ 10,426	\$ 28,716	\$ 32,743	\$ 41,044
Adjustments:				
Acquisition fees and transaction costs	29	—	105	796
Straight-line rental (income) loss	(50)	(248)	(478)	628
Amortization of premiums, discounts and fees on investments and borrowings	1,235	1,184	3,673	3,588
Amortization of discounts on healthcare-related securities	—	—	—	314
Adjustments related to unconsolidated ventures ⁽¹⁾	2,490	(17,159)	8,693	(5,653)
Adjustments related to non-controlling interests	(6)	10	(21)	(29)
Realized (gain) loss on investments and other	(204)	(663)	178	(4,158)
Impairment of assets other than real estate	—	—	—	725
Modified funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	\$ 13,920	\$ 11,840	\$ 44,893	\$ 37,255

(1) Primarily represents our proportionate share of liability extinguishment gains, loan loss reserves, transaction costs and amortization of above/below market debt adjustments, debt extinguishment losses and deferred financing costs, incurred through our investments in unconsolidated ventures.

Distributions Declared and Paid

We generally paid distributions on a monthly basis based on daily record dates on the first business day of the month following the month for which the distribution was accrued. From the date of our first investment on April 5, 2013 through December 31, 2017, we paid an annualized distribution amount of \$0.675 per share of our common stock. Our board of directors approved a daily cash distribution of \$0.000924658 per share of common stock, equivalent to an annualized distribution amount of \$0.3375 per share, for the year ended December 31, 2018 and month ended January 31, 2019. Effective February 1, 2019, our board of directors determined to suspend distributions in order to preserve capital and liquidity.

The following table presents distributions declared for the nine months ended September 30, 2019 and year ended December 31, 2018 (dollars in thousands):

	Nine Months Ended September 30, 2019		Year Ended December 31, 2018	
Distributions⁽¹⁾				
Cash	\$	2,991	\$	32,739
DRP		2,422		30,517
Total	\$	5,413	\$	63,256
Sources of Distributions⁽¹⁾				
FFO ⁽²⁾	\$	5,413	100%	\$ 33,011 52%
Offering proceeds - Other		—	—%	30,245 48%
Total	\$	5,413	100%	\$ 63,256 100%
Cash Flow Provided by (Used in) Operations				
	\$	20,043	\$	27,986

(1) Represents distributions declared for such period, even though such distributions are actually paid to stockholders the month following such period.

(2) From inception of our first investment on April 5, 2013 through September 30, 2019, we declared \$433.8 million in distributions. Cumulative FFO for the period from April 5, 2013 through September 30, 2019 was \$80.4 million.

For the year ended December 31, 2018, distributions in excess of FFO were paid using available capital sources, including proceeds from borrowings and dispositions. To the extent distributions are paid from sources other than FFO, the ownership interest of our public stockholders will be diluted. Future distributions declared and paid may exceed FFO and cash flow provided by operations. FFO, as defined, may not reflect actual cash available for distributions. Our ability to pay distributions from FFO or cash flow provided by operations depends upon our operating performance, including the financial performance of our investments in the current real estate and financial environment, the type and mix of our investments, accounting of our investments in accordance with U.S. GAAP, the performance of underlying debt and ability to maintain liquidity. We will continue to assess our distribution policy in light of our operating performance and capital needs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are primarily subject to interest rate risk and credit risk. These risks are dependent on various factors beyond our control, including monetary and fiscal policies, domestic and international economic conditions and political considerations. Our market risk sensitive assets, liabilities and related derivative positions (if any) are held for investment and not for trading purposes.

Interest Rate Risk

Changes in interest rates may affect our net income as a result of changes in interest expense incurred in connection with floating-rate borrowings used to finance our equity investments. As of September 30, 2019, 11.8% of our total borrowings were floating rate liabilities and none of our real estate debt investments were floating rate investments. As of September 30, 2019, all floating rate liabilities outstanding related to mortgage notes payable of our direct operating investments. As of September 30, 2019, we had one line of credit which carries a floating interest rate, with no outstanding liabilities.

Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings, prepayment penalties and cash flows and to lower overall borrowing costs by borrowing primarily at fixed rates or variable rates with the lowest margins available and by evaluating hedging opportunities.

For longer duration, relatively stable real estate cash flows, such as those derived from net lease assets, we seek to use fixed rate financing. For real estate cash flows with greater growth potential, such as operating properties, we may use floating rate financing which provides prepayment flexibility and may provide a better match between underlying cash flow projections and potential increases in interest rates.

The interest rate on our floating-rate liabilities is a fixed spread over an index such as LIBOR and typically reprices every 30 days based on LIBOR in effect at the time. As of September 30, 2019, a hypothetical 100 basis point increase in interest rates would increase net interest expense by \$1.7 million annually. We did not have any floating rate real estate debt investments as of September 30, 2019.

A change in interest rates could affect the value of our fixed-rate debt investments. For instance, an increase in interest rates would result in a higher required yield on investments, which would decrease the value on existing fixed-rate investments in order to

adjust their yields to current market levels. As of September 30, 2019, we had one fixed-rate debt investment with a carrying value of \$55.6 million.

Credit Risk

We are subject to the credit risk of the tenants, operators and managers of our healthcare properties. We undertake a rigorous credit evaluation of each healthcare operator prior to acquiring healthcare properties. This analysis includes an extensive due diligence investigation of the operator or manager’s business as well as an assessment of the strategic importance of the underlying real estate to the operator or manager’s core business operations. Where appropriate, we may seek to augment the operator or manager’s commitment to the facility by structuring various credit enhancement mechanisms into the underlying leases, management agreements or joint venture arrangements. These mechanisms could include security deposit requirements or guarantees from entities we deem creditworthy. In addition, we actively monitor lease coverage at each facility within our healthcare portfolio. The extent of pending or future healthcare regulation may have a material impact on the valuation and financial performance of this portion of our portfolio.

Credit risk in our debt investment relates to the borrower’s ability to make required interest and principal payments on scheduled due dates. We seek to manage credit risk through our Advisor’s comprehensive credit analysis prior to making an investment, actively monitoring our portfolio and the underlying credit quality, including subordination and diversification of our portfolio. Our analysis is based on a broad range of real estate, financial, economic and borrower-related factors which we believe are critical to the evaluation of credit risk inherent in a transaction.

For the nine months ended September 30, 2019, the Espresso mezzanine loan contributed 100.0% of interest income. As of September 30, 2019, one borrower, a subsidiary of the Espresso joint venture, represents 100.0% of the aggregate principal amount of our debt investments. The Espresso joint venture has several sub-portfolios, one of which has a tenant lease in default. The underlying tenant default resulted in a default under the senior loan with respect to the applicable sub-portfolio, which in turn resulted in a default under the Espresso mezzanine loan as of September 30, 2019. We are actively monitoring the actions of the senior lender and assessing our rights and remedies. We continue to assess the collectability of principal and interest.

Risk Concentration

The following table presents the operators and tenants of our properties, excluding properties owned through unconsolidated joint ventures as of September 30, 2019 (dollars in thousands):

Operator / Tenant	Properties Under Management	Units Under Management ⁽¹⁾	Nine Months Ended September 30, 2019	
			Property and Other Revenues	% of Total Property and Other Revenues
Watermark Retirement Communities	30	5,265	\$ 114,092	51.8%
Solstice Senior Living ⁽²⁾	32	4,000	79,652	36.2%
Avamere Health Services	5	453	12,587	5.7%
Arcadia Management	4	572	7,961	3.6%
Integral Senior Living ⁽²⁾	3	162	4,704	2.1%
Peregrine Senior Living ⁽³⁾	—	—	598	0.3%
Senior Lifestyle Corporation ⁽⁴⁾	1	63	—	—%
Other ⁽⁵⁾	—	—	677	0.3%
Total	75	10,515	\$ 220,271	100.0%

- (1) Represents rooms for ALF and ILF and beds for MCF and SNF, based on predominant type.
- (2) Solstice is a joint venture of which affiliates of ISL own 80%.
- (3) In May 2019, we sold the two properties leased to Peregrine Senior Living.
- (4) Tenant has failed to remit rental payments during the nine months ended September 30, 2019. Properties and unit counts exclude one property held for sale.
- (5) Consists primarily of interest income earned on corporate-level cash accounts.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management established and maintains disclosure controls and procedures that are designed to ensure that material information relating to us and our subsidiaries required to be disclosed in reports that are filed or submitted under the Securities Exchange Act of 1934, as amended, or Exchange Act, are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, management conducted an evaluation as required under Rules 13a-15(b) and 15d-15(b) under the Exchange Act, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act).

Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures to disclose material information otherwise required to be set forth in the Company's periodic reports.

Internal Control over Financial Reporting

Changes in Internal Control over Financial Reporting.

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II Other Information

Item 1. Legal Proceedings

We may be involved in various litigation matters arising in the ordinary course of our business. Although we are unable to predict with certainty the eventual outcome of any litigation, in the opinion of management, any current legal proceedings are not expected to have a material adverse effect on our financial position or results of operations.

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as filed with the SEC on March 22, 2019, as amended by Amendment No. 1 on Form 10-K/A, which was filed with the SEC on September 16, 2019, except as noted below.

If we pay distributions from sources other than our cash flow provided by operations, we will have less cash available for investments and your overall return may be reduced.

Our organizational documents permit us to pay distributions from any source, including offering proceeds, borrowings, our Advisor's agreement to defer, reduce or waive fees (or accept, in lieu of cash, shares of our common stock) or sales of assets or we may make distributions in the form of taxable stock dividends. We have not established a limit on the amount of proceeds we may use to fund distributions. We have funded distributions in excess of our cash flow from operations. For the nine months ended September 30, 2019, we declared distributions of \$5.4 million compared to cash provided by operating activities of \$20.0 million. For the declared distributions during the nine months ended September 30, 2019, \$5.4 million, or 100.0%, of the distributions declared were paid using cash flow from operations. For the year ended December 31, 2018, we declared distributions of \$63.3 million compared to cash provided by operating activities of \$28.0 million. For the declared distributions during the year ended December 31, 2018, \$35.3 million, or 55.8%, of the distributions declared were paid using sources other than cash flow from operations.

We may not have sufficient cash available to pay distributions at the rate we had paid during preceding periods or at all. If we pay distributions from sources other than our cash flow provided by operations, our book value may be negatively impacted and stockholders' overall return may be reduced.

Item 2. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We adopted our Share Repurchase Program effective August 7, 2012, as most recently amended in October 2018, which enables stockholders to sell their shares to us in limited circumstances. Under our current Share Repurchase Program, we only repurchase shares in connection with a stockholder's death or qualifying disability. A qualifying disability is a disability as such term is defined in Section 72(m)(7) of the Internal Revenue Code that arises after the purchase of the shares requested to be repurchased.

We are not obligated to repurchase shares under our Share Repurchase Program. Our board of directors may, in its sole discretion, amend, suspend or terminate our Share Repurchase Program at any time provided that any amendment that adversely affects the rights or obligations of a participant (as determined in the sole discretion of our board of directors) will only take effect upon ten days' prior written notice except that changes in the number of shares that can be repurchased during any calendar year will take effect only upon ten business days' prior written notice. In addition, our Share Repurchase Program will terminate in the event a secondary market develops for our shares or if our shares are listed on a national exchange or included for quotation in a national securities market.

For the nine months ended September 30, 2019, we repurchased shares of our common stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan or Program
January 1 to January 31		—	—	
February 1 to February 28	278,579	\$ 7.10	278,579	(1)
March 1 to March 31		—	—	
April 1 to April 30		—	—	
May 1 to May 31	451,229	7.10	451,229	(1)
June 1 to June 30		—	—	
July 1 to July 31				
August 1 to August 31	314,637	7.10	314,637	(1)
September 1 to September 30				
Total	<u>1,044,445</u>	\$ 7.10	<u>1,044,445</u>	

(1) Subject to funds being available, the limits under our Share Redemption Program were amended in October 2018, as described in further detail below.

Prior to the most recent amendments to our Share Repurchase Program, we had a total of 12.0 million shares, or \$85.0 million, based on our most recently published estimated value per share of \$7.10, in unfulfilled repurchase requests. For additional information, refer to Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments.”

Unregistered Sales of Equity Securities

On April 30, 2019, May 31, 2019 and June 28, 2019, we issued 1.1 million shares of common stock at \$7.10 per share, respectively, to our Advisor as part of its asset management fee, pursuant to our advisory agreement. These shares were issued pursuant to an exemption from registration under Section 4(a)(2) of the Securities Act for transactions not involving a public offering.

On June 21, 2019, we granted 8,451 shares of restricted common stock at \$7.10 per share to each of our independent directors for an aggregate of 25,353 shares of restricted common stock, pursuant to our independent directors’ compensation plan. These shares were issued pursuant to an exemption from registration under Section 4(a)(2) of the Securities Act for transactions not involving a public offering.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

Exhibit Number	Description of Exhibit
3.1	<u>Articles of Amendment and Restatement of NorthStar Healthcare Income, Inc. (filed as Exhibit 3.1 to Pre-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (File No. 333-170802) and incorporated herein by reference)</u>
3.2	<u>Certificate of Correction of the Articles of Amendment and Restatement of NorthStar Healthcare Income, Inc. (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 and incorporated herein by reference)</u>
3.3	<u>Fourth Amended and Restated Bylaws of NorthStar Healthcare Income, Inc. (filed as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 and incorporated herein by reference)</u>
4.1	<u>Amended and Restated Distribution Reinvestment Plan (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 8, 2016 and incorporated herein by reference)</u>
31.1*	<u>Certification by the Chief Executive Officer pursuant to 17 CFR 240.13a-14(a)/15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification by the Chief Financial Officer pursuant to 17 CFR 240.13a-14(a)/15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1*	<u>Certification by the Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2*	<u>Certification by the Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101*	The following materials from the NorthStar Healthcare Income, Inc. Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2019 (unaudited) and December 31, 2018; (ii) Consolidated Statements of Operations (unaudited) for the three and nine months ended September 30, 2019 and 2018; (iii) Consolidated Statements of Comprehensive Income (Loss) (unaudited) for the three and nine months ended September 30, 2019 and 2018; (iv) Consolidated Statements of Equity (unaudited) for the three and nine months ended September 30, 2019 and 2018; (v) Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2019 and 2018; and (vi) Notes to Consolidated Financial Statements (unaudited)

* 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.

NorthStar Healthcare Income, Inc.

Date: November 8, 2019

By: /s/ RONALD J. JEANNEAULT

Name: Ronald J. Jeanneault

Title: *Chief Executive Officer, President and Vice Chairman*

By: /s/ FRANK V. SARACINO

Name: Frank V. Saracino

Title: *Chief Financial Officer and Treasurer*

**CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO
17 CFR 240.13a-14(a)/15(d)-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ronald J. Jeanneault, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ RONALD J. JEANNEAULT

Name: Ronald J. Jeanneault

Title: *Chief Executive Officer, President
and Vice Chairman*

Date: November 8, 2019

**CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO
17 CFR 240.13a-14(a)/15(d)-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Frank V. Saracino, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ FRANK V. SARACINO

Name: Frank V. Saracino

Title: *Chief Financial Officer and Treasurer*

Date: November 8, 2019

**CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc. (the “Company”) for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Ronald J. Jeanneault, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ RONALD J. JEANNEAULT

Ronald J. Jeanneault

*Chief Executive Officer, President and
Vice Chairman*

Date: November 8, 2019

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc. (the “Company”) for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Frank V. Saracino, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ FRANK V. SARACINO

Frank V. Saracino

Chief Financial Officer and Treasurer

Date: November 8, 2019

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.