NorthStar
HEALTHCARE INCOME

FREQUENTLY ASKED QUESTIONS

Set forth below is a set of questions and answers provided by NorthStar Healthcare Income, Inc. (NorthStar Healthcare or the Company). For additional information regarding the Company, please see the Company's filings with the Securities and Exchange Commission (the SEC), including its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023. The Company's SEC filings can be obtained free of charge at the SEC's website located at www.sec.gov or at the Company's Investor Relations tab on its website located at www.northstarhealthcarereit.com.

Strategy and Capital Needs

What is the primary financial objective of the Company at this stage?

The primary financial objective of the Company at this stage is to maximize the value of its existing investments and generate liquidity for stockholders.

What is the Company's strategy in order to achieve this objective?

The Company is focused on growing the net operating income generated by the Company's assets, selectively deploying strategic capital expenditures to enhance the value of certain assets and pursuing dispositions of assets and portfolios where the Company believes the disposition will achieve a desired return and generate value for stockholders.

What are the factors that the Company considers in determining whether to pursue a disposition at any given time?

A variety of factors affect the Company's decision to pursue a potential disposition of a property including, but not limited to, the following:

- *Market Conditions.* Economic uncertainty, rising interest rates, inflation and availability of capital, among other factors, impact transaction volume, capitalization rates and, ultimately, what potential buyers are willing to pay for a property.

- *Performance.* A property's performance, including occupancy, net operating income and margins, will affect the value ascribed to the property by a potential buyer. The Company may determine, based on market and other conditions, that deferring a transaction until performance has improved will help maximize value for that property or portfolio in a disposition.

- *Debt Maturities.* The timing of when the debt on a particular property or portfolio matures may also drive timing around dispositions. For example, selling a property or portfolio significantly in advance of a maturity date may result in prepayment penalties, which will affect the net proceeds generated by the sale. At the same time, the ability to refinance debt as it matures on favorable terms, including the interest rate and loan amount, and the costs associated with any refinancing activities, also has an economic impact on the decision to hold or sell a property.

- *Price.* Although all of the above factors ultimately affect price, a variety of other unique factors may result in compelling offers from certain potential buyers and the Company remains open to disposition opportunities that are consistent with its view of value.

How are seniors housing properties valued by potential buyers?

Valuation of commercial real estate, including seniors housing properties, is significantly impacted by rates of return required by investors (*i.e.*, the income a property might generate, assuming a certain holding period, relative to the cost to acquire the property). Buyer expectations for rates of return are influenced by the economic environment, interest rates and the risk associated with the investment, including asset- and market-level characteristics such as quality, location, supply and demand and occupancy, among other factors.

How are the current market conditions affecting the Company's strategy?

Current market conditions impacting property-level operating performance are generally favorable. Industry occupancy continues to grow, averaging 84.4% for the third quarter of 2023, up 80 basis points from the previous quarter, but still remains below the pre-pandemic average of 87.1% in March 2020 (source: NIC MAP Vision 3Q2023 Market Fundamentals Report). The 80+ population, a key demographic for senior housing, is expected to grow by 24% through 2028 (source: Organization for Economic Cooperation and Development as of November 2023), and new supply and new construction remain low compared to historical levels, resulting in a demand and supply environment that should contribute to overall industry occupancy and revenue growth. NorthStar Healthcare has made significant capital improvements to many of its properties, which along with these positive market dynamics, has contributed to the strong 29% growth in revenues, net of property expenses, for the nine months ended September 30, 2023 compared to the same period last year in its directly owned operating portfolio. Although the Company continues to face higher labor costs and operating expenses due to inflation, overall we remain optimistic that revenue growth will exceed expense growth, resulting in continued improved net operating income growth.

By contrast, current market conditions affecting transactions, including asset sales, are challenging. The current state of the public and private capital markets have been affected by a general tightening of availability of credit (including the price, terms and conditions under which financing can be obtained), rising interest rates and a general decrease in liquidity in the healthcare lending markets, which has resulted in higher capitalization rates, adversely impacting property values and limiting transaction activity. For example, the seniors housing and care transaction volume totaled $700 million during the third quarter of 2023, the lowest quarterly level in ten years according to McKnights Senior Living. Although opportunities may exist to dispose of assets in the current market environment and there are certain scenarios where a sale can generate an acceptable market return for stockholders, many opportunities in the current market would require us to take significant discounts to our view of value.

Why did the Company recently agree to sell its minority position in the Trilogy joint venture if market conditions are so challenging?

The Company entered into an agreement giving the majority partner of the Trilogy joint venture the right to acquire all of its ownership interests in Trilogy REIT Holdings, LLC (the Trilogy joint venture), at any time prior to September 30, 2025, assuming the buyer exercises all extension options and subject to satisfaction of closing conditions, for a purchase price ranging from $240.5 million to $260 million depending upon the purchase price consideration and timing of the closing. The buyer may terminate this agreement at any time (subject to payment of a termination fee to the Company), so there can be no assurance that the Company will be able to consummate this transaction on these terms or at all. For additional information regarding the potential transaction, refer to the Company's Current Report on Form 8-K filed with the SEC on November 7, 2023.

Although market conditions are challenging, the buyer, as the majority partner of the Trilogy joint venture, was uniquely incentivized to make a compelling offer to acquire the Company's interest in the Trilogy joint venture in order to pursue its own corporate strategic objectives.

How do you anticipate market conditions changing over the next 12-24 months?

Overall, industry expectations are for continued net operating income growth due to the current supply and demand environment. However, the investment markets are still in flux due to rising interest rates and economic uncertainty. Until the investment and capital markets stabilize, valuations will continue to be in flux and it will be difficult to achieve an optimal price in most cases. It is difficult at this time to estimate when the investment markets, and values, will stabilize.

Why does the Company continue to invest capital in its assets?

The Company must invest capital in its properties to maintain functional and operational standards. In addition, the Company will invest additional discretionary capital in its assets where it believes the investment will result in improved performance and yield a higher value for the property or portfolio upon disposition, such as updates to common areas and resident unit upgrades. The Company has invested over $40 million in these types capital projects in 2022 and 2023 to date, though expects this amount to be significantly lower in future years. These capital investments contributed to the 29% growth in revenues, net of property expenses, achieved by the Company for the nine months ended September 30, 2023 compared to the same period last year in its directly owned portfolio.

By contrast, if the Company does not believe additional investment in a property will achieve a desired return due to challenges in the local market, impending debt maturities, the magnitude of the operating deficits or other factors, it will not invest additional discretionary capital in these assets. For example, the Company elected not to invest additional capital in seven cross-collateralized properties within the Rochester portfolio to cover cash flow shortfalls when it determined that it was unlikely that the portfolio would generate sufficient sales proceeds at maturity to repay the outstanding debt, ultimately electing to default on its borrowings and work with the lender to facilitate a consensual conveyance of the properties to the lender.

How does the Company intend to handle upcoming loan maturities?

Approximately 75% of the Company's debt matures in 2025. The Company currently intends to pursue disposition opportunities for the assets securing this debt, but may also consider extending or refinancing the debt based on market conditions and other factors. Any refinancing or extensions may require the Company to invest additional capital in order to pay down existing loan balances and may result in significantly higher interest rates. Additionally, certain lenders may not be willing to extend an existing loan.

Liquidity Event

Is there currently a plan to liquidate the Company and return capital to stockholders?

The Company has not announced or adopted a plan for liquidation and is not required to liquidate by any specified date. The Company does not have a stated term for a liquidity event, as it believes setting a finite date for a possible, but uncertain future liquidity transaction may result in actions that are not necessarily in the best interest or within the expectations of its stockholders.

In connection with the Company's initial offering, it indicated that, subject to then-existing market conditions, the Company would consider alternatives for providing liquidity to its stockholders beginning five years from the completion of its offering stage, which was completed in 2016. However, the Company further indicated that the ability to seek a liquidity event in this time frame would depend upon market conditions and there was no assurance that a suitable transaction would be available at that time. As discussed below, a variety of factors, including in particular the COVID-19 pandemic, have affected the Company's ability to pursue a liquidity event over the past few years.

What has the board of directors done to explore a potential liquidity event?

In August 2020, the Company's board of directors formed a special committee consisting solely of independent directors to evaluate strategic alternatives available to the Company, in order to position the Company to maximize value upon a future liquidity event. The special committee evaluated, over more than two years, a broad range of potential transactions, including restructurings, dispositions of particular assets and the Company as a whole and the internalization of management, among others. Key takeaways of the special committee's review process included the following:

- A sale of the Company as a whole at that time could not have been achieved at an acceptable value based on a variety of factors, such as the composition of the Company's investments and leverage, the extended recovery from the COVID-19 pandemic, high inflation and labor costs and rising interest rates, among others.
- The Company's current focus should be on growing the net operating income of its existing portfolio, including through selectively investing capital into certain assets, in order to achieve a better return upon the sale of a property.
- In light of the composition of the Company's portfolio, the Company may be best able to maximize value for its stockholders by seeking to sell different assets to different buyers.
- Once market conditions improve, or if compelling opportunities otherwise become apparent, the Company may proceed with a general plan to sell assets, while also exploring potential merger transactions in which the whole Company would be acquired.
- An internalized management team, incentivized to execute on this strategy, would give the Company the best chance for success.

When does the Company currently expect to liquidate?

The Company continues to evaluate market conditions, performance and disposition opportunities with the goal of providing liquidity to stockholders without compromising on value. If market conditions improve, the Company intends to move forward with dispositions in the next three years, though it may take several years to achieve a complete liquidation of the Company depending upon the form of the transactions entered into by the Company.

What will stockholders receive in connection with a liquidity event?

We are not able to determine at this stage what stockholders will receive in connection with a future liquidity event, as it will depend upon the nature of the liquidity event.

For example, if the Company ultimately adopts a plan to sell all of its assets and dissolve, stockholders may receive cash distributions of the net proceeds of these asset sales, after setting aside sufficient proceeds to satisfy the Company's liabilities, over a wind down period that may be several years. By contrast, if the Company is acquired as a whole through a merger transaction, stockholders may receive either cash or shares in the surviving company, at the closing of such a transaction in exchange for their shares in the Company.

Do stockholders get to approve liquidity transactions?

Some types of liquidity transactions do require stockholder approval. For example, if the board of directors of the Company adopts a plan to sell all of the Company's assets and dissolve the Company, this plan would require stockholder approval. In addition, if the Company were to be acquired in a merger with another company, stockholders would also have the opportunity to approve that transaction.

Is the management team of the Company incentivized to implement this strategy?

Yes. Beginning in 2023, following the internalization of management, approximately 70% of the target pay of the Chief Executive Officer is tied to achievement of short-term and long-term corporate objectives and performance criteria. For 2023, 70% of each executive officer's annual cash bonus opportunity is tied to the Company's net operating income and management of general and administrative expenses, with the balance tied to individual performance. In addition, each executive officer received a one-time, long-term incentive award (the LTIP Awards) to encourage retention and alignment with the long-term performance and strategic objectives of the Company. Subject to continued employment, the performance component of the LTIP Award (worth 75% of its value) will vest on December 31, 2025 if and to the extent certain performance criteria is achieved, and will be paid in cash. The payout opportunity for the performance component of the LTIP Awards ranges from zero to 150% of the target value, depending upon the amounts distributed to stockholders, or available to be distributed to stockholders as determined by the Board in its sole discretion, over the vesting period.

Dividends; Redemption Program

Will recurring dividends resume? When will the next special distribution be paid?

Based on the current forecasted cash flow of its investments and cash needs to operate the business, the Company does not anticipate paying recurring dividends in the near future. The Company's board of directors will continue to evaluate special distributions in connection with any future sales and other realizations of investments on a case-by-case basis based on, among other factors, current and projected liquidity needs, opportunities for investment in assets (such as capital expenditure and de-levering opportunities) and other strategic initiatives.

The Company has significant cash; why is the Company not making distributions?

The Company requires capital to fund operations, capital expenditures, including those invested to improve performance, and other important business uses, as well as to fund its debt service obligations and potentially to refinance indebtedness. Current cash flow generated by operations is not sufficient to cover all of these obligations. For example, during the nine months ended September 30, 2023, excluding the impact of asset sales, the cash needs of the Company's business (including, for example, capital expenditures, debt service obligations and G&A expenses) exceeded the cash flow generated by the Company's investments by approximately $34 million. Future cash flow depends upon the performance of the managers who operate the Company's properties, as well as general economic, industry, financial, competitive and other factors, many of which are beyond the Company's control. If the Company does not have sufficient capital available to fund its obligations, it may be unable to position properties to maximize value, or meet debt service obligations.

In addition, although the Company intends to pursue disposition opportunities as debt matures on certain properties, it must retain the ability to extend or refinance indebtedness in the event market conditions or other factors interfere with the Company's ability to dispose of the property at that time at an acceptable value. If the Company does not retain capital to manage these risks, in light of the Company's existing leverage and the state of the capital markets generally, it may be difficult to access capital on favorable terms or at all.

As a result, the Company feels it is prudent to take a conservative approach to its capital management to best position itself to enhance stockholder value.

Is the Company currently redeeming shares?

The Company is not currently redeeming shares from stockholders. The board of directors suspended all repurchases under the Company's share repurchase program in April 2020 in order to preserve capital and generate liquidity.

The Company does not currently anticipate resuming the share repurchase program. If the Company has sufficient capital available, at this stage in the Company's life cycle, the Company believes that returning capital to stockholders through special distributions, rather than repurchases, is a better use of that capital.

Estimated Net Asset Value Per Share

What are the main factors that affected the estimated net asset value per share as of June 30, 2023?

The most significant factors impacting the Company's estimated net asset value per share as of June 30, 2023 of $2.64 per share (the "2023 NAV Per Share") were as follows:

- Performance has improved across the Company's healthcare properties overall, with improved occupancy and revenues, particularly in the Company's directly owned investments where the Company has reinvested a portion of the proceeds from asset sales into capital improvements. However, inflationary pressures and labor shortages continue to drive up operating costs, adversely impacting margins. For the Company's directly owned operating investments, the Company's revenues, net of property expenses, for the six months ended June 30, 2023 were 31% greater than the same period during 2022. For the Company's unconsolidated investments, excluding dispositions or assets held for sale during the period, revenues, net of property expenses, for the six months ended June 30, 2023 were 20% greater than the same period during 2022.

- Improved performance was offset by overall investment and capital market conditions, with higher interest rates and the reduction in availability of capital driving up capitalization rates and adversely affecting values. The weighted average capitalization rate used to determine the 2023 NAV Per Share increased by approximately 35 basis points from the previous year.

- Although the Company did not sell any directly owned investments during the period, it did exit its minority position in two unconsolidated joint ventures (referred to as the Diversified US/UK and Eclipse investments) in June 2023, both of which experienced significant distress in the year leading up to the Company's exit in light of operating challenges and rising interest rates. In addition, the Company received proceeds from asset sales within another unconsolidated joint venture (referred to as the Espresso investment).

- The Company continued to ascribe no equity value to the seven cross-collateralized assets where the balance of the underlying debt is believed to exceed the value of the healthcare properties (referred to as the Rochester Sub-Portfolio).

- Proceeds from asset sales at unconsolidated joint ventures received by the Company were reinvested in part in capital projects for directly owned investments to enhance stockholder value, and funded the Company's general and administrative expenses, which reduced available cash and put downward pressure on the 2023 NAV Per Share.

What is the relationship of the estimated net asset value per share and what a stockholder can ultimately expect to receive in a liquidity transaction?

The Company's current estimated net asset value per share is based upon the estimated value of the Company's assets less the estimated value of the Company's liabilities as of June 30, 2023, divided by the number of shares of the Company's common stock outstanding as of June 30, 2023. The process for estimating the value of the Company's assets and liabilities was performed in accordance with the provisions of the Institute for Portfolio Alternatives Practice Guideline 2013-01, Valuations of Publicly Registered Non-Listed REITs.

This valuation methodology does not reflect the Company's "enterprise value", which may be affected by the following:

- the characteristics of the Company's working capital, leverage and other financial structures where some buyers may ascribe different values;

- investments through joint ventures, where the Company owns a non-controlling interest and may have limited decision making authority, as some buyers may pay less for these types of investments;
- disposition and other expenses that would be necessary to realize the value;
- the Company's general and administrative expenses, including the costs to retain its management team; and
- the potential difference in per share value if the Company were to list its shares of common stock on a national securities exchange.

In addition, as with any valuation methodology, the methodologies used to determine the estimated value per share are based upon a number of estimates and assumptions that may prove later to be inaccurate or incomplete. Different market participants using different assumptions and estimates could also derive different estimated values.

The estimated value per share may bear no relationship to the Company's book or asset value. In addition, the estimated value per share may not represent the price at which the shares of NorthStar Healthcare's common stock would trade on a national securities exchange, the amount realized in a sale, merger or liquidation of the Company or the amount a stockholder would realize in a private sale of shares.

Finally, the estimated value of NorthStar Healthcare's assets and liabilities is as of a specific date and such value is expected to fluctuate over time in response to future events, including but not limited to, the lasting effects of the COVID-19 pandemic, inflationary pressures on operating expenses, changes to commercial real estate values, particularly healthcare-related commercial real estate, developments related to individual assets, changes in market interest rates for commercial real estate debt and its impact on transaction executions, including, in particular, the current interest rate environment, changes in capitalization rates, rental and growth rates, changes in laws or regulations impacting the healthcare industry, demographic changes, returns on competing investments, changes in administrative expenses and other costs, the amount of distributions on NorthStar Healthcare's common stock, any repurchases of NorthStar Healthcare's common stock, changes in the number of shares of NorthStar Healthcare's common stock outstanding, local and national economic factors and the factors specified in Part I, Item 1A. of NorthStar Healthcare's Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and Part II, Item IA. of NorthStar Healthcare's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 under the heading "Risk Factors."

What effect do distributions to stockholders have on the estimated net asset value per share?

If the Company pays dividends from sources other than cash flow from operations, this will likely reduce the Company's overall equity and net asset value, which in turn will likely impact the value of your shares. For example, if the Company disposes of an asset and distributes the net proceeds to stockholders, the Company's estimated net asset value per share will proportionately decrease (assuming all other factors remain constant).

Please refer to "Dividends Declared and Paid" within the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Forms 10-Q and Forms 10-K filed with the SEC for additional information regarding the sources of any distributions paid by the Company.

Published and last updated November 14, 2023

Safe Harbour Statement

This document 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, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “will,” “may,” “plans,” “intends,” “expects” or other similar words or expressions. These statements are based on NorthStar Healthcare’s current expectations and beliefs and are subject to a number of trends and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements; NorthStar Healthcare can give no assurance that its expectations will be attained. Forward-looking statements are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying any forward-looking statements will not materialize or will vary significantly from actual results. Variations of assumptions and results may be material. Factors that could cause actual results to differ materially from NorthStar Healthcare’s expectations include, but are not limited to, changes in the size and diversity of NorthStar Healthcare’s portfolio, the impact of any losses from NorthStar Healthcare’s investments on cash flow and returns, property level cash flow, the ability to achieve targeted returns, the impact of actions taken by joint venture partners, the timing of and proceeds realized from dispositions, the timing and terms of the Company debt refinancing activity, changes in economic conditions generally and the real estate and debt markets specifically, availability of capital, changes to generally accepted accounting principles, policies and rules applicable to REITs and the factors specified in in Part I, Item 1A of NorthStar Healthcare’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022, and Part II, Item IA. of NorthStar Healthcare's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 under the heading "Risk Factors,” as well as in NorthStar Healthcare’s other filings with the SEC. The foregoing list of factors is not exhaustive. All forward looking statements included in this FAQ are based upon information available to NorthStar Healthcare on the date of this document and NorthStar Healthcare is under no duty to update any of the forward-looking statements after the date of this document to conform these statements to actual results.