

# SUPPLEMENTAL FINANCIAL REPORT

FOR THE QUARTER ENDED JUNE 30, 2020



**NorthStar**  
HEALTHCARE INCOME

# CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS



This presentation may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and contingencies, many of which are beyond our control, and may cause actual results to differ significantly from those expressed in any forward-looking statement. Among others, the following uncertainties and other factors could cause actual results to differ from those set forth in the forward-looking statements: operating costs and business disruption may be greater than expected; the Company's operating results may differ materially from the information presented in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020; the fair value of the Company's investments may be subject to uncertainties; the Company's use of leverage could hinder its ability to make distributions and may significantly impact its liquidity position; given the Company's dependence on its external manager, an affiliate of Colony Capital, Inc., any adverse changes in the financial health or otherwise of its manager or Colony Capital, Inc. could hinder the Company's operating performance and return on stockholders' investment; the ability to realize substantial efficiencies as well as anticipated strategic and financial benefits, including, but not limited to expected returns on equity and/or yields on investments; the impact on the Company's liquidity position of any further impairments or defaults under its mezzanine loan; the Company's liquidity, including its ability to fund capital contributions in its unconsolidated joint ventures and to continue to generate liquidity by more accelerated sales of certain lower yielding and non-core assets; the timing of and ability to deploy available capital; the Company's ability to re-commence the payment of dividends at all in the future; the timing of and ability to complete repurchases of the Company's stock; the ability of the Company to refinance certain mortgage debt on similar terms to those currently existing or at all; and the impact of actual or threatened public health epidemics or outbreaks, such as the COVID-19 pandemic, or of legislative, regulatory and competitive changes. The foregoing list of factors is not exhaustive. Additional information about these and other factors can be found in in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, as well as in the Company's other filings with the Securities and Exchange Commission (the “SEC”).

The Company cautions investors not to unduly rely on any forward-looking statements. The forward-looking statements speak only as of the date of this presentation. The Company is under no duty to update any of these forward-looking statements after the date of this presentation, nor to conform prior statements to actual results or revised expectations, and the Company does not intend to do so.

References to “we”, “us”, “our” the “Company” or “NorthStar Healthcare” refer to NorthStar Healthcare Income, Inc. and its subsidiaries unless the context specifically requires otherwise.

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# I. COVID-19 PANDEMIC UPDATE

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Our first priority during this time has been, and continues to be, the health and safety of the residents and staff at our communities. We are focused on supporting our operating partners during this unprecedented time.

## **Confirmed Cases**

- As of August 12, 2020, as reported by our operators and managers, approximately 57% of the communities in our direct investments have experienced confirmed cases of COVID-19 while approximately 44% of the communities in our unconsolidated investments have experienced confirmed cases of COVID-19.

## **Direct Investments – Operating**

- Occupancy across our direct investments was 76.2% as of August 11, 2020, a 4.9% decline since March 31, 2020. We anticipate that our occupancy will continue to be impacted by restrictions on admissions and limited inquiries and tours, which have significantly decreased the number of move-ins at our direct investments.
- We have not experienced significant issues collecting rents or other fees from residents as a result of COVID-19.
- Through June 30, 2020, additional operating expenses incurred as a result of the COVID-19 pandemic totaled approximately \$4.2 million for the communities in our direct operating investments. We expect these expenses to continue to be incurred.

## **Direct Investments – Net Lease**

- The tenant of our Arbors net lease portfolio has paid full contractual rent through July 2020.
- We granted a lease concession to the tenant of our Fountains net lease portfolio, which allows the tenant to defer a portion of contractual rent payments for a 90-day period, with full contractual rent to be repaid over the 12 months following the concession period. The lease concession provides the tenant relief consistent with the debt forbearance received from the lender of the properties in the portfolio. The amount of the deferred rental payments under the lease concession totaled \$3.9 million. The tenant of our Fountains portfolio has paid its modified rent through August 2020.

# I. COVID-19 PANDEMIC UPDATE (CONT.)

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## Liquidity

- As of August 12, 2020, we had approximately \$84.3 million of unrestricted cash.
- We are actively managing capital needs and liquidity and have taken the following actions in light of the uncertainty surrounding the financial impact of COVID-19:
  - In April 2020, we borrowed \$35.0 million under our revolving line of credit from an affiliate of our sponsor, Colony Capital, Inc. (NYSE: CLNY) (the “Sponsor”).
  - Effective April 30, 2020, we suspended all repurchases of shares under our share repurchase program.
  - We have limited capital expenditures of our operating real estate to life safety and essential projects.
  - We have entered into forbearance agreements to defer contractual debt service for borrowings on properties within the Aqua, Rochester, Arbors, Winterfell and Fountains portfolios. The deferred debt service, must be repaid over the 12 months following the forbearance period. As of August 12, 2020, deferred debt service, net of operating income cash sweeps required by lenders, totaled \$16.5 million, which will increase payments future periods.
  - We continue to engage with lenders, where necessary, regarding further deferral of payment obligations. In August 2020, the forbearance agreement for the mortgage notes on properties within the Winterfell portfolio was extended for an additional 30 days.
  - The forbearance agreements for mortgage notes payable on properties within the Rochester, Arbors, Aqua and Fountains portfolios, which were effective on May 1, 2020, effectively deferring debt service for a 90 day period, expired on August 1, 2020 and will not be extended.
- In July 2020, we sold a property previously designated as held for sale, generating net proceeds of \$0.9 million.

## II. OUR INVESTMENTS



We conduct our business through the following five segments, which are based on how management reviews and manages our business:

**Direct Investments - Net Lease** - Healthcare properties operated under net leases with tenant operators.

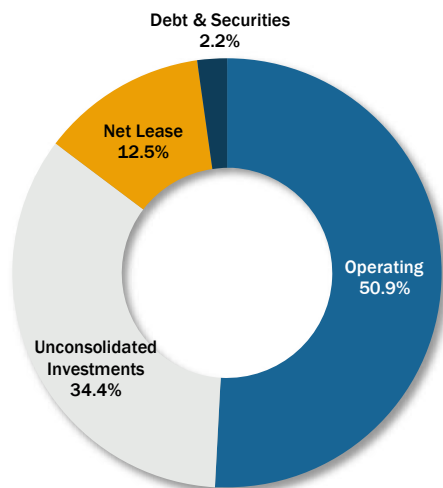
**Direct Investments - Operating** - Healthcare properties operated pursuant to management agreements with healthcare operators.

**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.

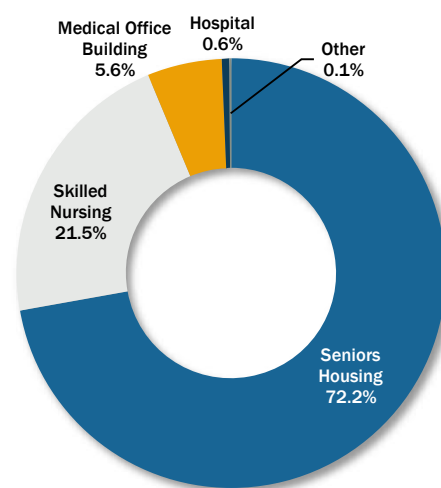
**Debt and Securities Investments** - Mortgage loans or mezzanine loans to owners of healthcare real estate and commercial mortgage backed securities backed primarily by loans secured by healthcare properties.

**Corporate** - Includes corporate level asset management and other fees - related party and general and administrative expenses.

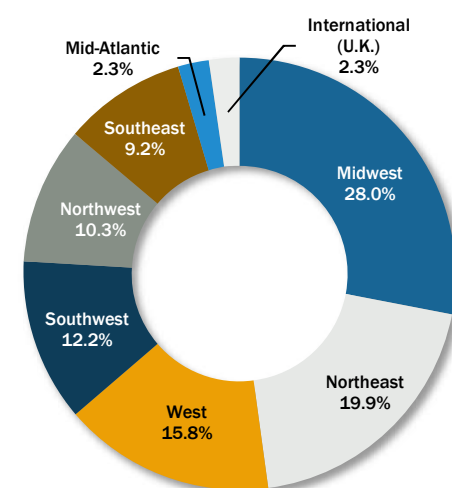
Investments by Segments



Investments by Property Type



Investments by Geographic Location



Based on cost as of June 30, 2020. Property type classification based on predominant services provided, but may include other services.

## II. OUR INVESTMENTS (CONT.)



(\$ In thousands)

Investment Type / Portfolio	Amount <sup>(3)</sup>	Properties Count By Type <sup>(4)(2)</sup>					Primary Locations	Ownership Interest
		SH	MOB	SNF	Hospitals	Total		
<b>Direct Investments - Net Lease</b>								
Watermark Fountains <sup>(4)</sup>	\$ 288,836	6	-	-	-	6	Various	100.0%
Arbors	126,825	4	-	-	-	4	Northeast	100.0%
Peregrine	10,000	1	-	-	-	1	Southeast	100.0%
<b>Subtotal</b>	<b>425,661</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11</b>		
<b>Direct Investments - Operating</b>								
Winterfell	904,985	32	-	-	-	32	Various	100.0%
Watermark Fountains <sup>(4)</sup>	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%
<b>Subtotal</b>	<b>1,731,498</b>	<b>64</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>64</b>		
<b>Unconsolidated Investments</b>								
Griffin-American	454,154	92	108	40	9	249	Various	14.3%
Trilogy <sup>(5)</sup>	346,219	9	-	67	-	76	Various	23.2%
Espresso	317,166	6	-	148	-	154	Various	36.7%
Eclipse	50,437	44	-	23	-	67	Various	5.6%
Solstice <sup>(6)</sup>	-	-	-	-	-	-	Various	20.0%
<b>Subtotal</b>	<b>1,167,976</b>	<b>151</b>	<b>108</b>	<b>278</b>	<b>9</b>	<b>546</b>		
<b>Debt and Securities Investments</b>								
Mezzanine Loan <sup>(7)</sup>	74,182	-	-	-	-	-		
<b>Total Investments</b>	<b>\$ 3,399,317</b>	<b>226</b>	<b>108</b>	<b>278</b>	<b>9</b>	<b>621</b>		

As of June 30, 2020. See 'Footnotes' in the Appendix.

# III. BUSINESS DEVELOPMENTS & PORTFOLIO HIGHLIGHTS – SECOND QUARTER 2020



## Business & Financial

- GAAP net income decreased by \$127.5M to a \$140.0M loss in Q2 2020 as compared to a \$12.5M loss in Q1 2020, primarily due to the following:
  - We recorded impairment losses totaling \$91.4 million on our direct investments. Further, the underlying joint ventures of our unconsolidated investments recorded impairments, of which our proportionate share totaled \$37.4 million. Impairment losses resulted from shortened holding period assumptions, lower projected future cash flows and market values as a result of the economic effects of COVID-19.
- In Q2 2020, our direct operating investments generated rental and resident fee income, net of property operating expenses, totaled \$15.7 million as compared to \$18.9 million in Q1 2020, as a result of the following:
  - Lower occupancy, due to restrictions on admissions and limited inquiries and tours resulting from the COVID-19 pandemic, which have significantly decreased the number of move-ins at our direct investments; and
  - Higher property operating expenses, particularly related to labor and protective equipment costs.
- Our Winterfell portfolio's average occupancy was 77.0% in Q2 2020, a decrease from 79.0% in Q1 2020.
- Our operating portfolios managed by Watermark Retirement Communities had an overall average occupancy of 78.3% in Q2 2020, a decrease from 83.3% in Q1 2020.
- Earnings recorded by our unconsolidated investment portfolios declined in Q2 2020 as compared Q1 2020, primarily driven by real estate impairment recognized by the Griffin-American and Eclipse joint ventures in Q2 2020, partially offset by federal COVID-19 provider relief funds received and recognized by the Trilogy joint venture in Q2 2020.
- Distributions from our unconsolidated investments continue to be limited by reinvestment and development in the Trilogy and Griffin-American joint ventures and working capital needs for the Espresso joint venture, which have and will continue to negatively impacted our liquidity position.
- Modified Funds from Operations decreased to \$16.5 million in Q2 2020 as compared to \$16.9 million for Q1 2020 primarily due to the impact of COVID-19 pandemic, which reduced occupancy and revenue and increased property operating costs in both our direct investments and unconsolidated investments in Q2 2020. Operational performance declines were partially offset by lower interest expense on floating rate debt as a result of the sharp decline in LIBOR and lower G&A costs incurred and allocated by our advisor, CNI NSHC Advisors, LLC.



## IV. KEY PORTFOLIO METRICS



(\$ In thousands)

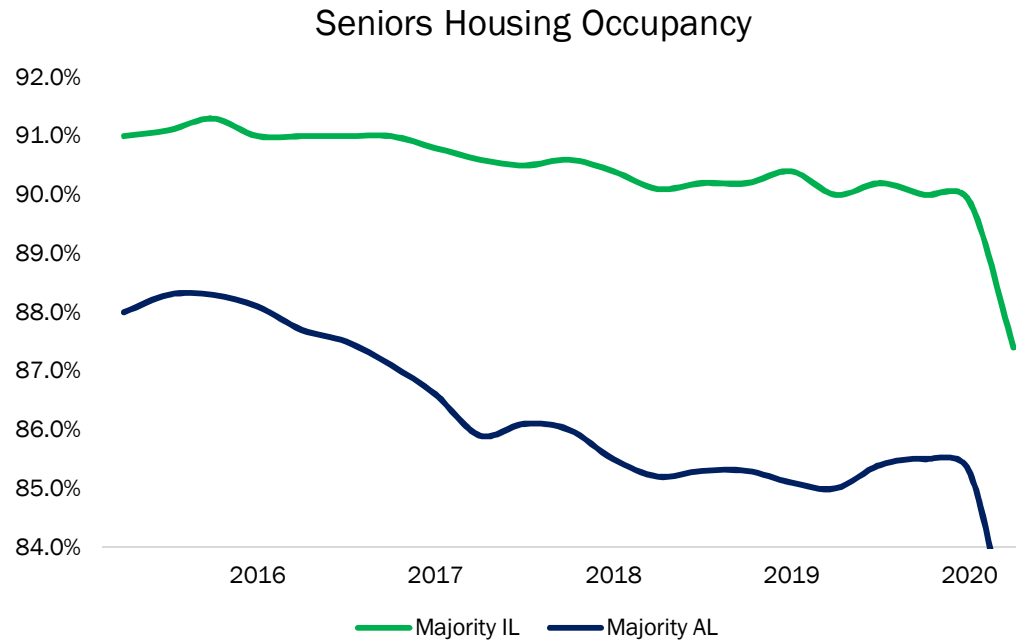
Key Metrics (as of and for the six months ended June 30, 2020)			
Direct Investments:		Consolidated Debt:	
Net lease properties	11	Total borrowings	\$ 1,482,523
Weighted average remaining lease term	7.2 years	Leverage as a % of adjusted assets <sup>(1)</sup>	62%
Operating properties	64	Repayment of mortgage notes <sup>(3)</sup>	\$ 8,112
Weighted average occupancy	78%	Borrowings from line of credit - related party <sup>(4)</sup>	\$ 35,000
Gross asset amount <sup>(2)</sup>	\$ 1,846,286		
Capital expenditures <sup>(3)</sup>	\$ 5,362		

Operator /Tenant Information	Properties Managed	Units Under Management <sup>(5)</sup>	Property and Other Revenues <sup>(6)</sup>	% of Total Property and Other Revenues
Watermark Retirement Communities	30	5,265	\$ 73,675	51.6%
Solstice Senior Living <sup>(7)</sup>	32	4,000	51,199	35.8%
Avamere Health Services	5	453	9,054	6.3%
Arcadia Management	4	572	5,308	3.7%
Integral Senior Living <sup>(7)</sup>	3	162	3,506	2.5%
Senior Lifestyle Corporation <sup>(8)</sup>	1	63	-	0.0%
Other <sup>(9)</sup>	-	-	141	0.1%
<b>Total</b>	<b>75</b>	<b>10,515</b>	<b>\$ 142,883</b>	<b>100.0%</b>

# V. HEALTHCARE MARKET UPDATE

## Seniors Housing

- Seniors housing occupancy declined to 84.9% in Q2 2020 from 87.7% in Q1 2020
  - Seniors housing occupancy is now 530 bps below 4Q 2014 peak of 90.2%
  - Independent Living (“IL”): declined to 87.4% (Q2 2020) from 89.9% (Q1 2020)
  - Assisted Living (“AL”): declined to 82.1% (Q2 2020) from 85.3% (Q1 2020)
  - Skilled Nursing occupancy declined 80.2% (Q2 2020) from 86.7% (Q1 2020)



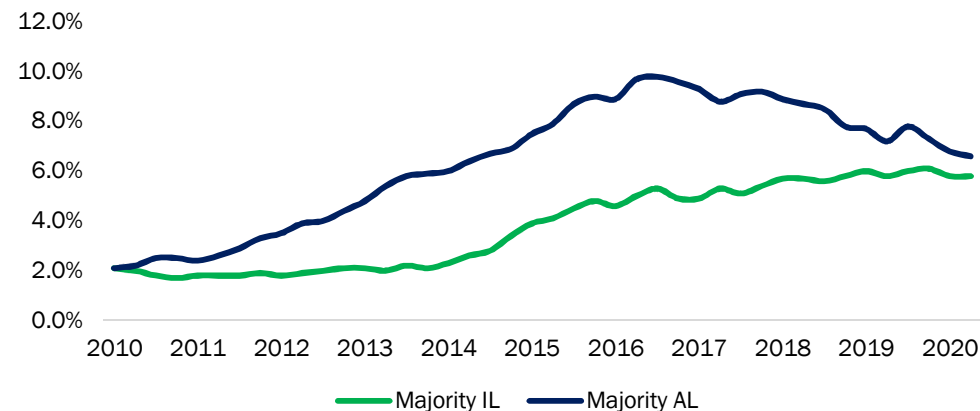
# V. HEALTHCARE MARKET UPDATE (CONT.)



## Seniors Housing (cont.)

- As of 8/2/20, A National Investment Center for Seniors Housing & Care ('NIC') survey reported:
  - A slight deceleration in senior housing move-ins compared to one week prior, largely due to increases in visitor restrictions in certain geographies.
  - Approximately 85% of operators were offering overtime to mitigate staff shortages, while 42% of organizations reported the use of agency/temporary staff.
- Seniors housing construction as a percentage of inventory remained elevated at 6.2% in Q2 2020.
  - IL: Units under construction remained at 5.8% of inventory in Q2 2020 and Q1 2020
  - AL: Units under construction decreased to 6.6% of inventory in Q2 2020, the lowest rate since 2014 and down from the peak of 9.9% in 2017
  - During Q2, new supply decelerated to the lowest level since Q1 2019.

Construction vs. Inventory



# APPENDIX

# CONSOLIDATED BALANCE SHEETS



(In thousands)

	June 30, 2020 (Unaudited)	December 31, 2019
<b>Assets</b>		
Cash and cash equivalents	\$ 78,400	\$ 41,884
Restricted cash	18,503	16,936
Operating real estate, net	1,583,429	1,700,218
Investments in unconsolidated ventures	231,097	268,894
Real estate debt investments, net	54,947	55,468
Assets held for sale	927	1,649
Receivables, net	13,522	13,314
Deferred costs and intangible assets, net	27,418	28,355
Other assets	15,079	14,489
<b>Total assets</b>	<b>\$ 2,023,322</b>	<b>\$ 2,141,207</b>
<b>Liabilities</b>		
Mortgage and other notes payable, net	\$ 1,426,509	\$ 1,431,922
Line of credit - related party	35,000	-
Due to related party	3,447	5,780
Escrow deposits payable	3,663	3,292
Accounts payable and accrued expenses	33,153	28,135
Other liabilities	4,413	4,574
<b>Total liabilities</b>	<b>1,506,185</b>	<b>1,473,703</b>
<b>Equity</b>		
Common stock	1,896	1,891
Additional paid-in capital	1,705,334	1,702,260
Retained earnings (accumulated deficit)	(1,193,059)	(1,041,297)
Accumulated other comprehensive income (loss)	(1,328)	(470)
Total stockholders' equity	512,843	662,384
Non-controlling interests	4,294	5,120
<b>Total equity</b>	<b>517,137</b>	<b>667,504</b>
<b>Total liabilities and equity</b>	<b>\$ 2,023,322</b>	<b>\$ 2,141,207</b>

# CONSOLIDATED STATEMENTS OF OPERATIONS



(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Property and other revenues</b>				
Resident fee income	\$ 30,698	\$ 33,497	\$ 63,545	\$ 65,375
Rental income	39,215	40,472	79,195	80,758
Other revenue	79	1,003	143	1,360
Total property and other revenues	<u>69,992</u>	<u>74,972</u>	<u>142,883</u>	<u>147,493</u>
<b>Interest income</b>				
Interest income on debt investments	1,906	1,923	3,811	3,825
<b>Expenses</b>				
Real estate properties - operating expenses	46,012	44,636	91,713	89,854
Interest expense	16,453	17,294	33,132	34,690
Transaction costs	-	38	7	76
Asset management and other fees - related party	4,431	4,995	8,862	9,989
General and administrative expenses	2,288	2,349	5,317	5,403
Depreciation and amortization	16,495	15,962	32,984	38,361
Impairment loss	91,437	10,146	91,437	10,146
Total expenses	<u>177,116</u>	<u>95,420</u>	<u>263,452</u>	<u>188,519</u>
<b>Other income (loss)</b>				
Realized gain (loss) on investments and other	-	5,485	-	5,722
Equity in earnings (losses) of unconsolidated ventures	(34,763)	(4,405)	(35,756)	(4,629)
Income tax expense	(14)	(15)	(28)	(21)
<b>Net income (loss)</b>	<u>(139,995)</u>	<u>(17,460)</u>	<u>(152,542)</u>	<u>(36,129)</u>
Net (income) loss attributable to non-controlling interests	714	314	780	366
<b>Net income (loss) attributable to common stockholders</b>	<u>(139,281)</u>	<u>(17,146)</u>	<u>(151,762)</u>	<u>(35,763)</u>
Net income (loss) per share, basic/diluted	\$ (0.74)	\$ (0.09)	\$ (0.80)	\$ (0.19)
Weighted average number of shares outstanding, basic/diluted	189,336,336	189,082,397	189,187,410	189,044,376
Distributions declared per share of common stock	\$ -	\$ -	\$ -	\$ 0.03

# RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION



(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Funds from operations:</b>				
Net income (loss) attributable to NHI	\$ (139,281)	\$ (17,146)	\$ (151,762)	\$ (35,763)
Adjustments:				
Depreciation and amortization	16,495	15,962	32,984	38,361
Impairment loss	91,437	10,146	91,437	10,146
Depreciation and amortization related to unconsolidated ventures	8,119	7,957	16,306	15,860
Depreciation and amortization related to non-controlling interests	(163)	(157)	(324)	(313)
Impairment loss on real estate related to non-controlling interests	(597)	(300)	(597)	(300)
(Gain) loss on consolidation of unconsolidated venture	-	-	-	-
Realized (gain) loss from sales of property	-	(6,104)	-	(6,104)
Realized (gain) loss from sales of property related to non-controlling interests	-	-	-	-
Realized (gain) loss from sales of property related to unconsolidated ventures	-	1	-	(85)
Impairment losses of depreciable real estate held by unconsolidated ventures	37,017	515	37,379	515
<b>Funds from operations attributable to NHI</b>	<b>\$ 13,027</b>	<b>\$ 10,874</b>	<b>\$ 25,423</b>	<b>\$ 22,317</b>
<b>Modified funds from operations:</b>				
Funds from operations attributable to NHI	\$ 13,027	\$ 10,874	\$ 25,423	\$ 22,317
Adjustments				
Acquisition fees and transaction costs	-	38	7	76
Straight-line rental (income) loss	59	(239)	70	(428)
Amortization of premiums, discounts and fees on investments and borrowings	1,238	1,200	2,476	2,438
Adjustments related to unconsolidated ventures	2,224	3,936	5,483	6,203
Adjustments related to non-controlling interests	(12)	(11)	(24)	(15)
Realized (gain) loss on investments and other	-	619	-	382
<b>Modified funds from operations attributable to NHI</b>	<b>\$ 16,536</b>	<b>\$ 16,417</b>	<b>\$ 33,435</b>	<b>\$ 30,973</b>

# SEGMENT INFORMATION



(In thousands)

Three Months Ended June 30, 2020	Direct Investments		Unconsolidated Investments	Debt and Securities	Corporate	Total
	Net Lease	Operating				
Property and other revenues	\$ 8,225	\$ 61,688	\$ -	\$ -	\$ 79	\$ 69,992
Interest income on debt investments	-	-	-	1,906	-	1,906
Real estate properties - operating expenses	-	(46,012)	-	-	-	(46,012)
Interest expense	(2,949)	(13,209)	-	-	(295)	(16,453)
Asset management and other fees - related party	-	-	-	-	(4,431)	(4,431)
General and administrative expenses	(61)	(114)	-	(9)	(2,104)	(2,288)
Depreciation and amortization	(3,665)	(12,830)	-	-	-	(16,495)
Impairment loss	(722)	(90,715)	-	-	-	(91,437)
Equity in earnings (losses) of unconsolidated ventures	-	-	(34,763)	-	-	(34,763)
Income tax expense	-	(14)	-	-	-	(14)
<b>Net income (loss)</b>	<b>\$ 828</b>	<b>\$ (101,206)</b>	<b>\$ (34,763)</b>	<b>\$ 1,897</b>	<b>\$ (6,751)</b>	<b>\$ (139,995)</b>

Six Months Ended June 30, 2020	Direct Investments		Unconsolidated Investments	Debt and Securities	Corporate	Total
	Net Lease	Operating				
Property and other revenues	\$ 16,448	\$ 126,293	\$ -	\$ -	\$ 142	\$ 142,883
Interest income on debt investments	-	-	-	3,811	-	3,811
Real estate properties - operating expenses	(13)	(91,700)	-	-	-	(91,713)
Interest expense	(5,913)	(26,924)	-	-	(295)	(33,132)
Transaction costs	-	(7)	-	-	-	(7)
Asset management and other fees - related party	-	-	-	-	(8,862)	(8,862)
General and administrative expenses	(105)	(100)	-	(19)	(5,093)	(5,317)
Depreciation and amortization	(7,401)	(25,583)	-	-	-	(32,984)
Impairment loss	(722)	(90,715)	-	-	-	(91,437)
Equity in earnings (losses) of unconsolidated ventures	-	-	(35,756)	-	-	(35,756)
Income tax expense	-	(28)	-	-	-	(28)
<b>Net income (loss)</b>	<b>\$ 2,294</b>	<b>\$ (108,764)</b>	<b>\$ (35,756)</b>	<b>\$ 3,792</b>	<b>\$ (14,108)</b>	<b>\$ (152,542)</b>



# FOOTNOTES



## **Page 7 – Our Investments**

- 1) Classification based on predominant services provided, but may include other services.
- 2) Excludes properties held for sale.
- 3) Amounts shown in thousands, 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 eight 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) Represents our investment in Solstice Senior Living, LLC, or Solstice, the manager of the Winterfell portfolio. Solstice is a joint venture between affiliates of Integral Senior Living, LLC, or ISL, a management company of IL, AL and memory care, or MC, founded in 2000, which owns 80.0%, and us, who owns 20.0%.
- 7) 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.

## **Page 9 – Key Portfolio Metrics**

- 1) 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 June 30, 2020, our leverage was 61.6% of our assets, other than intangibles, before deducting loan loss reserves, other non-cash reserves and depreciation.
- 2) Represents cost basis for operating real estate, net of accumulated impairment.
- 3) Represents cash used for repayments of mortgage notes and capital expenditures for operating real estate investments during the six months ended June 30, 2020.
- 4) Represents borrowing under our revolving line of credit from an affiliate of our Sponsor, which carries an interest rate of 3.5% plus LIBOR.
- 5) Represents rooms for AL and IL facilities and beds for MC and skilled nursing facilities, based on predominant type.
- 6) Includes rental income received from our net lease properties as well as rental income, ancillary service fees and other related revenue earned from IL residents and resident fee income derived from our AL, MC and continuing care retirement communities, which includes resident room and care charges, ancillary fees and other resident service charges.
- 7) Solstice is a joint venture of which affiliates of ISL own 80%.
- 8) Tenant has failed to remit rent timely and comply with other contractual terms of its lease agreement, which resulted in a default under the tenant's lease as of June 30, 2020. Properties and unit counts exclude one property held for sale as of June 30, 2020. The property was sold in the third quarter of 2020.
- 9) Consists primarily of interest income earned on corporate-level cash accounts.

# IMPORTANT NOTE REGARDING NON-GAAP FINANCIAL MEASURES AND DEFINITIONS



We believe that Funds from Operations (“FFO”) and Modified Funds from Operations (“MFFO”) are additional appropriate measures of the operating performance of a real estate investment trust (“REIT”) and of us in particular. We compute FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts (“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 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.

Due to certain of the unique features of publicly-registered, non-traded REITs, the Institute for Portfolio Alternatives (“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 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 an 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: (i) acquisition fees and expenses; (ii) 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); (iii) amortization of a premium and accretion of a discount on debt investments; (iv) non-recurring impairment of real estate-related investments that meet the specified criteria identified in the rules and regulations of the SEC; (v) realized gains (losses) from the early extinguishment of debt; (vi) 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; (vii) unrealized gains (losses) from fair value adjustments on real estate securities, including commercial mortgage backed securities (“CMBS”) and other securities, interest rate swaps and other derivatives not deemed hedges and foreign exchange holdings; (viii) unrealized gains (losses) from the consolidation from, or deconsolidation to, equity accounting; (ix) adjustments related to contingent purchase price obligations; and (x) adjustments for consolidated and unconsolidated partnerships and joint ventures calculated to reflect MFFO on the same basis as above.

# IMPORTANT NOTE REGARDING NON-GAAP FINANCIAL MEASURES AND DEFINITIONS (CONT.)



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 balance sheet 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.

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.

# COMPANY INFORMATION



NorthStar Healthcare Income, Inc., together with its consolidated subsidiaries, 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, memory care, skilled nursing, independent living facilities and continuing care retirement communities, 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, 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 REIT under the Internal Revenue Code of 1986, as amended, 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.

## Shareholder Information

**Headquarters:**

590 Madison Avenue  
34<sup>th</sup> Floor  
New York, NY 10022  
212.547.2600

**Company Website:**

[www.northstarhealthcarereit.com](http://www.northstarhealthcarereit.com)