



NorthStar
HEALTHCARE INCOME

2021 ANNUAL REPORT





To Our Stockholders,

2021 was a transformational year for NorthStar Healthcare Income, Inc. (NorthStar Healthcare or the Company) in executing on critical transactions, generating significant liquidity and resolving near-term debt maturities.

In December, the Company completed the sale of 14 net lease and operating properties for a sale price of \$580 million, which generated net proceeds of approximately \$114 million, after repayment of mortgage notes and transaction costs.

In August, the Company received the final repayment on its mezzanine loan investment, which was repaid in full, generating proceeds of \$74.4 million.

In addition, over the course of 2021, the Company closed on the sale of six non-core, underperforming properties, which generated net proceeds of approximately \$7 million and eliminated on-going operating losses generated by those properties.

Having generated additional liquidity, NorthStar Healthcare was in turn able to repay the \$35 million of outstanding borrowings under its revolving line of credit, originally drawn at the beginning of the COVID-19 pandemic, and deploy targeted capital expenditures to improve its existing portfolio.

The Company has also remained focused on improving the operational and financial performance of its properties during 2021, despite the continuing impact of COVID-19 on its business and the industry overall. Within its operating portfolios, the Company saw an increase in demand at its facilities through the fourth quarter of 2021, resulting in a 250-basis point increase in average occupancy from December 2020 to December 2021. Although we continue to be challenged by lower labor force participation rates, inflationary pressures on operating costs, as well as health and safety measures to comply with governmental regulation, we are encouraged by improvements to occupancy and top line revenues in 2021, a trend that has continued into 2022.

With approximately \$200 million of unrestricted cash going into 2022, NorthStar Healthcare is well-positioned to execute on its strategy, even with the continuing uncertainty surrounding the recovery from COVID-19. We will continue to drive income growth through active portfolio management, while also looking for opportunities to strategically reposition assets, dispose of assets at desired returns and other strategic initiatives to create value for our shareholders.

Given the improvements to our liquidity and capital structure achieved in 2021, we are also in a better position to reevaluate our distribution policy. While the Company does not anticipate recurring dividends in the near future in light of the cash flow generated by investments, the board will evaluate special distributions in connection with asset sales and other realizations of our investments based on, among other factors, current and projected liquidity needs.

As we look forward, we are encouraged by the progress made in 2021 and remain highly focused on improving operations and the financial performance of the Company, as well as executing on our strategy to maximize value and generate liquidity for shareholders.

We appreciate your continued support of NorthStar Healthcare.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ron Jeanneault", written in a cursive style.

Ronald J. Jeanneault
Chief Executive Officer,
President & Vice Chairman

NORTHSTAR HEALTHCARE INCOME, INC.

2021 ANNUAL REPORT

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Upon written request, we will provide, without charge, a copy of our Annual Report on Form 10-K, including the financial statements and financial statement schedules required to be filed therewith. All such requests should be submitted to NorthStar Healthcare Income, Inc., 4350 East West Highway, Suite 1050, Bethesda, Maryland 20814, Attn: General Counsel.

OTHER FINANCIAL INFORMATION

Information included in this annual report to stockholders (this “Annual Report”) was excerpted from our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 as filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 18, 2022 (the “2021 Form 10-K”). Certain portions of the 2021 Form 10-K were not reprinted for inclusion in this Annual Report in accordance with SEC regulations. The 2021 Form 10-K may be viewed in its entirety on our website at NorthStarHealthcareReit.com. References herein to Parts or Items are references to such sections of the 2021 Form 10-K.

For information regarding the independent directors’ report on the fairness of all transactions involving us, our directors, our advisor, our sponsor and any affiliate of such parties, please see “Certain Relationships and Related Transactions” of our 2022 proxy statement.

FORWARD-LOOKING STATEMENTS

This Annual Report 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 (each, as defined below), 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.

All forward-looking statements included in this Annual Report 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 “Risk Factor Summary” and “Risk Factors” in our 2021 Form 10-K. 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.

BUSINESS

References to “we,” “us” or “our” refer to NorthStar Healthcare Income, Inc. and its subsidiaries, in all cases acting through its external advisor, unless 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 seniors 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 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 are externally managed and have no employees. On February 28, 2022, our former Sponsor, DigitalBridge Group, Inc. (NYSE: DBRG), or our Former Sponsor, completed the previously announced disposition of its wellness infrastructure platform, or the Sponsor Transaction. Following completion of the Sponsor Transaction, NRF Holdco, LLC, or NRF or our New Sponsor (and together with our Former Sponsor, our Sponsor as the context requires), owns CNI NSHC Advisors, LLC, or our Advisor, as well as its own diversified portfolio of medical office buildings, senior housing facilities, skilled nursing facilities and specialty hospitals. NRF is wholly owned by CWP Bidco LP, an entity affiliated with Highgate, a privately held real estate investment and hospitality management company, and Aurora Health Network LLC, a privately held healthcare-focused investment firm. In addition, upon completion of the Sponsor Transaction, employees of our Former Sponsor focused on the wellness infrastructure platform became employees of our New Sponsor. Our Advisor, now a subsidiary of our New Sponsor, will continue to manage our day-to-day operations pursuant to an advisory agreement.

From inception through December 31, 2021, we raised \$2.0 billion in total gross proceeds from the sale of shares of our common stock in our continuous, public offerings, including \$232.6 million pursuant to our distribution reinvestment plan, or our DRP, collectively referred to as our Offering.

Our Strategy

Our primary objective is to maximize value and generate liquidity for shareholders. Although our short-term strategy may continue to be impacted by the effects of the COVID-19 pandemic, 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.
- *Deploy Strategic Capital Expenditures.* We will continue to invest capital into our operating portfolio in order to maintain market position, functional and operating standards, and provide an optimal mix of services and enhance the overall value of our assets.
- *Pursue Dispositions and Opportunities for Asset Repositioning and Other Strategic Initiatives to Maximize Value.* We will actively pursue dispositions of assets and portfolios where we believe the disposition will achieve a desired return and generate value for shareholders. Additionally, we will continue to assess the need for strategic repositioning or sale of assets, joint ventures, operators and markets to position our portfolio for optimal performance. We will also opportunistically explore other strategic initiatives to create value for shareholders.

Our Investments

We have invested in independent living facilities, or ILFs, assisted living facilities, or ALFs, memory care facilities, or MCFs, and continuing care retirement communities, or CCRCs, which we collectively refer to as seniors housing facilities, skilled nursing facilities, or SNFs, medical office buildings, or MOB, and hospitals.

Our primary investment segments are as follows:

- Direct Investments - Operating - Healthcare properties operated pursuant to management agreements with healthcare managers.
- Direct Investments - Net Lease - Healthcare properties operated under net leases with an operator.
- Unconsolidated Investments - Healthcare joint ventures, including properties operated under net leases with an operator or pursuant to management agreements with healthcare managers, in which we own a minority interest.
- Debt Investments - Mortgage loans or mezzanine loans to owners of healthcare real estate. During year ended December 31, 2021, we had one mezzanine loan, which was repaid in August 2021.

We generate revenues from resident fees, rental income and interest income. Resident fee income from our seniors housing 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. Interest income was generated from our debt investment. 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.

For financial information regarding our reportable segments, refer to Note 12, “Segment Reporting” in our accompanying consolidated financial statements included in “Financial Statements and Supplementary Data.”

The following table presents a summary of investments as of December 31, 2021 (dollars in thousands):

| Investment Type / Portfolio | Amount ⁽²⁾⁽³⁾ | Properties ⁽¹⁾⁽²⁾ | | | | | Primary Locations | Ownership Interest |
|--------------------------------|--------------------------|------------------------------|-----|-----|-----------|-------|-------------------|--------------------|
| | | Seniors Housing | MOB | SNF | Hospitals | Total | | |
| Direct Investments - Operating | | | | | | | | |
| Winterfell | \$ 904,985 | 32 | — | — | — | 32 | Various | 100.0% |
| Rochester | 219,518 | 10 | — | — | — | 10 | Northeast | 97.0% |
| Watermark Aqua | 77,521 | 4 | — | — | — | 4 | Southwest/Midwest | 97.0% |
| Avamere | 99,438 | 5 | — | — | — | 5 | Northwest | 100.0% |
| Oak Cottage | 19,427 | 1 | — | — | — | 1 | West | 100.0% |
| Other ⁽⁴⁾ | 2,030 | — | — | — | — | — | West | 97.0% |
| Subtotal | \$ 1,322,919 | 52 | — | — | — | 52 | | |
| | | | | | | | | |
| Direct Investments - Net Lease | | | | | | | | |
| Arbors | \$ 126,825 | 4 | — | — | — | 4 | Northeast | 100.0% |
| Subtotal | \$ 126,825 | 4 | — | — | — | 4 | | |
| | | | | | | | | |
| Unconsolidated Investments | | | | | | | | |
| Diversified US/UK | \$ 445,855 | 92 | 106 | 39 | 9 | 246 | Various | 14.3% |
| Trilogy ⁽⁵⁾ | 405,667 | 23 | — | 69 | — | 92 | Various | 23.2% |
| Espresso ⁽⁶⁾ | 91,348 | 1 | — | 48 | — | 49 | Various | 36.7% |
| Eclipse | 37,291 | 42 | — | 9 | — | 51 | Various | 5.6% |
| Solstice ⁽⁷⁾ | — | — | — | — | — | — | Various | 20.0% |
| Subtotal | \$ 980,161 | 158 | 106 | 165 | 9 | 438 | | |
| | | | | | | | | |
| Total Investments | \$ 2,429,905 | 214 | 106 | 165 | 9 | 494 | | |

(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. For real estate equity investments, includes cost associated with purchased land parcels that are not included in the count.

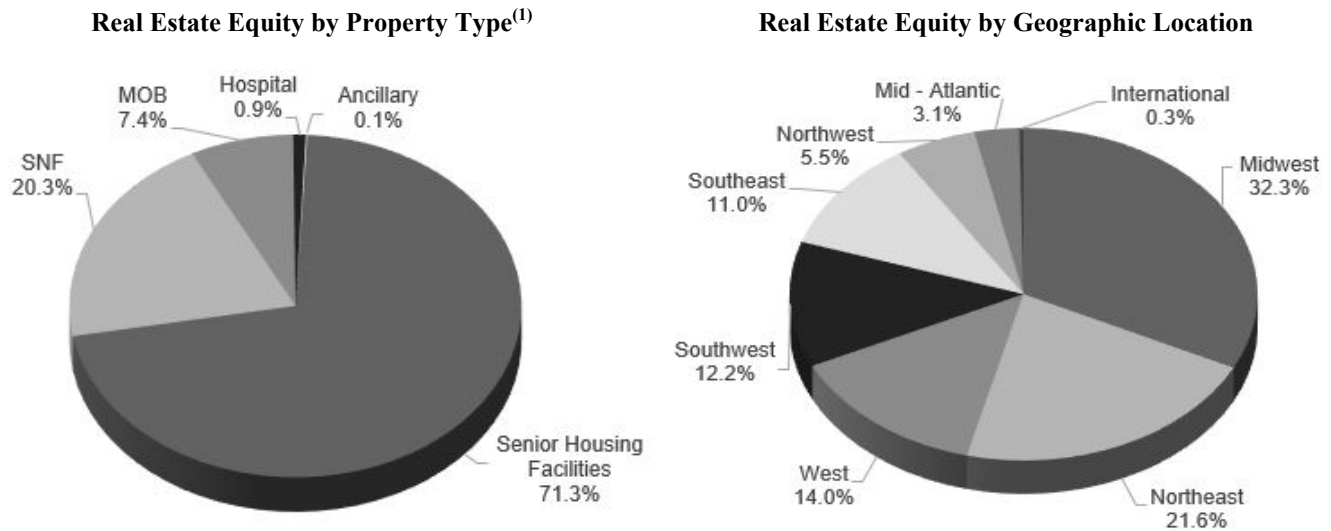
(4) Represents seven condominium units for which we hold future interests.

(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) Reclassified 59 properties as held for sale as of December 31, 2021.

(7) 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 ILF, ALF and MCF founded in 2000, which owns 80.0%, and us, who owns 20.0%.

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 December 31, 2021:

- **Seniors Housing.** We define seniors housing to include ILFs, ALFs, MCFs and CCRCs, as described in further detail below. Revenues generated by seniors 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.

- *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 operators under triple-net lease structures.

Direct Investments - Operating

For our operating properties, we enter into 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 75.1% for the year ended December 31, 2021.

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 operator 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 remaining four net lease properties are leased and operated by Arcadia Management and have remaining lease terms of eight years. However, the operator has failed to remit rent and comply with other contractual terms of its lease agreements, which resulted in defaults under the operator's leases as of December 31, 2021.

In December 2021, we sold six net lease properties leased and operated by Watermark Retirement Communities.

Operators and Managers

The following table presents the operators and managers of our direct investments (dollars in thousands):

| Operator / Manager | As of December 31, 2021 | | Year Ended December 31, 2021 | |
|---------------------------------------|-----------------------------|---------------------------------------|--|--|
| | Properties Under Management | Units Under Management ⁽¹⁾ | Property and Other Revenues ⁽²⁾ | % of Total Property and Other Revenues |
| Solstice Senior Living ⁽³⁾ | 32 | 4,000 | \$ 98,977 | 40.7 % |
| Watermark Retirement Communities | 14 | 1,753 | 42,447 | 17.4 % |
| Avamere Health Services | 5 | 453 | 17,301 | 7.1 % |
| Integral Senior Living | 1 | 44 | 4,556 | 1.9 % |
| Arcadia Management ⁽⁴⁾ | 4 | 572 | (3,900) | (1.6)% |
| Subtotal | 56 | 6,822 | \$ 159,381 | 65.5 % |
| Properties sold | 17 | 3,630 | 83,896 | 34.5 % |
| Total | | | \$ 243,277 | 100.0 % |

(1) Represents rooms for ALFs and ILFs and beds for MCFs and SNFs, based on predominant type.

(2) Includes rental income received from our net lease properties as well as rental income, ancillary service fees and other related revenue earned from ILF residents and resident fee income derived from our ALFs, MCFs and CCRCs, which includes resident room and care charges, ancillary fees and other resident service charges.

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

(4) During the year ended December 31, 2021, we recorded rental income to the extent rental payments were received. Rental income was reduced by \$7.4 million for the write-off of straight-line rent receivables, as full collection of contractual rent under the lease was deemed not to be probable.

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. As Solstice is a joint venture formed exclusively to operate the Winterfell portfolio, Solstice has generated, and may continue to generate, operating losses if declines in occupancy and operating revenues at our Winterfell portfolio continue. During the year ended December 31, 2021, we contributed an additional \$0.4 million to Solstice.

Unconsolidated Investments

The following table presents our unconsolidated investments (dollars in thousands):

| | | | | | | Properties as of December 31, 2021 ⁽¹⁾ | | | | |
|-------------------|--|------------------|-----------|--------------------|----------------------------------|---|-----|-----|-----------|-------|
| Portfolio | Partner | Acquisition Date | Ownership | AUM ⁽²⁾ | Equity Investment ⁽³⁾ | Seniors Housing Facilities | MOB | SNF | Hospitals | Total |
| Diversified US/UK | NRF | Dec-2014 | 14.3 % | \$ 445,855 | \$ 243,544 | 92 | 106 | 39 | 9 | 246 |
| Trilogy | American Healthcare REIT / Management Team of Trilogy Investors, LLC | Dec-2015 | 23.2 % | 405,667 | 189,032 | 23 | — | 69 | — | 92 |
| Espresso | Formation Capital, LLC/Safanad Management Limited | Jul-2015 | 36.7 % | 91,348 | 55,146 | 1 | — | 48 | — | 49 |
| Eclipse | NRF/ Formation Capital, LLC | May-2014 | 5.6 % | 37,291 | 23,400 | 42 | — | 9 | — | 51 |
| Subtotal | | | | \$ 980,161 | \$ 511,122 | 158 | 106 | 165 | 9 | 438 |
| Solstice | | Jul-2017 | 20.0 % | — | 402 | — | — | — | — | — |
| Total | | | | \$ 980,161 | \$ 511,524 | 158 | 106 | 165 | 9 | 438 |

(1) Excludes properties classified as held for sale.

(2) Represents assets under management based on cost, 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.

(3) Represents initial and subsequent contributions to the underlying joint venture through December 31, 2021.

- *Diversified US/UK.* Portfolio 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.* Portfolio 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. American Healthcare REIT, Inc., or AHR, and management of Trilogy own the remaining 76.8% of this portfolio.
- *Espresso.* Portfolio of predominantly SNFs, located in various regions across the United States, and organized in sub-portfolios under net leases. An affiliate of Formation acts as the general partner and manager of this investment. Formation and Safanad Management Limited own the remaining 63.3% of this portfolio.
- *Eclipse.* Portfolio of SNFs and ALFs leased to, or managed by, a variety of different operators/managers across the United States. Our Sponsor and other minority partners and Formation own 86.4% and 8.0% of this portfolio, respectively.
- *Solstice.* Operator platform joint venture established to manage the operations of the Winterfell portfolio. An affiliate of ISL owns the remaining 80.0%.

Debt Investments

Our investments in real estate debt secured by healthcare facilities consisted of one mezzanine loan to the Espresso portfolio, in which we also have an equity investment. Refer to “—Unconsolidated Investments” above. In August 2021, the outstanding principal balance of the mezzanine loan was repaid in full.

Human Capital

As of December 31, 2021, we had no employees. Our Advisor or its affiliates provide management, acquisition, advisory, marketing, investor relations and certain administrative services for us.

Portfolio Management

Our Advisor and its affiliates maintain a comprehensive portfolio management process that generally includes oversight by asset management and capital markets teams, regular management meetings and operating results review process. These processes are designed to enable management to evaluate and proactively identify asset-specific issues and trends on a portfolio-wide, sub-portfolio or asset type basis. Nevertheless, we cannot be certain that our Advisor’s review 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.

Our Advisor’s asset management and capital markets teams 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 and capital markets teams seek to identify opportunities for our 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 and capital markets teams engage in frequent review and dialogue with operators/managers/borrowers/third party advisors and periodic inspections of our owned properties and collateral. During the COVID-19 pandemic, we performed virtual site tours of our properties in order to comply with safety measures and restrictions and began resuming in person inspections as conditions have allowed. In addition, our Advisor’s asset management and capital market teams consider the impact of regulatory changes on the performance of our portfolio.

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.

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.

Seasonality

Our revenues, and our operators' revenues, are dependent on occupancy. It is difficult to predict seasonal trends and the related potential impact of the cold and flu season, occurrence of epidemics or any other widespread illnesses on the occupancy of our facilities. A decrease in occupancy could affect the operating income of our operating properties as well as the ability of our net lease operator to make payments to us.

Competition

Our healthcare investments will experience local and regional market competition for residents, operators and staff. Competition will be based on quality of care, reputation, physical appearance of properties, services offered, family preference, physicians, staff and price. Competition will come from independent operators as well as companies managing multiple properties, some of which may be larger and have greater resources than our operators. Some of these properties are operated for profit while others are owned by governmental agencies or tax-exempt, non-profit organizations. Competitive disadvantages at our healthcare investments may result in vacancies at facilities, reductions in net operating income and ultimately a reduction in shareholder value.

Inflation

Macroeconomic trends such as increases in inflation and rising interest rates can have a substantial impact on our business and financial results. Many of our costs are subject to inflationary pressures. These include labor, repairs and maintenance, food costs, utilities, insurance and other operating costs. Our managers' ability to offset increased costs by increasing the rates charged to residents may be limited, therefore, cost inflation may substantially affect the net operating income of our operating properties as well as the ability of our net lease operator to make payments to us.

Refer to "Quantitative and Qualitative Disclosures About Market Risk" for additional details.

Regulation

We are subject, in certain circumstances, to supervision and regulation by state and federal governmental authorities and are subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things:

- require compliance with applicable REIT rules;
- regulate healthcare operators with respect to licensure, certification for participation in government programs and relationships with patients, physicians, tenants and other referral sources;
- regulate occupational health and safety;
- regulate removal or remediation of hazardous or toxic substances;
- regulate land use and zoning;
- regulate removal of barriers to access by persons with disabilities and other public accommodations;
- regulate tax treatment and accounting standards; and
- regulate use of derivative instruments and our ability to hedge our risks related to fluctuations in interest rates and exchange rates.

Tax Regulation

We elected to be taxed as a REIT under the Internal Revenue Code, commencing with our taxable year ended December 31, 2013. If we maintain our qualification as a REIT for federal income tax purposes, we will generally not be subject to federal income tax on our taxable income that we distribute as dividends to our stockholders. If we fail to maintain our qualification as a REIT in any taxable year after electing REIT status, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and will generally not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which our qualification is denied. Such an event could materially and adversely affect our net income. However, we believe that we are organized and operate in a manner that enables us to qualify for treatment as a REIT for federal income tax purposes and we intend to continue to operate so as to remain qualified as a REIT for federal income tax purposes. In addition, we operate certain healthcare properties through structures permitted under the REIT Investment Diversification and Empowerment Act of 2007, which permit the Company, through taxable REIT subsidiaries, or TRSs, to have direct exposure to resident fee income and incur related operating expenses.

On December 18, 2015, President Obama signed into law the Consolidated Appropriations Act, 2016, an omnibus spending bill, with a provision referred to as the Protecting Americans from Tax Hikes Act of 2015, or the PATH Act. On June 7, 2016, the Internal Revenue Service, or the IRS, issued temporary Treasury Regulations under the PATH Act, finalized in part in Treasury Regulations issued on January 17, 2017. The PATH Act and the accompanying Treasury Regulations changed certain of the rules affecting REIT qualification and taxation of REITs and REIT stockholders described under the heading “U.S. Federal Income Tax Considerations” in our prospectus included in our Registration Statement on Form S-3 filed December 7, 2015. These changes are briefly summarized as follows:

- For taxable years beginning after 2017, the percentage of a REIT’s total assets that may be represented by securities of one or more TRSs was reduced from 25% to 20%.
- For distributions in taxable years beginning after 2014, the preferential dividend rules no longer apply to us as a “publicly offered REIT,” as defined in Internal Revenue Code Section 562(c)(2).
- For taxable years beginning after 2015, debt instruments issued by publicly offered REITs are treated as real estate assets for purposes of the 75% asset test, but interest on debt of a publicly offered REIT will not be qualifying income under the 75% gross income test unless the debt is secured by real property. Under a new asset test, not more than 25% of the value of a REIT’s assets may consist of debt instruments that are issued by publicly offered REITs and would not otherwise be treated as qualifying real estate assets.
- For taxable years beginning after 2015, to the extent rent attributable to personal property is treated as rents from real property (because rent attributable to the personal property for the taxable year does not exceed 15% of the total rent for the taxable year for such real and personal property), the personal property will be treated as a real estate asset for purposes of the 75% asset test. Similarly, a debt obligation secured by a mortgage on both real and personal property will be treated as a real estate asset for purposes of the 75% asset test, and interest thereon will be treated as interest on an obligation secured by real property, if the fair market value of the personal property does not exceed 15% of the fair market value of all property securing the debt.
- For taxable years beginning after 2015, a 100% excise tax will apply to “redetermined services income,” i.e., non-arm’s-length income of a REIT’s TRS attributable to services provided to, or on behalf of, the REIT (other than services provided to REIT managers, which are potentially taxed as redetermined rents).
- For taxable years beginning after 2014, the period during which dispositions of properties with net built-in gains acquired from C corporations in carry-over basis transactions will trigger the built-in gains tax was reduced from ten years to five years.
- REITs are subject to a 100% tax on net income from “prohibited transactions,” i.e., sales of dealer property (other than “foreclosure property”). These rules also contain a safe harbor under which certain sales of real estate assets will not be treated as prohibited transactions. One of the requirements for the pre-PATH Act safe harbor was that (I) the REIT did not make more than seven sales of property (subject to specified exceptions) during the taxable year at issue, or (II) the aggregate adjusted bases (as determined for purposes of computing earnings and profits) of property (other than excepted property) sold during the taxable year did not exceed 10% of the aggregate bases in the REIT’s assets as of the beginning of the taxable year, or (III) the fair market value of property (other than excepted property) sold during the taxable year did not exceed 10% of the fair market value of the REIT’s total assets as of the beginning of the taxable year. If a REIT relied on clause (II) or (III), substantially all of the marketing and certain development expenditures with respect to the properties sold must have been made through an independent contractor. For taxable years beginning after December 18, 2015, clauses (II) and (III) were liberalized to permit the REIT to sell properties with an aggregate adjusted basis (or fair market value) of up to 20% of the aggregate bases in (or fair market value of) the REIT’s assets as long as the 10% standard is satisfied on average over the three-year period comprised of the taxable year at issue and the two immediately preceding taxable years. In addition, for taxable years beginning after 2015, for REITs that rely on clauses (II) or (III), a TRS may make the marketing and development expenditures that previously had to be made by independent contractors.
- A number of changes applicable to REITs were made to the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA, rules for taxing non-U.S. persons on gains from sales of U.S. real property interests, or USRPIs:
 - For dispositions and distributions on or after December 18, 2015, the stock ownership thresholds for exemption from FIRPTA taxation on sale of stock of a publicly traded REIT and for recharacterizing capital gain dividends as ordinary dividends were increased from not more than 5% to not more than 10%.

- Effective December 18, 2015, new rules simplified the determination of whether we are a “domestically controlled qualified investment entity.”
- For dispositions and distributions after December 18, 2015, “qualified foreign pension funds” as defined in new Internal Revenue Code Section 897(l)(2) and entities that are wholly owned by a qualified foreign pension fund are exempted from FIRPTA and FIRPTA withholding. New FIRPTA rules also apply to “qualified shareholders” as defined in Internal Revenue Code Section 897(k)(3).
- For sales of USRPIs occurring after February 16, 2016, the FIRPTA withholding rate for sales of USRPIs and certain distributions generally increased from 10% to 15%.

The Tax Cuts and Jobs Act

On December 22, 2017, President Trump signed into law H.R. 1, informally titled the Tax Cuts and Jobs Act, or the TCJA. The TCJA made major changes to the Internal Revenue Code including several provisions of the Internal Revenue Code that may affect the taxation of REITs and their securityholders described under the heading “U.S. Federal Income Tax Considerations” in our prospectus included in our Registration Statement on Form S-3 filed December 7, 2015. Certain provisions of the TCJA were temporarily modified by the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act. The most significant of these provisions, as modified by the CARES Act, if applicable, are briefly summarized as follows:

- With respect to individuals, the TCJA made significant changes to individual tax rates and deductions:
 - The TCJA created seven income tax brackets for individuals ranging from 10% to 37% that generally apply at higher thresholds than current law. For example, the highest 37% rate applies to joint return filer incomes above \$600,000, instead of the highest 39.6% rate that applied to incomes above \$470,700 under pre-TCJA law.
 - The maximum 20% rate that applies to long-term capital gains and qualified dividend income remained unchanged, as did the 3.8% Medicare tax on net investment income.
 - The TCJA eliminated personal exemptions, but nearly doubled the standard deduction for most individuals (for example, the standard deduction for joint return filers rose from \$12,700 in 2017 to \$24,000 in 2018).
 - The TCJA eliminated many itemized deductions, limited individual deductions for state and local income, property and sales taxes (other than those paid in a trade or business) to \$10,000 collectively for joint return filers, and limited the amount of new acquisition indebtedness on principal or second residences for which mortgage interest deductions are available to \$750,000. Interest deductions for new home equity debt were eliminated.
 - Charitable deductions were generally preserved. The phaseout of itemized deductions based on income was eliminated.
 - The TCJA did not eliminate the individual alternative minimum tax, but it raised the exemption and exemption phaseout threshold for application of the tax.
 - These individual income tax changes were generally effective beginning in 2018, but without further legislation, they will sunset after 2025.
- Under the TCJA, individuals, trusts, and estates generally may deduct 20% of “qualified business income” (generally, domestic trade or business income other than certain investment items) of certain pass-through entities. In addition, “qualified REIT dividends” (i.e., REIT dividends other than capital gain dividends and portions of REIT dividends designated as qualified dividend income, which in each case are already eligible for capital gain tax rates) and certain other income items are eligible for the deduction by the taxpayer. The overall deduction is limited to 20% of the sum of the taxpayer’s taxable income (less net capital gain) and certain cooperative dividends, subject to further limitations based on taxable income. In addition, for taxpayers with income above a certain threshold (e.g., \$315,000 for joint return filers), the deduction for each trade or business is generally limited to no more than the greater of (i) 50% of the taxpayer’s proportionate share of total wages from the pass-through entity, or (ii) 25% of the taxpayer’s proportionate share of such total wages plus 2.5% of the unadjusted basis of acquired tangible depreciable property that is used to produce qualified business income and satisfies certain other requirements. To qualify for this deduction, the stockholder receiving such dividend must hold the dividend-paying REIT shares for at least 46 days (taking into account certain special holding period rules) of the 91-day period beginning 45 days before the shares become ex-dividend, and cannot be under an obligation to make related payments with respect to a position in substantially similar or related property.
- The deduction for qualified REIT dividends is not subject to these wage and property basis limits. Consequently, the deduction equates to a maximum 29.6% tax rate on ordinary REIT dividends. As with the other individual income tax

changes, the deduction provisions were effective beginning in 2018. Without further legislation, the deduction would sunset after 2025.

- Net operating loss, or NOL, provisions were modified by the TCJA. The TCJA limited the NOL deduction to 80% of taxable income (before the deduction), however, this 80% limitation was lifted for taxable years beginning before January 1, 2021 by the CARES Act. The TCJA also generally eliminated NOL carrybacks for individuals and non-REIT corporations, however, under the CARES Act, NOLs generated in years beginning after December 31, 2017 and before January 1, 2021 could be carried back five years. REITs may not carryback NOLs, but may carryforward NOLs indefinitely. Subject to the modifications by the CARES Act, the new NOL rules apply to losses arising in taxable years beginning in 2018.
- The TCJA reduced the 35% maximum federal corporate income tax rate to a maximum 21% rate, and reduced the dividends-received deduction for certain corporate subsidiaries. The reduction of the federal corporate income tax rate to 21% also results in the reduction of the maximum rate of withholding with respect to our distributions to non-U.S. stockholders that are treated as attributable to gains from the sale or exchange of USRPIs from 35% to 21%. The TCJA also permanently eliminated the corporate alternative minimum tax. These provisions were effective beginning in 2018.
- The TCJA limited a taxpayer's net interest expense deduction to 30% of the sum of adjusted taxable income, business interest, and certain other amounts. The CARES Act temporarily increased this limit, in the absence of an election otherwise, to 50% for non-partnership entities for their 2019 and 2020 taxable years and for partnerships for their 2020 taxable years. In addition, under the CARES Act, a taxpayer could elect to use its adjusted taxable income from its 2019 taxable year for purposes of calculating its limitation in its 2020 taxable year. Adjusted taxable income does not include items of income or expense not allocable to a trade or business, business interest or expense, the new deduction for qualified business income, NOLs, and for years prior to 2022, deductions for depreciation, amortization, or depletion. For partnerships, the interest deduction limit is applied at the partnership level, subject to certain adjustments to the partners for unused deduction limitation at the partnership level. Under the CARES Act, a partner allocated disallowed interest with respect to a partnership's 2019 taxable year could deduct 50% of such amount in such partner's 2020 taxable year. The TCJA allows a real property trade or business to elect out of this interest limit so long as it uses a 40-year recovery period for nonresidential real property, a 30-year recovery period for residential rental property, and a 20-year recovery period for related improvements described below. For this purpose, a real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operating, management, leasing, or brokerage trade or business. We believe this definition encompasses our business and thus will allow us the option of electing out of the limits on interest deductibility should we determine it is prudent to do so. Nonetheless, if a domestic TRS borrows funds either from us or a third party, it may be unable to deduct all or a portion of the interest paid, resulting in a higher corporate-level tax liability. Disallowed interest expense is carried forward indefinitely (subject to special rules for partnerships). The interest deduction limit applied beginning in 2018.
- For taxpayers that do not use the TCJA's real property trade or business exception to the business interest deduction limits, the TCJA maintains the current 39-year and 27.5-year straight line recovery periods for nonresidential real property and residential rental property, respectively, and provides that tenant improvements for such taxpayers are subject to a general 15-year recovery period. Also, the TCJA temporarily allows 100% expensing of certain new or used tangible property through 2022, phasing out at 20% for each following year. The changes apply, generally, to property acquired after September 27, 2017 and placed in service after September 27, 2017.
- The TCJA continues the deferral of gain from the like-kind exchange of real property, but provides that foreign real property is no longer "like-kind" to domestic real property. Furthermore, the TCJA eliminated like-kind exchanges for most personal property. These changes were effective generally for exchanges completed after December 31, 2017.
- The TCJA moved the United States from a worldwide to a modified territorial tax system, with provisions included to prevent corporate base erosion. These provisions could affect the taxation of foreign subsidiaries and properties.
- The TCJA made other significant changes to the Internal Revenue Code. These changes include provisions limiting the ability to offset dividend and interest income with partnership or S corporation net active business losses. These provisions were effective beginning in 2018, but without further legislation, will sunset after 2025.

U.S. Healthcare Regulation

Overview

ALFs, ILFs, MCFs, hospitals, SNFs and other healthcare providers that operate healthcare properties in our portfolio are subject to extensive federal, state and local laws, regulations and industry standards governing their operations. Failure to comply with any of these, and other, laws could result in loss of licensure, loss of certification or accreditation, denial of reimbursement, imposition of civil and/or criminal penalties and fines, suspension or exclusion from federal and state healthcare programs, or

closure of the facility. Although the properties within our portfolio may be subject to varying levels of governmental scrutiny, we expect that the healthcare industry, in general, will continue to face increased regulation and pressure in the areas of fraud and abuse and privacy and security, among others. We also expect that efforts by third-party payors, such as the federal Medicare program, state Medicaid programs and private insurers, to impose greater and more stringent cost controls upon operators will intensify and continue. Changes in laws, regulations, reimbursement, and enforcement activity can all have a significant effect on the operations and financial condition of our tenants, operators and managers, which in turn may adversely impact us, as set forth below and under “Risk Factors” in our 2021 Form 10-K.

Fraud and Abuse Enforcement

Healthcare providers are subject to federal and state laws and regulations that govern their operations and, in some cases, arrangements with referral sources. These laws include those that require providers to furnish only medically necessary services and submit to third-party payors valid and accurate statements for each service, as well as kickback laws, self-referral laws and false claims acts. In particular, enforcement of the federal False Claims Act has resulted in increased enforcement activity for healthcare providers and can involve significant monetary damages and awards to private plaintiffs who successfully bring “whistleblower” lawsuits. Sanctions for violations of these laws, regulations and other applicable guidance may include, but are not limited to, loss of licensure, loss of certification or accreditation, denial of reimbursement, imposition of civil and criminal penalties and fines, suspension or exclusion from federal and state healthcare programs or closure of the facility, any of which could have a material adverse effect on the operations and financial condition of our operators, which, in turn may adversely impact us.

Healthcare Reform

The Patient Protection and Affordable Care Act of 2010, or ACA, impacted the healthcare marketplace in many ways, including by decreasing the number of uninsured individuals in the United States by creating health insurance exchanges to facilitate the purchase of health insurance, expanding Medicaid eligibility, subsidizing insurance premiums, reforming insurance laws and establishing requirements and incentives for businesses to provide healthcare benefits.

The ACA, along with other government health insurance programs, like Medicare and Medicaid, are political flashpoints. Generally speaking, Republicans at federal and state levels have sought to limit federal and state financial support for health insurance coverage. Alternatively, Democrats have sought to expand federal and state financial support for health insurance.

Republican governors and attorneys general pursued legal challenges to the ACA, including one that was considered by the US Supreme Court as recently as 2021. President Trump and congressional Republicans sought, unsuccessfully, to repeal and replace the ACA with narrower alternatives. President Trump, while in office, approved numerous regulatory changes that had the effect of reducing the number of individuals receiving insurance through the ACA exchange marketplaces, and decreasing the number of individuals enrolled in Medicaid.

In recent years, President Biden has sought to increase insurance coverage in the United States, and has achieved some gains through enhanced premium support and Medicaid program changes.

As control of the White House, Congress, governors’ mansions and state legislatures change among political parties, we expect federal and state support for government health insurance programs to wax and wane. Changes to the ACA, Medicare or Medicaid affect our operators, which then can affect our business. Some changes can be material. It is difficult to predict what changes may be forthcoming or how those changes will impact our revenues.

Reimbursements

Federal, state and private payor reimbursement methodologies applied to healthcare providers are continuously evolving. Congress as well as federal and state healthcare financing authorities are continuing to implement new or modified reimbursement methodologies that shift risk to healthcare providers and generally reduce payments for services, which may negatively impact healthcare property operations.

SNFs and hospitals typically receive most of their revenues from the Medicare and Medicaid programs, with the balance representing reimbursement payments from private payors, including private insurers and self-pay patients. Seniors housing facilities (ALFs, ILFs and MCFs) typically receive most of their revenues from private pay sources and a small portion of their revenue from the Medicaid program. Providers that contract with government and private payors may be subject to periodic pre- and post-payment reviews and other audits. Payors are increasing their scrutiny of payments for items and services, and are increasingly decreasing or denying payments to providers. A review or audit of a property operator’s claims could result in recoupments, denials or delay of payments in the future, each of which could have a significant negative financial impact on such property. In some instances, a property operator may be removed and barred from participating in one or more federal or state programs, which can have a debilitating impact on cash flow, revenue expectations and ultimately, viability. Any

development that compromises the financial viability of an operator negatively impacts us. Additionally, there can be no guarantee that a third-party payor will continue to reimburse for services at current levels or continue to be available to residents of our facilities. Rates generated at facilities will vary by payor mix, market conditions and resident acuity. Rates paid by self-pay residents are set by the facilities and are determined by local market conditions and operating costs.

Medicare Reimbursement

Medicare is a significant payor source for our SNFs and hospitals. SNFs and hospitals are generally reimbursed by Medicare under prospective payment systems; payments to a tenant under these Medicare payment systems varies based upon the type of hospital, geographic location and service furnished, among other things. Under these payment systems, providers typically receive fixed fees for defined services, which creates a risk that payments will not cover the costs of delivering care. In recent years, the COVID-19 pandemic has had a profound effect on these healthcare businesses. Patient health, length of stay and case mix have all been abnormal and unpredictable. In addition, CMS continues to focus on linking payment to performance relative to quality and other metrics, including performance of up- and downstream, unrelated providers, and bundling payments for multiple items and services in a way that shifts more financial risk to providers. These changes, and a facility's ability to conform to them, could reduce payments and patient volumes for some facilities, including our operators, which may in turn impact us. Furthermore, while CMS has previously tested some of these new payment principles through optional "models," CMS could adopt rules making certain detrimental payment policies broadly applicable and mandatory. Patient acuity and cost experience during the COVID-19 pandemic may disrupt the datasets used to determine these payment systems in succeeding years. Federal and state governmental agencies overseeing healthcare programs could propose additional unanticipated changes to the amount and manner in which healthcare providers are paid, and these changes also could have a material adverse effect on payments and patient volumes for some facilities. All of these dynamics and potential changes could be disruptive to our operators and our business as a result.

Skilled Nursing Conditions for Participation - Federal and state health program regulators establish conditions of participation that require healthcare facilities, including SNFs, to meet certain environmental, management and care standards, as well as other regulatory obligations to remain in Medicare and Medicaid programs. Failure of our operators to comply with these Medicare and Medicaid participation requirements could have an adverse impact on the operations and financial condition of our operators, which in turn may adversely impact us, could have an adverse impact the operations and financial condition of our operators, which in turn may adversely impact us.

Skilled Nursing Conditions for Reimbursement- On July 29, 2021, CMS issued a final rule updating the prospective payment system compensation methodology applicable to SNFs for therapy services, which includes updates to the SNF Quality Reporting Program and the SNF Value-Based Program for FY 2022. These changes follow material changes that took effect on October 1, 2019, to the SNF payment model. This Patient Driven Payment Model determined SNF reimbursement by the duration of services provided based on anticipated patient needs. A SNF operator's ability to conform to these changes could positively or negatively impact the facility's revenue, which in turn, may impact us.

Medicaid Reimbursement

Medicaid is also a significant payor source for our SNFs and hospitals. The federal and state governments share responsibility for financing Medicaid. Within certain federal guidelines, states have a fairly wide range of discretion to determine Medicaid eligibility and reimbursement methodology. In recent years, CMS embraced a more flexible approach to state amendments and waivers that allow states even more latitude to determine eligibility and reimbursement. Certain states are attempting to slow the rate of growth in Medicaid expenditures by freezing rates or restricting eligibility and benefits; some states have elected not to expand their Medicaid eligibility criteria pursuant to the ACA. Some states have pursued block grant arrangements with CMS, which cap overall federal financial participation, and incentivize the state to reduce Medicaid expenditures. Some states are transitioning their Medicaid programs to managed care models, which rely on networks of contracted providers to provide services at reduced negotiated rates to a higher volume of patients than they might see absent the contract. Such changes may reduce the volume of Medicaid patients at facilities that do not participate in the managed care plan's network. Facilities that do participate may not receive a sufficient increase in patient volume to offset their lowered reimbursement rates. Medicaid reform activities may seek to revisit some of these flexibilities and trends, which could further disrupt state Medicaid regimes and adversely affect providers. In some states, our tenants and operators could experience delayed or reduced payment for services furnished to Medicaid enrollees, which in turn may adversely impact us.

Licensure, CON, Certification and Accreditation

Hospitals, SNFs, seniors housing facilities and other healthcare providers that operate healthcare properties in our portfolio may be subject to extensive state licensing and certificate of need, or CON, laws and regulations, which may restrict the ability of our operators to add new properties, expand an existing facility's size or services, or transfer responsibility for operating a particular facility to a new operator. The failure of our operators or managers to obtain, maintain or comply with any required license,

CON or other certification, accreditation or regulatory approval (which could be required as a condition of licensure or third-party payor reimbursement) could result in loss of licensure, loss of certification or accreditation, denial of reimbursement, imposition of civil and/or criminal penalties and fines, suspension or exclusion from federal and state healthcare programs or closure of the facility, any of which could have an adverse effect on our operations and financial condition.

Health Information Privacy and Security

Healthcare providers, including those in our portfolio, are subject to numerous state and federal laws that protect the privacy and security of patient health information. The federal government, in particular, has significantly increased its enforcement of these laws. The failure of our operators and managers to maintain compliance with privacy and security laws could result in the imposition of penalties and fines, which in turn may adversely impact us.

COVID-19 Pandemic

A variety of federal, state and local government efforts have been initiated in response to the COVID-19 pandemic. At the federal level, Congress has enacted a series of emergency stimulus packages, including the CARES Act and the Paycheck Protection Program and Health Care Enhancement Act to provide economic stimulus to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act includes provisions reimbursing eligible health care providers that provide diagnoses, testing or care for individuals with possible or actual cases of COVID-19 for certain health care-related expenses or lost revenues not otherwise reimbursed that are directly attributable to COVID-19 through the U.S. Department of Health and Human Services, or HHS, Provider Relief Fund. Recipients must satisfy reporting obligations and attest to terms and conditions. The HHS will have significant anti-fraud monitoring of the funds distributed and is posting a public list of providers and their payments.

The CARES Act and other relief legislation includes provisions designed to boost Medicare and Medicaid reimbursement for COVID-19 related services, and the CARES Act also temporarily suspended certain Medicare payment policies that reduce reimbursement. The Families First Coronavirus Response Act provided a temporary increase in the Federal Medical Assistance Percentage effective January 1, 2020 and lasting through the last day of the calendar quarter in which the public health emergency terminates. In addition, a portion of the available funding is being distributed to reimburse health care providers that submit claims requests for COVID-19-related treatment of uninsured patients at Medicare rates.

On March 28, 2020, CMS expanded the existing Accelerated and Advance Payments Program, or the Program, to a broader group of Medicare Part A providers and Part B suppliers. An accelerated or advance payment is a payment intended to provide necessary funds when there is a disruption in claims submission and/or claims processing. The CARES Act provided additional benefits and flexibilities, including extended repayment timeframes, for payments received pursuant to the Program. CMS and state and local government agencies have also passed measures allowing for flexibility in delivery of care. It is unclear whether these flexibilities will maintain after the termination of the public health emergency.

The failure of our operators and managers to maintain compliance with the terms of applicable stimulus relief could result in the imposition of recoupment or other penalties, which in turn may adversely impact us.

Investment Company Act

We believe that we are not, and intend to conduct our operations so as not to become, regulated as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. We have relied, and intend to continue to rely, on current interpretations of the staff of the SEC in an effort to continue to qualify for an exemption from registration under the Investment Company Act. For more information on the exemptions that we use, refer to “Risk Factors—Risks Related to Regulatory Matters and Our REIT Tax Status—*Maintenance of our Investment Company Act exemption imposes limits on our operations*” in our 2021 Form 10-K.

For additional information regarding regulations applicable to us, refer to “Risk Factors” in our 2021 Form 10-K.

Independent Directors’ Review of Our Policies

As required by our charter, our independent directors have reviewed our policies, including but not limited to our policies regarding investments, leverage, conflicts of interest and investment allocation and determined that they are in the best interests of our stockholders.

Corporate Governance and Internet Address

We emphasize the importance of professional business conduct and ethics through our corporate governance initiatives. Our board of directors consists of a majority of independent directors. The audit committee of our board of directors is composed

exclusively of independent directors. We have adopted corporate governance guidelines and a code of ethics, which delineate our standards for our officers and directors.

Our internet address is www.northstarhealthcarereit.com. The information on our website is not incorporated by reference in this Annual Report. We make available, free of charge through a link on our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports, if any, as filed or furnished with the SEC, as soon as reasonably practicable after such filing or furnishing. Our site also contains our code of ethics, corporate governance guidelines and our audit committee charter. Within the time period required by the rules of the SEC, we will post on our website any amendment to our code of ethics or any waiver applicable to any of our directors, executive officers or senior financial officers.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

Market Information

We completed our Offering on January 19, 2016. All of the shares initially registered in the Offering were issued. There is no established public trading market for our shares of common stock. We do not expect that our shares will be listed for trading on a national securities exchange in the near future, if ever. Our board of directors will determine when, and if, to apply to have our shares of common stock listed for trading on a national securities exchange, subject to satisfying existing listing requirements. Our board of directors does not have a stated term for evaluating a listing on a national securities exchange as we believe 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 our stockholders.

In order for members of FINRA and their associated persons to have participated in the offering and sale of our shares of common stock or to participate in any future offering of our shares of common stock, we are required, pursuant to FINRA Rule 2310, to disclose in each Annual Report distributed to our stockholders a per share estimated value of our shares of common stock, the method by which it was developed and the date of the data used to develop the estimated value. In addition, our Advisor must prepare annual statements of estimated share values to assist fiduciaries of retirement plans subject to the annual reporting requirements of ERISA in the preparation of their reports relating to an investment in our shares of common stock.

On November 11, 2021, upon the recommendation of the audit committee of our board of directors, our board of directors, including all of our independent directors, approved and established an estimated value per share of our common stock of \$3.91 as of June 30, 2021, or the Valuation Date. The estimated value per share is based upon the estimated value of our assets less the estimated value of our liabilities, divided by the number of shares of our common stock outstanding, in each case as of the Valuation Date. The information used to generate the estimated value per share, including market information, investment- and property-level data and other information provided by third parties, was the most recent information practically available as of the Valuation Date.

As of the Valuation Date, (i) the estimated value of our healthcare real estate properties was \$1.57 billion, compared with an aggregate cost, including purchase price, deferred costs and other assets, of \$2.09 billion, (ii) the estimated value of our healthcare real estate investments held through unconsolidated joint ventures was \$439.7 million, compared with an aggregate equity contribution, net of distributions in connection with asset sales, of \$468.6 million, (iii) the estimated value of our healthcare-related commercial real estate debt investment was \$27.7 million, equal to the aggregate outstanding principal amount of \$27.7 million, and (iv) the estimated value of our healthcare real estate liabilities was \$1.35 billion, compared with an aggregate outstanding principal amount of \$1.41 billion.

For additional information on the methodology used in calculating our estimated value per share as of June 30, 2021, refer to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 filed with the SEC on November 12, 2021.

It is currently anticipated that our next estimated value per share will be based upon our assets and liabilities as of June 30, 2022 and such value will be included in a Current Report on Form 8-K or such other filing with the SEC. We intend to continue to publish an updated estimated value per share annually.

Stockholders

As of March 17, 2022, we had 37,382 stockholders of record.

Distributions

We did not declare any distributions to stockholders during the years ended December 31, 2021 and 2020. In January 2019, we declared distributions to stockholders totaling \$5.4 million, of which \$3.0 million were distributed in cash and \$2.4 million were reinvested pursuant to our DRP. Distributions were paid to stockholders a month in arrears.

Distribution Reinvestment Plan

We adopted our DRP through which common stockholders may elect to reinvest an amount equal to the distributions declared on their shares in additional shares of our common stock in lieu of receiving cash distributions. The purchase price per share under our initial DRP was \$9.50. In connection with its determination of the offering price for shares of our common stock in our follow-on offering, the board of directors determined that distributions may be reinvested in shares of our 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 our follow-on offering. In April 2016 and effective through January 31, 2019, our board of directors determined that distributions may be reinvested in shares of our 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 estimated value per share of common stock based on when the price became effective:

| Effective Date | Estimated Value per Share | Valuation Date |
|----------------|------------------------------|----------------|
| 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 |
| December 2019 | 6.25 | 6/30/2019 |
| December 2020 | 3.89 | 6/30/2020 |
| November 2021 | 3.91 | 6/30/2021 |

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

We registered an additional 30.0 million shares to be offered pursuant to our DRP beyond the completion of our Offering, although we suspended payment of monthly distributions to stockholders on February 1, 2019.

Since inception, we issued 25.7 million shares totaling \$232.6 million of gross offering proceeds pursuant to our DRP.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We adopted our Share Repurchase Program effective August 7, 2012 which enabled stockholders to sell their shares to us in limited circumstances. On April 7, 2020, our board of directors determined to suspend all repurchases under our Share Repurchase Program effective April 30, 2020 in order to preserve capital and liquidity.

We are not obligated to repurchase shares under our Share Repurchase Program when our Share Repurchase Program is in effect. 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 year ended December 31, 2021, we have not repurchased any shares of our common stock.

Unregistered Sales of Equity Securities

On October 31, 2021 we issued 237,298 shares of common stock at \$3.89 per share to our Advisor as part of its asset management fee, pursuant to our advisory agreement. On November 30, 2021 and December 31, 2021, we issued 237,298 and 239,769 shares of common stock at \$3.91 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.

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 "Financial Statements and Supplementary Data" and the risk factors in "Risk Factors" of our 2021 Form 10-K. References to "we," "us," "our," or "NorthStar Healthcare" refer to NorthStar Healthcare Income, Inc. and its subsidiaries unless the context specifically requires otherwise.

Business Summary

We have invested in independent living facilities, or ILFs, assisted living facilities, or ALFs, memory care facilities, or MCFs, and continuing care retirement communities, or CCRCs, which we collectively refer to as seniors housing facilities, skilled nursing facilities, or SNFs, medical office buildings, or MOBs, and hospitals.

Our primary investment segments are as follows:

- Direct Investments - Operating - Healthcare properties operated pursuant to management agreements with healthcare managers.
- Direct Investments - Net Lease - Healthcare properties operated under net leases with an operator.
- Unconsolidated Investments - Healthcare joint ventures, including properties operated under net leases with an operator or pursuant to management agreements with healthcare managers, in which we own a minority interest.
- Debt Investments - Mortgage loans or mezzanine loans to owners of healthcare real estate. During the year ended December 31, 2021, we had one mezzanine loan, which was repaid in August 2021.

For information regarding our investments as of December 31, 2021, refer to "Our Investments" included in "Business" in this Annual Report.

Business Update

Investments, Financings and Disposition Activities

The year ended December 31, 2021 marked a pivotal and transitional period for our business, portfolio composition and liquidity. The following is a summary of significant investment, financing and disposition activities during the year:

- In December 2021, we completed the sale of the Watermark Fountains net lease and operating portfolios for \$580.0 million. The sale generated net proceeds of approximately \$114.0 million after the repayment of mortgage notes, which totaled \$450.7 million and payment of transaction and other costs, distributions to non-controlling interests, and releases of reserves and other proration.
- In August 2021, the outstanding principal balance of our mezzanine loan was repaid in full. Principal repayments received during the year ended December 31, 2021 totaled \$74.4 million, which includes payment-in-kind interest. The borrower funded these principal repayments through net proceeds generated from the sale of underlying collateral and available operating cash flow.
- In July 2021, we repaid, in full, the \$35.0 million outstanding borrowings under our revolving line of credit from an affiliate of our Sponsor, or the Sponsor Line.
- In June 2021, we completed the sale of the Kansas City portfolio, which generated net proceeds of approximately \$4.7 million.
- In May 2021, we completed the sale of the Smyrna net lease property, which generated net proceeds of approximately \$1.7 million.
- In April 2021, we extended the maturity date of a mortgage note payable for a property within the Rochester portfolio to August 2022 and made a \$1.0 million principal repayment.
- In March 2021, we completed the sale of a property within the Aqua portfolio for \$22.0 million. The sale generated net proceeds of \$0.9 million, after the repayment of the outstanding mortgage principal balance of \$20.1 million and transaction costs.

- In January 2021, we refinanced an existing \$18.7 million note payable, collateralized by a property within the Aqua portfolio, with a \$26.0 million mortgage note payable. The new mortgage note carries a fixed interest rate of 3.0% through February 2024 and has an initial maturity date of February 2026.

Operating Performance

Throughout the year ended December 31, 2021, the world continued to experience the broad effects of the COVID-19 pandemic. Our healthcare real estate business and investments were challenged by declines in resident occupancy, lower labor force participation rates, which drove increased labor costs, and inflationary pressures on other operating expenses. Significant vaccine deployment helped to reduce COVID-19 infections and transmissions within our communities, which in turn, improved demand, led to an improvement in resident occupancy at our communities during the third and fourth quarters of 2021 and reduced preventative operating costs.

We continue to see increased demand and lead generation for our communities and remain optimistic on the long-term outlook for the seniors housing industry, but anticipate the continuing impact of the COVID-19 pandemic on the operational and financial performance of our business, which may differ considerably across regions and fluctuate over time. New variants of the virus, which may increase reported infection rates, along with labor and inflationary pressures on costs, may further interfere with the general economic recovery.

At this time, the progression of the global economic recovery from the broad effects of the pandemic is difficult to assess and estimate the future impact on our results of operations. Accordingly, any estimates of the effects of COVID-19 as reflected or discussed are based upon our best estimates using information known to us as of the date of this Annual Report, and such estimates may change in the future, the effects of which could be material.

The following is a summary of the performance of our investment segments for the year ended December 31, 2021 as compared to the year ended December 31, 2020. For additional information on financial results, refer to “—Results of Operations.”

Direct Investments - Operating

The impact of COVID-19 resulted in occupancy levels nearing historical lows across our direct operating investments at the beginning of 2021. While average occupancy was lower for the year ended December 31, 2021 as compared to 2020, on a same store basis, our direct operating investments experienced an improved demand and an increase in the number of resident move-ins during 2021. Recent occupancy trends have shown improvements, with average monthly occupancy in December 2021 exceeding the average monthly occupancy in December 2020 by 2.5%. A summary of average occupancy by manager is as follows:

| Operator / Manager | Average Monthly Occupancy | | | Average Annual Occupancy | | |
|---|---------------------------|---------------|--------------|--------------------------|---------------|----------------|
| | December 2021 | December 2020 | Variance | 2021 | 2020 | Variance |
| Watermark Retirement Communities ⁽¹⁾ | 77.2 % | 76.4 % | 0.8 % | 75.4 % | 77.5 % | (2.1) % |
| Solstice Senior Living | 77.2 % | 74.2 % | 3.0 % | 73.9 % | 76.8 % | (2.9) % |
| Avamere Health Services | 85.0 % | 80.1 % | 4.9 % | 81.9 % | 85.5 % | (3.6) % |
| Integral Senior Living ⁽¹⁾ | 97.5 % | 100.0 % | (2.5) % | 98.1 % | 88.8 % | 9.3 % |
| Direct Investments - Operating | 77.9 % | 75.4 % | 2.5 % | 75.1 % | 77.7 % | (2.6) % |

(1) Average monthly and annual occupancy excludes properties sold.

On a same store basis, rental and resident fee income of our direct operating investments declined to \$163.3 million for the year ended December 31, 2021 as compared to \$163.9 million for the year ended December 31, 2020. Overall, average annual occupancy for our direct operating investments declined by 2.6% in 2021 as compared to 2020. However, declines in revenue from lower occupancy were partially offset by rate increases. While occupancy improved during the second half of 2021, our direct operating investments’ occupancy levels remain below pre-pandemic averages.

On a same store basis, excluding COVID-19 related expenses, property operating expenses of our direct operating investments increased to \$120.4 million for the year ended December 31, 2021 as compared to \$111.0 million for the year ended December 31, 2020. We continue to experience staffing challenges and, in turn, salaries and wages expense has increased due to additional overtime hours and use of agency and contract labor to fill open positions. In addition, sales and marketing expenses have increased with the improved volume of resident move-ins, while the resumption of normalized business operations has allowed our managers to complete deferred repairs and maintenance projects.

Overall, on a same store basis, rental and resident fee income, net of property operating expenses, of our direct operating investments decreased to \$42.9 million for the year ended December 31, 2021 as compared to \$52.9 million for the year ended December 31, 2020.

Our direct operating investments incurred COVID-19 related expenses totaling \$4.4 million and \$9.9 million for the years ended December 31, 2021 and 2020, respectively. In addition, during the years ended December 31, 2021 and 2020, our direct operating investments received and recognized grant income totaling \$7.7 million and \$1.8 million, respectively, from the Provider Relief Fund administered by the U.S. Department of Health and Human Services, or HHS. These grants are intended to mitigate the negative financial impact of the COVID-19 pandemic as reimbursements for expenses incurred to prevent, prepare for and respond to COVID-19 and lost revenues attributable to COVID-19. Provided that we attest to and comply with certain terms and conditions of the grants, we will not be required to repay these grants in the future.

Direct Investments - Net Lease

On a same store basis, we recognized \$3.4 million of rental income from our direct net lease investments during the year ended December 31, 2021, as compared to \$10.1 million recognized in 2020, excluding straight-line rental adjustments in both periods. A summary of rental income from our direct net lease investments is as follows:

- The operator of our Arbors portfolio has failed to remit contractual rent and satisfy other lease conditions. Contractual monthly rent obligations have been remitted through April 2021 and we have recorded rental income to the extent rental payments were received during the year ended December 31, 2021.
- We sold our Watermark Fountains net lease portfolio in December 2021. The operator remitted full contractual rent per the amended terms of its lease through November 2021. In April 2021, we executed a lease modification that allowed the operator to defer up to \$3.0 million of contractual rent payments over the remaining term of the lease, which were forgiven upon the sale of the portfolio.
- We sold our Smyrna property in May 2021. No rental income was received or recognized from the operator during the year ended December 31, 2021.

Unconsolidated Investments

Overall, our unconsolidated investment portfolios experienced similar operational challenges presented by the COVID-19 pandemic as our direct operating investments. Equity in earnings totaled \$15.8 million for the year ended December 31, 2021 as compared to equity in losses of \$34.5 million for the year ended December 31, 2020. Equity in earnings includes our proportionate share of net gains from sales transactions in the Espresso and Eclipse joint ventures, which totaled \$22.0 million for the year ended December 31, 2021. These sales resulted in lower rental income recognized by the joint ventures during the year ended December 31, 2021. Equity in losses for the year ended December 31, 2020 includes our proportionate share of impairment losses recorded by the underlying joint ventures of our unconsolidated investments, which totaled \$38.2 million.

During the year ended December 31, 2021, we received distributions from our unconsolidated investments, which totaled \$18.1 million as compared to \$5.9 million for the year ended December 31, 2020. The increase in distributions is primarily a result of increased sales activity during the year ended December 31, 2021. Distributions continued to be limited by reinvestment and development in the Trilogy joint venture, operational challenges in the Diversified US/UK and Eclipse joint ventures and debt repayments in the Espresso joint venture.

The following is a summary of operations and performance for the Trilogy, Diversified US/UK, and Espresso joint ventures for the year ended December 31, 2021:

- Trilogy: Labor shortages, resulting in additional overtime and agency staffing, continued to impact the operations of the predominantly SNF portfolio during the year ended December 31, 2021. Additionally, less federal COVID-19 provider relief grants were received and recognized as income during the year ended December 31, 2021 as compared to 2020. While challenged throughout 2021, occupancy and financial results improved during the fourth quarter of 2021.
- Espresso: The joint venture received full contractual rent from its net lease operators during the year ended December 31, 2021. In December 2021, the joint venture resumed distributions to its partners for the first time since the second quarter of 2017. During 2021, the portfolio sold 43 properties, or 28% of the portfolio. Net proceeds from the sales were used to repay our mezzanine loan originated to the joint venture. Refer to “—Business Update” for further detail on the mezzanine loan repayment.
- Diversified US/UK: The joint venture received substantially all contractual monthly rent from its net lease and MOB tenants in the United States during the year ended December 31, 2021. SNF and ALF operating portfolios sustained suboptimal occupancy levels and experienced staffing challenges resulting from the continued broad effects of the

COVID-19 pandemic. The operator of the joint venture's net lease portfolio in the United Kingdom experienced similar effects of the pandemic on its operations, which resulted in a lease modification and lower rental income recognized during the year ended December 31, 2021.

Debt Investments

During the year ended December 31, 2021, interest income generated by our mezzanine loan debt investment totaled \$4.7 million, a decrease from \$7.7 million for the ended year ended December 31, 2020, as a result of the loan being repaid in full in August 2021. The borrower funded principal repayments through net proceeds generated from the sale of underlying collateral and available operating cash flow.

Recent Developments

The following is a discussion of material events which have occurred subsequent to December 31, 2021 through March 17, 2022.

Sponsor Transaction

On February 28, 2022, our former Sponsor, DigitalBridge Group, Inc., or our Former Sponsor, completed the previously announced disposition of its wellness infrastructure platform, or the Sponsor Transaction, which included CNI NSHC Advisors, LLC, or our Advisor, and the individuals currently engaged in the management and oversight of the healthcare platform. The sale resulted in a change of the owner and control of our Advisor to NRF Holdco, LLC, or NRF or our New Sponsor, but did not directly impact the ownership or control of us or any of our assets.

Advisory Agreement

In connection with the Sponsor Transaction, our advisory agreement was renewed for a one-year term commencing on February 28, 2022 upon terms identical to those in effect through February 28, 2022, but removed our Former Sponsor as the Sponsor and added NRF as the New Sponsor.

Sponsor Line of Credit

On February 28, 2022, our Sponsor Line was amended to extend the maturity date to February 28, 2024.

Outlook and Recent Trends

The healthcare industry, which includes ILFs, ALFs, MCFs, CCRCs, SNFs, MOBs and hospitals, continues to experience the effects of COVID-19, including declines in resident occupancy, lower operating cash flows and compressed operating margins.

The CARES Act has provided over \$100 billion in grants to eligible health care providers for health care related expenses or lost revenues that are attributable to COVID-19. Licensed assisted living providers became eligible to apply for funding under the Provider Relief Fund Phase 2 General Distribution allocation and remain eligible under the Provider Relief Fund Phase 3 and Phase 4 General Distributions. In addition, the CMS has provided accelerated and advance payments to Medicare providers. Operators continue to evaluate their options for financial assistance, such as utilizing programs within the CARES Act as well as other state and local government relief programs. However, the uncertainty regarding future availability of such relief, and its ultimate impact, including the extent to which relief funds from such programs will provide meaningful support for lost revenue and increasing costs, is uncertain. Additionally, although we continue to evaluate and monitor the terms and conditions associated with relief programs, we cannot ensure ultimate compliance with all the requirements related to the assistance received. If any of our operators fail to comply with all of the terms and conditions, they may be required to repay some or all of the grants received and may be subject to other enforcement action, which could have a material adverse impact on our business and financial condition.

Healthcare industry operating results will continue to be impacted to the extent occupancy remains below pre-pandemic levels. Further, the healthcare industry anticipates operating margins will continue to be impacted by cost inflation, labor pressures, additional staffing needs and related cost burdens.

The healthcare industry's operational and financial recovery from the impact of the COVID-19 will depend on a variety of factors, which may differ considerably across regions, fluctuate over time and are highly uncertain. The healthcare industry experienced a higher pace of move-ins during the fourth quarter of 2021 as compared to the third quarter of 2021. As a result of overall increase in resident demand, improving consumer sentiment and easing restrictions on visitation and admissions, the seniors housing industry occupancy average rose to 81.0% during the fourth quarter of 2021 from 80.1% in the third quarter of 2021. In addition, annual inventory growth decreased to 2.4% during the fourth quarter of 2021, while construction versus inventory ratio of 5.2% remained elevated in the fourth quarter of 2021 (source: The National Investment Centers for Seniors Housing & Care, or NIC).

Seniors Housing

Notwithstanding the demographics and forecasted spending growth, economic and healthcare market uncertainty, development, and competitive pressures have had a negative impact on the seniors housing industry, weakening the market's fundamentals and ultimately reducing operating income for managers and operators.

Supply growth, which has outpaced demand, has challenged the seniors housing industry over the past several years. New inventory, coupled with the average move-in age of seniors housing residents increasing over time, has resulted in declining occupancy for the industry on average. Further, to remain competitive with the new supply, owners and operators of older facilities have increased capital expenditure spending, which in turn has negatively affected cash flow. While off its peak of 7.7% in the fourth quarter of 2017, seniors housing under construction as a share of inventory was 5.2% in the fourth quarter of 2021 (source: NIC). It is expected that, as demographics and demand continues to increase long-term, supply growth will follow.

As a result of increased supply, the seniors housing industry has experienced competitive pressures that have limited rent growth over the past several years. Average market rent growth reached its peak of 4.2% in 2016 and has since decreased to 2.3% as of the fourth quarter of 2021, with pressures caused by the COVID-19 pandemic contributing to the decline (source: NIC). Limited future supply growth and reestablishing normal operations in a post-pandemic environment will be factors in achieving near and long term revenue growth for the industry.

Further, prior to the COVID-19 pandemic, a tight labor market and competition to attract quality staff had resulted in increased wages and personnel costs, resulting in lower margins. The COVID-19 pandemic has further exacerbated operating expense growth, with increased staffing needs and personal protective equipment requirements. While it is expected that the increases in expenses to combat the effects of the COVID-19 pandemic will be temporary, wage and benefits increases may continue to impact the industry's margins in the future, as labor represents 60% of the seniors housing industry's operating expenses (source: Green Street).

Skilled Nursing

While generally impacted by the same conditions as the seniors housing industry, SNF operators are currently facing various operational, reimbursement, legal and regulatory challenges. Increased wages and labor costs, narrowing of referral networks, shorter lengths of stay, staffing shortages, expenses associated with inspections, enforcement proceedings and legal actions related to professional and general liability claims have contributed to compressed margins and declines in cash flow.

SNF operators receive a majority of their revenues from governmental payors, primarily Medicare and Medicaid. 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 occupancy and declining operating margins, liquidity and financial conditions.

On February 28, 2022, the White House announced a set of reforms, developed by and implemented through HHS, aimed at improving safety and quality of nursing home care. The new initiatives include establishing a minimum nursing home staffing requirement, reducing resident room crowding and reinforcing safeguards against unnecessary medications and treatments. To ensure compliance, in addition to increased government inspections, the White House Administration plans to expand the financial penalties and other enforcement sanctions against facilities not meeting the set standards. These reforms might further increase the cost burdens for our SNF operators and expose them to financial penalties.

Critical Accounting Policies and Estimates

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.

Certain accounting policies are considered to be critical accounting policies. Critical accounting policies are those that are most important to the portrayal of our financial condition and results of operations and require management's subjective and complex judgments, and for which the impact of changes in estimates and assumptions could have a material effect on our financial statements. We believe that all of the decisions and assessments upon which our financial statements are based were reasonable at the time made, based upon information available to us at that time.

For a summary of our accounting policies, refer to Note 2, "Summary of Significant Accounting Policies" in our accompanying consolidated financial statements included in "Financial Statements and Supplementary Data."

We highlight below accounting estimates that we believe are critical based on the nature of our operations and/or require significant management judgment and assumptions:

- 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. Fair values can be estimated based upon the income capitalization approach, using net operating income for each property and applying indicative capitalization and discount rates or sales comparison approach, using what other purchasers and sellers in the market have agreed to as price for comparable properties.

Impairment

During the year ended December 31, 2021, we recorded impairment losses totaling \$5.4 million on our operating real estate, consisting of \$4.6 million recognized for one facility within our Winterfell portfolio, as a result of lower estimated future cash flows and market value, and \$0.8 million for our Smyrna net lease property, which was sold in May 2021.

As of December 31, 2020, we had accumulated impairment losses of \$145.1 million for operating real estate that we continue to hold as of December 31, 2021. Refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 for additional information regarding impairment recorded in prior years.

During the year ended December 31, 2021, we did not impair any of our investments in unconsolidated ventures. The Eclipse joint venture recorded impairment losses, which have been recognized through our equity in earnings, of which our proportionate share totaled \$1.8 million.

Due to uncertainties over the extent and duration of the COVID-19 pandemic, at this time, it is difficult to assess and estimate the further economic effects of COVID-19 with any meaningful precision. As the future impact of COVID-19 will depend on many factors beyond our control and knowledge, the resulting effect on impairment of our operating real estate and investments in unconsolidated ventures may materially differ from our current expectations and further impairment charges may be recorded in the future.

Results of Operations

Impact of COVID-19

Throughout the year ended December 31, 2021, the world continued to experience the broad effects of the COVID-19 pandemic. Our healthcare real estate business and investments were challenged by declines in resident occupancy, lower labor force participation rates, which drove increased labor costs, and inflationary pressures on other operating expenses. We continue to monitor the progression of the economic recovery from COVID-19 and its effects on our results of operations and assess recoverability of value across our assets as conditions change.

Comparison of the Year Ended December 31, 2021 to December 31, 2020 (dollars in thousands):

| | Year Ended December 31, | | Increase (Decrease) | |
|--|-------------------------|---------------------|---------------------|-----------------|
| | 2021 | 2020 | Amount | % |
| Property and other revenues | | | | |
| Resident fee income | \$ 105,955 | \$ 118,126 | \$ (12,171) | (10.3)% |
| Rental income | 137,322 | 157,024 | (19,702) | (12.5)% |
| Other revenue | — | 198 | (198) | (100.0)% |
| Total property and other revenues | 243,277 | 275,348 | (32,071) | (11.6)% |
| Interest income | | | | |
| Interest income on debt investments | 4,667 | 7,674 | (3,007) | (39.2)% |
| Expenses | | | | |
| Property operating expenses | 177,936 | 184,178 | (6,242) | (3.4)% |
| Interest expense | 61,620 | 65,991 | (4,371) | (6.6)% |
| Transaction costs | 54 | 65 | (11) | (16.9)% |
| Asset management fees - related party | 11,105 | 17,170 | (6,065) | (35.3)% |
| General and administrative expenses | 12,691 | 16,505 | (3,814) | (23.1)% |
| Depreciation and amortization | 54,836 | 65,006 | (10,170) | (15.6)% |
| Impairment loss | 5,386 | 165,968 | (160,582) | (96.8)% |
| Total expenses | 323,628 | 514,883 | (191,255) | (37.1)% |
| Other income, net | 7,278 | 1,840 | 5,438 | 295.5 % |
| Realized gain (loss) on investments and other | 79,477 | 302 | 79,175 | 26,216.9 % |
| Equity in earnings (losses) of unconsolidated ventures | 15,843 | (34,466) | 50,309 | (146.0)% |
| Income tax expense | (99) | (53) | (46) | 86.8 % |
| Net income (loss) | <u>\$ 26,815</u> | <u>\$ (264,238)</u> | <u>\$ 291,053</u> | <u>(110.1)%</u> |

Resident Fee Income

The following table presents resident fee income generated by our direct investments (dollars in thousands):

| | Year Ended December 31, | | Increase (Decrease) | |
|--|-------------------------|------------|---------------------|---------|
| | 2021 | 2020 | Amount | % |
| Same store ALF/MCF properties (excludes properties sold) | \$ 40,668 | \$ 39,800 | \$ 868 | 2.2 % |
| Properties sold | 65,287 | 78,326 | (13,039) | (16.6)% |
| Total resident fee income | \$ 105,955 | \$ 118,126 | \$ (12,171) | (10)% |

Resident fee income decreased \$12.2 million as a result of property sales in the year ended December 31, 2021. The Watermark Fountains portfolio sold in December 2021, the Kansas City portfolio in June 2021 and a property within the Aqua portfolio sold in March 2021.

Excluding properties sold, resident fee income increased \$0.9 million primarily as a result of an increase in occupancy and rates at our Oak Cottage property.

Rental Income

The following table presents rental income generated by our direct investments (dollars in thousands):

| | Year Ended December 31, | | Increase (Decrease) | |
|--|-------------------------|------------|---------------------|------------|
| | 2021 | 2020 | Amount | % |
| Same store ILF properties (excludes properties sold) | \$ 122,614 | \$ 124,125 | \$ (1,511) | (1.2)% |
| Same store net lease properties (excludes properties sold) | | | | |
| Rental payments | 3,449 | 10,139 | (6,690) | (66.0)% |
| Straight-line rental income (loss) | (7,350) | 476 | (7,826) | (1,644.1)% |
| Properties sold | 18,609 | 22,284 | (3,675) | (16.5)% |
| Total rental income | \$ 137,322 | \$ 157,024 | \$ (19,702) | (12.5)% |

Rental income decreased \$19.7 million primarily due to the operator of our Arbors net lease portfolio not remitting full contractual rent during the year ended December 31, 2021, which also resulted in the write-off of straight-line rent receivables. Limited move-ins and elevated move-outs throughout the first half of 2021 resulted in lower average occupancy and rental income recognized by our ILFs. Additionally, the Watermark Fountains net lease portfolio was sold in December 2021 and recognized lower contractual rent in 2021 under the amended terms of the lease.

Other Revenue

Other revenue is primarily interest earned on uninvested cash, which has been impacted by declining market interest rates.

Interest Income on Debt Investments

During the year ended December 31, 2021, interest income generated by our mezzanine loan debt investment decreased as a result of receiving the full repayment of outstanding principal in August 2021. The borrower funded principal repayments through net proceeds generated from the sale of underlying collateral and available operating cash flow.

Property Operating Expenses

The following table presents property operating expenses incurred by our direct investments (dollars in thousands):

| | Year Ended December 31, | | Increase (Decrease) | |
|---|-------------------------|------------|---------------------|---------|
| | 2021 | 2020 | Amount | % |
| Same store (excludes properties sold and COVID-19 related expenses) | | | | |
| ALF/MCF properties | \$ 30,384 | \$ 27,866 | \$ 2,518 | 9.0 % |
| ILF properties | 89,970 | 83,172 | 6,798 | 8.2 % |
| Net lease properties | 29 | 13 | 16 | 123.1 % |
| COVID-19 related expenses | 2,528 | 5,725 | (3,197) | (55.8)% |
| Properties sold | 55,025 | 67,402 | (12,377) | (18.4)% |
| Total Property operating expenses | \$ 177,936 | \$ 184,178 | \$ (6,242) | (3.4)% |

Overall, total operating expenses decreased \$6.2 million primarily as a result of property sales in the year ended December 31, 2021. The Watermark Fountains portfolio sold in December 2021, the Kansas City portfolio in June 2021 and a property within the Aqua portfolio sold in March 2021. Additionally, COVID-19 related expenses were lower during the year ended December 31, 2021 as compared to 2020.

Excluding properties sold and COVID-19 related expenses, operating expenses increased \$9.3 million, primarily as a result of our operators experiencing staffing challenges, which has increased salaries and wages due to additional overtime hours and use of agency and contract labor to fill open positions. In addition, the resumption of normalized business operations has allowed our operators to complete deferred repairs and maintenance projects.

Interest Expense

The following table presents interest expense incurred on our borrowings (dollars in thousands):

| | Year Ended December 31, | | Increase (Decrease) | |
|---------------------------------------|-------------------------|-----------|---------------------|---------|
| | 2021 | 2020 | Amount | % |
| Same store (excludes properties sold) | | | | |
| ALF/MCF properties | \$ 5,562 | \$ 5,688 | \$ (126) | (2.2)% |
| ILF properties | 33,000 | 34,151 | (1,151) | (3.4)% |
| Net lease properties | 3,699 | 3,797 | (98) | (2.6)% |
| Properties sold | 18,618 | 21,406 | (2,788) | (13.0)% |
| Corporate | 741 | 949 | (208) | (21.9)% |
| Total interest expense | \$ 61,620 | \$ 65,991 | \$ (4,371) | (6.6)% |

Interest expense decreased \$4.4 million primarily as a result of the repayment of mortgage notes payable which were collateralized by properties sold during the year ended December 31, 2021. In addition, average mortgage notes principal balances decreased during the year ended December 31, 2021 due to continued principal amortization, while lower LIBOR has reduced interest expense on our floating-rate debt. Corporate interest expense represents interest resulting from the borrowings under our Sponsor Line, which was repaid in full in July 2021.

Asset Management 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 fees - related party decreased \$6.1 million as a result of the estimated net asset value effective December 2020 decreasing from the previous estimated net asset value effective December 2019.

General and Administrative Expenses

General and administrative expenses decreased \$3.8 million primarily as a result of amortizing our directors' and officers' insurance premium incurred and reimbursed to our Advisor over the term of the policy, beginning in December 2021. The policy premium was expensed as incurred by the Advisor during the year ended December 31, 2020. In addition, we incurred non-operating costs at a property within the Watermark Fountains net lease portfolio during the year ended December 31, 2020.

Depreciation and Amortization

The following table presents depreciation and amortization recognized on our direct investments (dollars in thousands):

| | Year Ended December 31, | | Increase (Decrease) | |
|---------------------------------------|-------------------------|-----------|---------------------|---------|
| | 2021 | 2020 | Amount | % |
| Same store (excludes properties sold) | | | | |
| ALF/MCF properties | \$ 6,995 | \$ 7,443 | \$ (448) | (6.0)% |
| ILF properties | 29,306 | 30,167 | (861) | (2.9)% |
| Net lease properties | 3,444 | 3,444 | — | — % |
| Properties sold | 15,091 | 23,952 | (8,861) | (37.0)% |
| Total depreciation and amortization | \$ 54,836 | \$ 65,006 | \$ (10,170) | (15.6)% |

Depreciation and amortization expense decreased \$10.2 million, primarily as a result of properties sold during the year ended December 31, 2021, as well as impairments recognized during the year ended December 31, 2020, which reduced building depreciation expense in 2021.

Impairment Loss

During the year ended December 31, 2021, impairment losses on operating real estate totaled \$5.4 million, consisting of \$4.6 million recognized for one facility within our Winterfell portfolio and \$0.8 million for our Smyrna net lease property, which was sold in May 2021.

During the year ended December 31, 2020, impairment losses totaling \$166.0 million were recorded, consisting of \$84.9 million recognized for nine facilities within our Winterfell portfolio, \$4.2 million for a facility within the Avamere portfolio, \$12.5 million for two facilities within the Rochester portfolio and \$64.4 million for properties that were sold in 2021.

Other Income, Net

Other income, net for the year ended December 31, 2021 consisted of \$7.7 million in federal COVID-19 provider relief grants from HHS, partially offset by a \$0.5 million non-operating loss recognized at a property within the Watermark Fountains portfolio. During the year ended December 31, 2020, \$1.8 million in federal COVID-19 provider relief grants from HHS were received and recognized.

Realized Gain (Loss) on Investments and Other

Real estate property sales during the year ended December 31, 2021 resulted in net realized gains, which totaled \$84.0 million and were partially offset by debt extinguishment losses, which totaled \$8.7 million. In addition, we recognized gains on distributions that exceeded our carrying value for our investments in the Espresso and Envoy joint ventures, which totaled \$4.4 million.

During the year ended December 31, 2020, we recognized a \$0.3 million gain on the settlement of the share-based payment to our Advisor.

Equity in Earnings (Losses) of Unconsolidated Ventures

The following table presents the results of our unconsolidated ventures (dollars in thousands):

| Portfolio | Year Ended December 31, | | | | | | Year Ended December 31, | | | |
|-------------------|-----------------------------|-------------|---|-----------|--|-----------|-------------------------|---------|--------------------|----------|
| | 2021 | | 2020 | | 2021 | | 2021 | | 2020 | |
| | Equity in Earnings (Losses) | | FFO and MFFO adjustments ⁽¹⁾ | | Equity in Earnings, after FFO and MFFO adjustments | | Increase (Decrease) | | Cash Distributions | |
| Eclipse | \$ 2,130 | \$ (3,774) | \$ (1,563) | \$ 4,769 | \$ 567 | \$ 995 | \$ (428) | (43.0)% | \$ 2,898 | \$ 86 |
| Envoy | 740 | (7) | (744) | — | (4) | (7) | 3 | (42.9)% | 817 | 390 |
| Diversified US/UK | (3,676) | (35,396) | 17,441 | 47,177 | 13,765 | 11,781 | 1,984 | 16.8 % | 4,257 | 1,487 |
| Espresso | 19,619 | 270 | (9,690) | 9,415 | 9,929 | 9,685 | 244 | 2.5 % | 5,500 | — |
| Trilogy | (2,891) | 4,495 | 15,033 | 13,617 | 12,142 | 18,112 | (5,970) | (33.0)% | 4,638 | 3,960 |
| Subtotal | \$ 15,922 | \$ (34,412) | \$ 20,477 | \$ 74,978 | \$ 36,399 | \$ 40,566 | \$ (4,167) | (10.3)% | \$ 18,110 | \$ 5,923 |
| Solstice | (79) | (54) | 2 | — | (77) | (54) | (23) | 42.6 % | — | — |
| Total | \$ 15,843 | \$ (34,466) | \$ 20,479 | \$ 74,978 | \$ 36,322 | \$ 40,512 | \$ (4,190) | (10.3)% | \$ 18,110 | \$ 5,923 |

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

We recognized equity in earnings from our investments in unconsolidated investments during the year ended December 31, 2021, primarily due to realized gains on property sales in the Eclipse and Espresso joint ventures, as compared to losses recognized during the year ended December 31, 2020 primarily due to real estate impairments recorded by the Diversified US/UK, Trilogy and Eclipse joint ventures.

Equity in earnings, after FFO and MFFO adjustments, decreased by \$4.2 million as a result of lower COVID-19 provider relief grants received and recognized by the Trilogy joint venture, partially offset by lower tax expense recognized in the Diversified US/UK portfolio for the year ended December 31, 2021.

Comparison of the Year Ended December 31, 2020 to December 31, 2019 (dollars in thousands):

| | Year Ended December 31, | | Increase (Decrease) | |
|--|-------------------------|--------------------|---------------------|----------------|
| | 2020 | 2019 | Amount | % |
| Property and other revenues | | | | |
| Resident fee income | \$ 118,126 | \$ 130,135 | \$ (12,009) | (9.2)% |
| Rental income | 157,024 | 161,084 | (4,060) | (2.5)% |
| Other revenue | 198 | 1,959 | (1,761) | (89.9)% |
| Total property and other revenues | 275,348 | 293,178 | (17,830) | (6.1)% |
| Interest income | | | | |
| Interest income on debt investments | 7,674 | 7,703 | (29) | (0.4)% |
| Expenses | | | | |
| Property operating expenses | 184,178 | 181,214 | 2,964 | 1.6 % |
| Interest expense | 65,991 | 68,896 | (2,905) | (4.2)% |
| Transaction costs | 65 | 122 | (57) | (46.7)% |
| Asset management and other fees-related party | 17,170 | 19,789 | (2,619) | (13.2)% |
| General and administrative expenses | 16,505 | 12,761 | 3,744 | 29.3 % |
| Depreciation and amortization | 65,006 | 70,989 | (5,983) | (8.4)% |
| Impairment loss | 165,968 | 27,554 | 138,414 | 502.3 % |
| Total expenses | 514,883 | 381,325 | 133,558 | 35.0 % |
| Other income | 1,840 | — | 1,840 | 100.0 % |
| Realized gain (loss) on investments and other | 302 | 6,314 | (6,012) | (95.2)% |
| Equity in earnings (losses) of unconsolidated ventures | (34,466) | (3,545) | (30,921) | 872.2 % |
| Income tax expense | (53) | (75) | 22 | (29.3)% |
| Net income (loss) | <u>\$ (264,238)</u> | <u>\$ (77,750)</u> | <u>\$ (186,488)</u> | <u>239.9 %</u> |

Resident Fee Income

The following table presents resident fee income generated by our direct investments (dollars in thousands):

| | Year Ended December 31, | | Increase (Decrease) | |
|------------------------------------|-------------------------|------------|---------------------|--------|
| | 2020 | 2019 | Amount | % |
| Same store ALF/MCF/CCRC properties | \$ 118,126 | \$ 130,135 | \$ (12,009) | (9.2)% |

On a same store basis, resident fee income decreased \$12.0 million primarily as a result of lower occupancy at our ALFs, MCFs and CCRCs during the year ended December 31, 2020. The effects of the COVID-19 pandemic resulted in limited inquiries and tours, which significantly decreased the number of move-ins at our facilities, and increased the number of move-outs during 2020.

Rental Income

The following table presents rental income generated by our direct investments (dollars in thousands):

| | Year Ended December 31, | | Increase (Decrease) | |
|---------------------------------------|-------------------------|------------|---------------------|----------|
| | 2020 | 2019 | Amount | % |
| Same store (excludes properties sold) | | | | |
| ILF properties | \$ 124,125 | \$ 127,660 | \$ (3,535) | (2.8)% |
| Net lease properties | 32,899 | 32,826 | 73 | 0.2 % |
| Properties sold | — | 598 | (598) | (100.0)% |
| Total rental income | \$ 157,024 | \$ 161,084 | \$ (4,060) | (2.5)% |

Rental income decreased \$4.1 million primarily due to overall decreases in occupancy at our ILFs and the sale of a net lease property during 2019. The effects of the COVID-19 pandemic resulted in limited inquiries and tours, which significantly decreased the number of move-ins at our facilities, and increased the number of move-outs in 2020.

Effective June 1, 2020, we granted a lease concession to the operator of the Watermark Fountains net lease portfolio. The concession allowed the operator to defer a portion of contractual rent payments for a 90-day period, with full contractual rent repaid over the 12 months following the concession period. The amount of the deferred rental payments under the lease concession totaled \$3.9 million. As there were no substantive changes to the original lease or changes in total cash flows, the concession was not treated as a lease modification and we continued to recognize lease income and receivables under the original terms of the lease.

Other Revenue

Other revenue decreased primarily as a result of non-recurring service provider incentives recognized by the Winterfell portfolio during 2019, as well as lower interest earned on uninvested cash during the year ended December 31, 2020.

Interest Income on Debt Investments

For the year ended December 31, 2020, interest income generated by our one mezzanine loan debt investment totaled \$7.7 million, which was comparable to interest income recognized during year ended December 31, 2019.

Property Operating Expenses

The following table presents property operating expenses incurred by our direct investments (dollars in thousands):

| | Year Ended December 31, | | Increase (Decrease) | |
|---|-------------------------|------------|---------------------|--------|
| | 2020 | 2019 | Amount | % |
| Same store (excludes COVID-19 related expenses) | | | | |
| ALF/MCF/CCRC properties | \$ 91,062 | \$ 94,678 | \$ (3,616) | (3.8)% |
| ILF properties | 83,172 | 86,526 | (3,354) | (3.9)% |
| Net lease properties | 13 | 10 | 3 | 30.0 % |
| COVID-19 related expenses | 9,931 | — | 9,931 | NA |
| Total Property operating expenses | \$ 184,178 | \$ 181,214 | \$ 2,964 | 1.6 % |

Overall, operating expenses increased \$3.0 million for the year ended December 31, 2020 as compared to the year ended December 31, 2019. The increase was primarily attributable COVID-19 related expenses, which totaled \$9.9 million for the year ended December 31, 2020. These expenses include personal protective equipment for residents and staff as well as wages for increased staffing and paying a premium for labor in many markets, particularly in communities that were severely impacted by COVID-19.

Excluding COVID-19 related expenses, operating expenses decreased \$7.0 million for the year ended December 31, 2020 as compared to the year ended December 31, 2019. Lower census in our direct investment operating portfolio resulted in lower utilities and food and beverage costs. Additionally, repairs and maintenance expense was lower year over year, as operators minimized all non-essential projects across our direct investment operating portfolio in response to COVID-19.

Interest Expense

The following table presents interest expense incurred on our borrowings (dollars in thousands):

| | Year Ended December 31, | | Increase (Decrease) | |
|---------------------------------------|-------------------------|-----------|---------------------|----------|
| | 2020 | 2019 | Amount | % |
| Same store (excludes properties sold) | | | | |
| ALF/MCF/CCRC properties | \$ 19,059 | \$ 20,620 | \$ (1,561) | (7.6)% |
| ILF properties | 34,151 | 35,740 | (1,589) | (4.4)% |
| Net lease properties | 11,832 | 12,187 | (355) | (2.9)% |
| Properties sold | — | 247 | (247) | (100.0)% |
| Corporate | 949 | 102 | 847 | 830.4 % |
| Total interest expense | \$ 65,991 | \$ 68,896 | \$ (2,905) | (4.2)% |

Interest expense decreased \$2.9 million during the year ended December 31, 2020 as a result of lower average mortgage notes principal balances due to continued principal amortization and loan payoffs. In addition, lower LIBOR reduced interest expense

on our floating rate debt. For the year ended December 31, 2020, corporate interest expense represents interest resulting from the borrowings under our Sponsor Line.

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 \$2.6 million as a result of the declining estimated net asset value year over year.

General and Administrative Expenses

General and administrative expenses increased \$3.7 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019, as a result of significant increases to insurance premiums. Further, we incurred non-operating compensation costs for a property within the Watermark Fountains net lease portfolio during the year ended December 31, 2020.

Depreciation and Amortization

The following table presents depreciation and amortization recognized on our direct investments (dollars in thousands):

| | Year Ended December 31, | | Increase (Decrease) | |
|---------------------------------------|-------------------------|-----------|---------------------|----------|
| | 2020 | 2019 | Amount | % |
| Same store (excludes properties sold) | | | | |
| ALF/MCF/CCRC properties | \$ 19,899 | \$ 19,933 | \$ (34) | (0.2)% |
| ILF properties | 30,167 | 36,727 | (6,560) | (17.9)% |
| Net lease properties | 14,940 | 14,226 | 714 | 5.0 % |
| Properties sold | — | 103 | (103) | (100.0)% |
| Total depreciation and amortization | \$ 65,006 | \$ 70,989 | \$ (5,983) | (8.4)% |

Depreciation and amortization expense decreased \$6.0 million, primarily as a result of intangible assets becoming fully amortized in the Winterfell and Rochester portfolios in 2019. In addition, impairment losses recognized reduced depreciation expense during the year ended December 31, 2020.

Impairment Loss

During the year ended December 31, 2020, impairment losses on operating real estate and held for sale assets totaled \$166.0 million for properties with sustained poor performance, declines in occupancy and operating margins, and which have been significantly impacted by the effects of COVID-19.

During the year ended December 31, 2019, impairment losses on operating real estate and held for sale assets totaled \$27.6 million. Impairment was recognized for two ALFs with sustained low occupancy within the Rochester portfolio, two poor performing properties within the Kansas City portfolio and a net lease property classified as held for sale.

Other Income

Other income for the year ended December 31, 2020 includes \$1.8 million in federal COVID-19 provider relief grants from HHS. These grants were intended to mitigate the negative financial impact of the COVID-19 pandemic as reimbursements for expenses incurred to prevent, prepare for and respond to COVID-19 and lost revenues attributable to COVID-19 by our direct operating investments. Provided that we attest to and comply with certain terms and conditions of the grants, we will not be required to repay these grants in the future.

Realized Gain (Loss) on Investments and Other

During the year ended December 31, 2020, we recognized a \$0.3 million gain on the settlement of the share-based payment to our Advisor. During the year ended December 31, 2019, realized gains totaled \$6.3 million and were primarily related to the sale of two net lease properties and two condominiums units for which we held future interests in the Watermark Fountains portfolio.

Equity in Earnings (Losses) of Unconsolidated Ventures

The following table presents the results of our unconsolidated ventures (dollars in thousands):

| Portfolio | Year Ended December 31, | | | | | | | | Year Ended December 31, | |
|-------------------|-----------------------------|------------|---|-----------|--|-----------|---------------------|----------|-------------------------|-----------|
| | 2020 | | 2019 | | 2020 | | 2019 | | 2020 | 2019 |
| | Equity in Earnings (Losses) | | FFO and MFFO adjustments ⁽¹⁾ | | Equity in Earnings, after FFO and MFFO adjustments | | Increase (Decrease) | | Cash Distributions | |
| Eclipse | \$ (3,774) | \$ 435 | \$ 4,769 | \$ 987 | \$ 995 | \$ 1,422 | \$ (427) | (30.0)% | \$ 86 | \$ 2,717 |
| Envoy | (7) | 20 | — | 892 | (7) | 912 | (919) | (100.8)% | 390 | 4,339 |
| Diversified US/UK | (35,396) | (4,540) | 47,177 | 16,359 | 11,781 | 11,819 | (38) | (0.3)% | 1,487 | 23,061 |
| Espresso | 270 | (2,426) | 9,415 | 8,530 | 9,685 | 6,104 | 3,581 | 58.7 % | — | — |
| Trilogy | 4,495 | 3,003 | 13,617 | 13,797 | 18,112 | 16,800 | 1,312 | 7.8 % | 3,960 | 5,805 |
| Subtotal | \$ (34,412) | \$ (3,508) | \$ 74,978 | \$ 40,565 | \$ 40,566 | \$ 37,057 | \$ 3,509 | 9.5 % | \$ 5,923 | \$ 35,922 |
| Solstice | (54) | (37) | — | — | (54) | (37) | (17) | 45.9 % | — | — |
| Total | \$ (34,466) | \$ (3,545) | \$ 74,978 | \$ 40,565 | \$ 40,512 | \$ 37,020 | \$ 3,492 | 9.4 % | \$ 5,923 | \$ 35,922 |

(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.

Our proportionate share of losses generated by our unconsolidated ventures increased \$30.9 million for the year ended December 31, 2020, as compared to the year ended December 31, 2019, primarily due to real estate impairments recorded by the Diversified US/UK, Eclipse and Trilogy joint ventures.

Equity in earnings, after FFO and MFFO adjustments, increased by \$3.5 million. Improved performance in the Espresso joint venture, primarily due to full contractual rent collections and lower interest and operating expenses, as well as federal COVID-19 provider relief funds received and recognized by the Trilogy joint venture, were the main contributors to the increase. Non-recurring earnings recognized by the Envoy joint venture upon the completion of the sale of its remaining operating assets in 2019 and declines in operational performance in the Diversified US/UK and Eclipse joint ventures, as a result of the effects of COVID-19, partially offset the increase.

Non-GAAP Financial Measures

Funds from Operations and Modified Funds from Operations

We believe that Funds from Operations, or FFO, and Modified Funds from Operations, or 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 have been 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 were generally expensed under U.S. GAAP. In both situations, the fees were 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 adjusted MFFO for the amortization of acquisition fees in the period when such amortization was recognized under U.S. GAAP or in the period in which the acquisition fees were expensed. Acquisition fees were paid in cash that would otherwise have been available to distribute to our

stockholders. Such fees and expenses will not be reimbursed by our Advisor or its affiliates and third parties. However, in general, we earned 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 Institute for Portfolio Alternatives, 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 adjustments 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. 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. 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. 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.

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):

| | Year Ended December 31, | | |
|--|-------------------------|--------------|-------------|
| | 2021 | 2020 | 2019 |
| Funds from operations: | | | |
| Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders | \$ 25,067 | \$ (261,458) | \$ (76,960) |
| Adjustments: | | | |
| Depreciation and amortization | 54,836 | 65,006 | 70,989 |
| Depreciation and amortization related to non-controlling interests | (480) | (647) | (635) |
| Depreciation and amortization related to unconsolidated ventures | 30,054 | 31,999 | 31,892 |
| Realized (gain) loss from sales of property | (83,873) | — | (6,104) |
| Realized gain (loss) from sales of property related to non-controlling interests | 2,092 | — | — |
| Realized (gain) loss from sales of property related to unconsolidated ventures | (31,314) | (320) | (4,065) |
| Impairment losses of depreciable real estate | 5,386 | 165,968 | 27,554 |
| Impairment loss on real estate related to non-controlling interests | — | (2,253) | (585) |
| Impairment losses of depreciable real estate held by unconsolidated ventures | 1,494 | 37,893 | 2,663 |
| Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders | \$ 3,262 | \$ 36,188 | \$ 44,749 |
| Modified funds from operations: | | | |
| Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders | \$ 3,262 | \$ 36,188 | \$ 44,749 |
| Adjustments: | | | |
| Transaction costs | 54 | 65 | 122 |
| Straight-line rental (income) loss | 7,803 | 441 | (467) |
| Amortization of premiums, discounts and fees on investments and borrowings | 4,177 | 4,975 | 4,914 |
| Realized (gain) loss on investments and other | 4,396 | (302) | (679) |
| Adjustments related to unconsolidated ventures ⁽¹⁾ | 20,245 | 5,406 | 10,075 |
| Adjustments related to non-controlling interests | (212) | (48) | (25) |
| Modified funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders | \$ 39,725 | \$ 46,725 | \$ 58,689 |

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

Liquidity and Capital Resources

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

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

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 and capital expenditures and are used to pay corporate general and administrative expenses.

As of March 17, 2022, we had approximately \$191.1 million of unrestricted cash and currently believe that our capital resources are sufficient to meet our capital needs for the following 12 months. Liquidity has improved during the year ended December 31, 2021, as a result of proceeds received from both consolidated and unconsolidated investment portfolio sales and the full collection of the principal outstanding on our Espresso mezzanine loan debt investment.

While we have the ability to meet our near-term liquidity needs, an extended recovery period from the effects of COVID-19 increases the risk of a prolonged negative impact on our financial condition and results of operations.

Our board of directors determined to suspend distributions in order to preserve capital and liquidity in February 2019. Our board of directors continues to evaluate our distribution policy on a recurring basis, and more frequently as facts and circumstances warrant. While we do not anticipate recurring dividends in the near future, in light of the cash flow generated by our investments as compared to our capital expenditure needs and debt service obligations, our board will evaluate special distributions in connection with asset sales and other realization of our investments on a case-by-case basis based on, among other factors, current and projected liquidity needs, opportunities for investment in our assets (such as capital expenditure and de-levering opportunities) and other strategic initiatives.

For additional information regarding our liquidity needs and capital resources, see below.

Cash From Operations

We primarily generate cash flow from operations through net operating income from our operating properties and rental income from our net lease properties, in addition to receiving distributions from our investments in unconsolidated ventures. Net cash used in operating activities was \$6.4 million for the year ended December 31, 2021. During the year ended December 31, 2021, debt service payments on our borrowings exceeded our cash flow from operations. We have utilized proceeds from asset sales and repayments on our mezzanine loan to fund debt service payments, which is expected to continue until occupancy and revenues of our direct investments improve from current levels.

A substantial majority of our direct investments are operating properties whereby we are directly exposed to various operational risks. While our direct operating investments have not experienced any significant issues collecting rents or other fees from residents as a result of COVID-19, cash flow has continued to be negatively impacted by, among other things, suboptimal occupancy levels, rate pressures, increased labor and benefits costs, as well as rising real estate taxes. We expect that these factors will continue to materially impact our revenues, expenses and cash flow generated by the communities of our direct operating investments.

For our net lease investment, the operator of our Arbors portfolio has been impacted by the same COVID-19 factors discussed above, which has and will continue to affect its ability and willingness to pay rent. As of March 17, 2022, the operator has satisfied its contractual rent obligations through May 2021 and continues to make partial rental payments based on availability of cash and liquidity. The operator has applied for and benefited from federal relief assistance, however, the operator's ability to pay rent in the future is currently unknown. Numerous state, local, federal and industry-initiated efforts have also affected or may affect the landlord and its ability to collect rent and/or enforce remedies for the failure to pay rent.

In addition, we have significant joint ventures and may not be able to control the timing of distributions, if any, from these investments. As of December 31, 2021, our unconsolidated joint ventures and consolidated joint ventures represented 40.3% and 12.3%, respectively, of our total real estate equity investments, based on cost. Our unconsolidated joint ventures, which have been similarly impacted by COVID-19 as our direct investments, are likely to continue to limit distributions to preserve liquidity.

Borrowings

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, our Sponsor has made available a revolving line of credit to provide additional short-term liquidity as needed.

We are required to make recurring principal and interest payments on our borrowings. As of December 31, 2021, we had \$943.8 million of consolidated asset-level borrowings outstanding and paid \$92.8 million in recurring principal and interest payments on borrowings during the year ended December 31, 2021. Our unconsolidated joint ventures also have significant asset level borrowings, which may require capital to be funded if favorable refinancing is not obtained.

During the year, the operator for the Arbors portfolio failed to remit contractual rent and satisfy other conditions under its leases, which resulted in a defaults under the operator's leases, and in turn, resulted in a non-monetary default under the mortgage notes collateralized by the properties as of December 31, 2021. We have remitted contractual debt service and are in compliance with the other contractual terms under the mortgage notes collateralized by the properties.

As the impact of COVID-19 continues to influence our investments' performance, we may experience defaults in the future and it may have a negative impact on our ability to service or refinance our borrowings.

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 December 31, 2021, our leverage was 53.6% of our assets, other than intangibles, before deducting loan loss reserves, other non-cash reserves and depreciation. As of December 31, 2021, 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 59.5%.

For additional information regarding our borrowings, including principal repayments, timing of maturities and loans currently in default, refer to Note 6, “Borrowings” in our accompanying consolidated financial statements included in “Financial Statements and Supplementary Data.”

Capital Expenditures Activities

We are responsible for capital expenditures for our operating properties and, from time to time, may also fund capital expenditures for certain net lease properties. We continue to invest capital into our operating portfolio in order to maintain market position, functional and operating standards, increase operating income, achieve property stabilization and enhance the overall value of our assets. However, there can be no assurance that these initiatives will achieve these intended results.

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.

Realization and Disposition of Investments

We will actively pursue dispositions of assets and portfolios where we believe the disposition will achieve a desired return, improve our liquidity position and generate value for shareholders. We have made significant investments through both consolidated and unconsolidated joint ventures with third parties. We may share decision-making authority for these joint ventures that could prevent us from selling properties or our interest in the joint venture. Further, as the impact of COVID-19 continues to influence the property’s performance, it may have a negative impact on our ability to generate desired returns on dispositions.

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 net operating losses for tax purposes and, accordingly, are currently not required to make distributions to our stockholders to qualify as a REIT. Refer to “—Distributions Declared and Paid” for further information regarding our historical distributions.

Repurchases

We adopted a share repurchase program, or the Share Repurchase Program, effective August 7, 2012, which enabled stockholders to sell their shares to us in limited circumstances. Our board of directors may amend, suspend or terminate our Share Repurchase Program at any time, subject to certain notice requirements. In October 2018, our board of directors approved an amended and restated Share Repurchase Program, under which we only repurchased shares in connection with the death or qualifying disability of a stockholder. On April 7, 2020, our board of directors suspended all repurchases under our existing Share Repurchase Program effective April 30, 2020 in order to preserve capital and liquidity.

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. In June 2021, our advisory agreement was amended and renewed for an additional one-year term commencing on June 30, 2021. In connection with the Sponsor Transaction, our advisory agreement was renewed for an additional one-year term commencing on February 28, 2022. 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 (dollars in thousands):

| Cash flows provided by (used in): | Year Ended December 31, | | | 2021 vs. 2020 Change | 2020 vs. 2019 Change |
|---|--------------------------------|------------------|--------------------|---------------------------------|---------------------------------|
| | 2021 | 2020 | 2019 | | |
| Operating activities | \$ (6,438) | \$ 31,018 | \$ 25,298 | \$ (37,456) | \$ 5,720 |
| Investing activities | 661,826 | (8,415) | (4,287) | 670,241 | (4,128) |
| Financing activities | (538,020) | 12,147 | (56,699) | (550,167) | 68,846 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | <u>\$ 117,368</u> | <u>\$ 34,750</u> | <u>\$ (35,688)</u> | <u>\$ 82,618</u> | <u>\$ 70,438</u> |

Year Ended December 31, 2021 compared to December 31, 2020

Operating Activities

Net cash used in operating activities totaled \$6.4 million for the year ended December 31, 2021, as compared to \$31.0 million net cash provided by operating activities for the year ended December 31, 2020. The change in cash flow from operating activities was a result of the following:

- declines in average occupancy, which resulted in lower rent and resident fees collected;
- less contractual rent collected from direct net lease investment operators; and
- higher payments for property operating expenses, general and administrative expenses and mortgage payable interest, as a result of debt service that was deferred during the year ended December 31, 2020.

Investing Activities

Our cash flows from investing activities are primarily proceeds from investment dispositions, net of any capital expenditures. Net cash provided by investing activities was \$661.8 million for the year ended December 31, 2021 as compared to \$8.4 million net cash used for the year ended December 31, 2020. Cash flows provided by investing activities for the year ended December 31, 2021 were from property sales and principal repayments on our real estate debt investment. Cash inflows were used to fund recurring capital expenditures for existing investments and for general operations. Cash flows used in investing activities for the year ended December 31, 2020 were primarily recurring capital expenditures for existing investments.

The following table presents cash used for capital expenditures, excluding our unconsolidated ventures (dollars in thousands):

| | Year Ended December 31, | | 2021 vs. 2020 Change |
|----------------------|--------------------------------|-------------|---------------------------------|
| | 2021 | 2020 | |
| Capital Expenditures | \$ 27,773 | \$ 15,214 | \$ 12,559 |

Recurring capital expenditures have increased during the year ended December 31, 2021, as compared to the year ended December 31, 2020 as a result of the resumption of normalized business operations allowing our operators to complete deferred capital improvements.

Financing Activities

For the year ended December 31, 2021, net cash flows used in financing activities were primarily the repayment of mortgage notes payable collateralized by properties sold during the year, the repayment of the borrowings under the Sponsor Line and continued principal amortization on our mortgage notes. Cash outflows were partially offset by the refinancing of a mortgage note payable for a property within our Aqua portfolio, which generated \$6.5 million in net proceeds. Cash flows used in financing activities was \$538.0 million for the year ended December 31, 2021 compared to \$12.1 million cash flows provided by financing activities for the year ended December 31, 2020. Cash flows provided by financing activities during the year ended December 31, 2020, were primarily the \$35.0 million borrowed under the Sponsor Line, partially offset by principal amortization payments on mortgage notes and repurchases of shares under our Share Repurchase Program.

Year Ended December 31, 2020 compared to December 31, 2019

Operating Activities

Net cash provided by operating activities totaled \$31.0 million for the year ended December 31, 2020, compared to \$25.3 million for the year ended December 31, 2019. The increase in cash provided from operating activities was a result of the following:

- collection of a regulatory reserve deposit for a healthcare facility;
- lower interest expense, due to lower debt principal balances and effective interest rates;
- lower cash interest payments due to deferred debt service under executed debt forbearance agreements; and
- lower asset management fees paid in cash.

Cash flow improvements were partially offset by lower rent and resident fee income as well as higher operating expenses as a result of the effects of the COVID-19 pandemic.

Investing Activities

Net cash used in investing activities was \$8.4 million for the year ended December 31, 2020, compared to \$4.3 million for the year ended December 31, 2019. Cash flows used in investing activities for the year ended December 31, 2020 were primarily recurring capital expenditures for existing investments, partially offset by distributions received from our unconsolidated joint ventures. Cash flows used in investing activities for the year ended December 31, 2019 consisted primarily of an equity contribution to our unconsolidated investment in the Diversified US/UK joint venture, partially offset by the net proceeds generated from the sale of two net lease properties and distributions received from unconsolidated investments.

The following table presents cash used for capital expenditures, excluding our unconsolidated ventures (dollars in thousands):

| <u>Capital Expenditures</u> | <u>Year Ended December 31,</u> | | <u>2020 vs. 2019 Change</u> |
|------------------------------------|---------------------------------------|--------------------|--|
| | <u>2020</u> | <u>2019</u> | |
| Recurring | \$ 15,214 | \$ 22,323 | \$ (7,109) |

Recurring capital expenditures have decreased during the year ended December 31, 2020, as compared to the year ended December 31, 2019 as a result of limiting expenditures in response to COVID-19.

Financing Activities

For the year ended December 31, 2020, our cash flows from financing activities were principally impacted by borrowing \$35.0 million under our Sponsor Line, partially offset by repurchases of common stock and repayments on our mortgage notes. Cash flows provided by financing activities was \$12.1 million for the year ended December 31, 2020 compared to cash flows used in financing activities of \$56.7 million for the year ended December 31, 2019. During the year ended December 31, 2019, the payment of dividends, repurchases of common stock and the repayment of a mortgage note payable upon the sale of two net lease properties were the primary drivers of financing cash flows.

Contractual Obligations and Commitments

The following table presents contractual obligations and commitments as of December 31, 2021 (dollars in thousands):

| | Payments Due by Period | | | | |
|--|------------------------|---------------------|-------------------|-------------------|------------------------|
| | | 2022 | 2023 - 2024 | 2025 - 2026 | 2027 and Thereafter |
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Mortgage and notes other payables ⁽¹⁾ | \$ 943,765 | \$ 29,495 | \$ 41,007 | \$ 718,226 | \$ 155,037 |
| Estimated interest payments ⁽²⁾ | 136,888 | 37,424 | 71,829 | 25,581 | 2,054 |
| Advisor asset management fee ⁽³⁾ | 67,500 | 11,250 | 22,500 | 22,500 | 11,250 |
| Total ⁽⁴⁾ | <u>\$ 1,148,153</u> | <u>\$ 78,169</u> | <u>\$ 135,336</u> | <u>\$ 766,307</u> | <u>\$ 168,341</u> |

(1) Represents amortization of principal and repayment upon contractual initial maturity date.

(2) Estimated interest payments are based on the remaining life of the borrowings. Applicable LIBOR rate, plus the respective spread as of December 31, 2021 was used to estimate payments for our floating-rate borrowings.

(3) Our advisory agreement may be renewed on different terms or may be terminated at any time, subject to notice requirements. As a result, the amount included in the table above is an estimate only and assumes the current net asset value and the continuation of our advisory agreement on its current terms. Refer to “—Related Party Arrangements” for additional information on our Advisor asset management fee.

(4) Excludes construction related and other commitments for future development.

Borrowings that are maturing in our unconsolidated ventures may require us to fund additional contributions if favorable refinancing is not obtained. We are not obligated to fund capital contributions, however our investment in the unconsolidated investment may be diluted and we may be prohibited from participating in future cash flows if we are unable to fund. In addition, our joint venture partners may be entitled to call additional capital under the governing documents of our joint ventures and certain of our operators and managers may require us to fund capital projects under our leases or management agreements. Although we may not be obligated to fund such capital contributions or capital projects, we may be subject to adverse consequences for any such failure to fund.

Off-Balance Sheet Arrangements

As of December 31, 2021, 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 “Financial Statements and Supplementary Data” 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.

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 suspended distributions in order to preserve capital and liquidity.

Since inception of our first investment, we declared \$433.8 million in distributions and generated cumulative FFO of \$131.9 million. We did not declare any distributions during the year ended December 31, 2021 or year ended December 31, 2020.

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.

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 June 2021, our advisory agreement was renewed for an additional one-year term commencing on June 30, 2021, with terms identical to those in effect through June 30, 2021, but for the following modifications:

- the payment of the asset management fee entirely in the form of our shares of common stock; and
- effective January 1, 2022, a reduction of the asset management fee with respect to our corporate cash balance exceeding \$75.0 million, subject to the terms and conditions set forth in the advisory agreement.

In connection with the Sponsor Transaction, our advisory agreement was renewed for an additional one-year term commencing on February 28, 2022, upon terms identical to those in effect through February 28, 2022, but for certain updates to remove our Former Sponsor and add NRF as our New Sponsor for certain limited provisions.

Fees to Advisor

Asset Management Fee

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. Effective July 1, 2021, the asset management fee is paid entirely in shares of our common stock at a price per share equal to the most recently published net asset value per share, and effective January 1, 2022, the fee will be reduced if our corporate cash balances exceed \$75.0 million, subject to the terms and conditions set forth in the advisory agreement.

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. From inception through December 31, 2021, our Advisor has not received any incentive fees.

Acquisition Fee

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

Effective June 30, 2020, our Advisor no longer has the potential to receive a disposition fee in connection with the sale of real estate properties or debt investments.

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 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, or the 2%/25% Guidelines, 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 (dollars in thousands):

| Type of Fee or Reimbursement | Financial Statement Location | Due to Related Party as of December 31, 2020 | Year Ended December 31, 2021 | | Due to Related Party as of December 31, 2021 |
|------------------------------------|-------------------------------------|--|------------------------------|----------------------------|--|
| | | | Incurred | Paid | |
| Fees to Advisor Entities | | | | | |
| Asset management ⁽¹⁾ | Asset management fees-related party | \$ 923 | \$ 11,105 | \$ (11,091) ⁽¹⁾ | \$ 937 |
| Reimbursements to Advisor Entities | | | | | |
| Operating costs ⁽²⁾ | General and administrative expenses | 7,395 | 14,035 | (15,029) | 6,401 |
| Total | | \$ 8,318 | \$ 25,140 | \$ (26,120) | \$ 7,338 |

(1) Includes \$10.6 million paid in shares of our common stock.

(2) As of December 31, 2021, our Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to us. For the year ended December 31, 2021, total operating expenses included in the 2%/25% Guidelines represented 0.5% of average invested assets and 103.4% of net income without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves. Cost of capital is included in net proceeds from issuance of common stock in our consolidated statements of equity. For the year ended December 31, 2021, we did not incur any offering costs.

| Type of Fee or Reimbursement | Financial Statement Location | Due to Related Party as of December 31, 2019 | Year Ended December 31, 2020 | | Due to Related Party as of December 31, 2020 |
|---|---|--|------------------------------|----------------------------|--|
| | | | Incurred | Paid | |
| Fees to Advisor Entities ⁽¹⁾ | | | | | |
| Asset management ⁽²⁾ | Asset management and other fees-related party | \$ 1,477 | \$ 17,170 | \$ (17,724) ⁽²⁾ | \$ 923 |
| Reimbursements to Advisor Entities | | | | | |
| Operating costs ⁽³⁾ | General and administrative expenses | 4,303 | 14,682 | (11,590) | 7,395 |
| Total | | \$ 5,780 | \$ 31,852 | \$ (29,314) | \$ 8,318 |

(1) Effective June 30, 2020, our Advisor no longer had the potential to receive a disposition fee in connection with the sale of real estate properties or debt investments. We did not incur any disposition fees during the year ended December 31, 2020, nor were any such fees outstanding as of December 31, 2020.

(2) Includes \$9.7 million paid in shares of our common stock and a \$0.3 million gain recognized on the settlement of the share-based payment.

(3) As of December 31, 2020, our Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to us. For the year ended December 31, 2020, total operating expenses included in the 2%/25% Guidelines represented 0.4% of average invested assets and 58.9% of net loss without reduction for any additions to reserves for depreciation, loan losses or other similar non-cash reserves. Cost of capital is included in net proceeds from issuance of common stock in our consolidated statements of equity. For the year ended December 31, 2020, we did not incur any offering costs.

Pursuant to our advisory agreement, for the year ended December 31, 2021, we issued 2.7 million shares totaling \$10.6 million based on the estimated value per share on the date of each issuance, to an affiliate of our Advisor as part of its asset management fee. As of December 31, 2021, our Advisor, our Sponsor and their affiliates owned a total of 7.4 million shares, or \$29.0 million of our common stock based on our most recent estimated value per share. As of December 31, 2021, our Advisor, our Sponsor and their affiliates owned 3.8% of the total outstanding shares of our common stock.

Investments in Joint Ventures

Solstice, the manager of the Winterfell portfolio, is a joint venture between affiliates of ISL, who owns 80.0%, and us, who owns 20.0%. For the year ended December 31, 2021, we recognized property management fee expense of \$4.9 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 "Financial Statements and Supplementary Data" for further discussion of these investments:

| Portfolio | Partner(s) | Acquisition Date | Ownership |
|-------------------|--------------------------------|------------------|-----------|
| Eclipse | NRF/ Formation Capital, LLC | May 2014 | 5.6% |
| Diversified US/UK | NRF | December 2014 | 14.3% |

In addition, we own a 23.2% interest in the Trilogy joint venture, of which AHR and the management of Trilogy own the remaining 76.8% of the portfolio. Our Former Sponsor owns a passive, non-controlling interest in AHR, which was formed by the combination of Griffin American Healthcare REIT III, Inc., American Healthcare Investors, LLC and Griffin-American Healthcare REIT IV, Inc.

Mezzanine Loan

In July 2015, we originated a \$75.0 million mezzanine loan to a subsidiary of the Espresso joint venture, of which we own a minority interest. In August 2021, the outstanding principal balance of the mezzanine loan was repaid in full. Refer to “— Business Update” for further detail.

Line of Credit - Related Party

In October 2017, we obtained our Sponsor Line, which was approved by our board of directors, including all of our independent directors. In April 2020, we borrowed \$35.0 million under the Sponsor Line to improve our liquidity position in response to the COVID-19 pandemic. In July 2021, we repaid, in full, the \$35.0 million outstanding borrowings under our Sponsor Line. Our Sponsor Line has a borrowing capacity of \$35.0 million at an interest rate of 3.5% plus LIBOR and has a maturity date of February 2024.

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 December 31, 2021, 13.9% of our total borrowings were floating-rate liabilities, which are related to mortgage notes payable of our direct operating investments.

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 December 31, 2021, a hypothetical 100 basis point increase in interest rates would increase net interest expense by \$1.3 million annually.

In July 2017, the Chief Executive of the U.K. Financial Conduct Authority, or FCA, announced that the FCA intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. The FCA subsequently announced on March 5, 2021 that the publication of LIBOR will cease for the one-week and two-month USD LIBOR settings immediately after December 31, 2021, and the remaining USD LIBOR settings immediately after June 30, 2023. Based on undertakings received from the panel banks, the FCA does not expect that any LIBOR settings will become unrepresentative before these dates. Nevertheless, the U.S. Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation have issued guidance encouraging market participants to adopt alternatives to LIBOR in new contracts as soon as practicable.

The discontinuation of a benchmark rate or other financial metric, changes in a benchmark rate or other financial metric, or changes in market perceptions of the acceptability of a benchmark rate or other financial metric, including LIBOR, could, among other things result in increased interest payments, changes to our risk exposures, or require renegotiation of previous transactions. In addition, any such discontinuation or changes, whether actual or anticipated, could result in market volatility, adverse tax or accounting effects, increased compliance, legal and operational costs, and risks associated with contract negotiations.

Credit Risk

We are subject to the credit risk of the operators 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's business as well as an assessment of the strategic importance of the underlying real estate to the operator's core business operations. Where appropriate, we may seek to augment the operator's commitment to the facility by structuring various credit enhancement mechanisms into the underlying leases. 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.

Risk Concentration

The following table presents the operators and managers of our properties, excluding properties owned through unconsolidated joint ventures (dollars in thousands):

| Operator / Manager | As of December 31, 2021 | | Year Ended December 31, 2021 | |
|---------------------------------------|-----------------------------|---------------------------------------|--|--|
| | Properties Under Management | Units Under Management ⁽¹⁾ | Property and Other Revenues ⁽²⁾ | % of Total Property and Other Revenues |
| Solstice Senior Living ⁽³⁾ | 32 | 4,000 | \$ 98,977 | 40.7 % |
| Watermark Retirement Communities | 14 | 1,753 | 42,447 | 17.4 % |
| Avamere Health Services | 5 | 453 | 17,301 | 7.1 % |
| Integral Senior Living | 1 | 44 | 4,556 | 1.9 % |
| Arcadia Management ⁽⁴⁾ | 4 | 572 | (3,900) | (1.6)% |
| Subtotal | 56 | 6,822 | \$ 159,381 | 65.5 % |
| Properties sold | 17 | 3,630 | 83,896 | 34.5 % |
| Total | | | \$ 243,277 | 100.0 % |

(1) Represents rooms for ALFs and ILFs and beds for MCFs and SNFs, based on predominant type.

(2) Includes rental income received from our net lease properties, as well as rental income, ancillary service fees and other related revenue earned from ILF residents and resident fee income derived from our ALFs, MCFs and CCRCs, which includes resident room and care charges, ancillary fees and other resident service charges.

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

(4) During the year ended December 31, 2021, the Company recorded rental income to the extent rental payments were received. Rental income was reduced by \$7.4 million for the write-off of straight-line rent receivables, as full collection of contractual rent under the leases was deemed not to be probable.

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. As Solstice is a joint venture formed exclusively to operate the Winterfell portfolio, Solstice has generated, and may continue to generate, operating losses if declines in occupancy and operating revenues at our Winterfell portfolio continue.

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.

Our internal control framework, which includes controls over financial reporting and disclosure, continues to operate effectively. Considering the COVID-19 pandemic, we have supplemented our framework by instituting certain entity level procedures and controls that ensure communication amongst our team that enhances our ability to prevent and detect material errors and omissions.

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.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

**CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL
DISCLOSURE**

None.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

NorthStar Healthcare Income, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of NorthStar Healthcare Income, Inc. (a Maryland corporation) and subsidiaries (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and financial statement schedules included under Item 15(a) (collectively referred to as the “financial statements”). In our opinion, based on our audits and the report of other auditors, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Healthcare GA Holdings, General Partnership (“Diversified US/UK”), a joint venture, which is accounted for under the equity method of accounting. The equity in its net loss was \$3.7 million, \$35.4 million and \$4.5 million of consolidated equity in earnings (losses) of unconsolidated ventures for the years ended December 31, 2021, 2020, and 2019 respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Diversified US/UK, is based solely on the report of the other auditors.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

Critical audit matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) related to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impairment of Operating Real Estate Assets

As described in Note 3 to the financial statements, the Company’s consolidated operating real estate assets, net carrying value was \$972.6 million as of December 31, 2021 including impairment losses related to operating real estate assets of \$5.4 million recorded during the year ended December 31, 2021. The Company reviews its real estate portfolio quarterly, 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. We identified the Company’s quantitative impairment assessment for operating real estate assets as a critical audit matter.

Our audit procedures related to the impairment of operating real estate assets included the following, among others:

- We obtained an understanding and evaluated the design and implementation of controls performed by management relating to the impairment of operating real estate assets, which included controls over management's development and review of the significant inputs and assumptions used in the estimates described above.
- We obtained the Company's quantitative impairment analysis and for a selection of operating properties assessed the methodologies used by management and evaluated the significant assumptions described above. The key inputs used in the assessment were substantiated through property operating budgets and other relevant underlying data. We compared the significant assumptions used to estimate future cash flows to current industry forecasts, economic trends and past performance, and tested the arithmetic accuracy of management's calculations.
- We involved firm specialists in assessing the reasonableness of the valuation models for a selection of operating properties and performed sensitivity analyses on certain of the significant inputs and assumptions described above.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2010.

New York, New York

March 18, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of Healthcare GA Holdings, General Partnership

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Healthcare GA Holdings, General Partnership (the “Partnership”) as of December 31, 2021, the related consolidated statement of operations, comprehensive income (loss), changes in partners’ equity, and cash flows for the year ended December 31, 2021, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership at December 31, 2021, and the results of its operations and its cash flows for the year ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

Supplementary Information

The accompanying other financial information, including the Healthcare GA Holdings, General Partnership Consolidated Financial Statements – Historical Basis of NorthStar Healthcare Income, Inc., has been subjected to audit procedures performed in conjunction with the audit of the Partnership’s consolidated financial statements. This information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of the Partnership’s management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Our audit procedures included determining whether the information reconciles to the consolidated financial statements or the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, as applicable, and other additional procedures including to test the completeness and accuracy of the information in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Basis for Opinion

These financial statements are the responsibility of the Partnership’s management. Our responsibility is to express an opinion on the Partnership’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Real Estate Impairment

*Description of the
Matter*

At December 31, 2021, the Partnership's real estate assets classified as held for investment totaled \$2.5 billion. As more fully disclosed in Notes 2 and 3 to the consolidated financial statements, the Partnership evaluates its real estate held for investment for impairment periodically or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Auditing the Partnership's assessment of the recoverability of its real estate assets is highly judgmental due to the significant estimation in assessing the current and estimated future cash flows, the anticipated hold period, and the exit capitalization rates for the Partnership's real estate assets.

*How We
Addressed the
Matter in our
Audit*

To test management's assessment for those real estate assets where there were indicators of impairment, we performed audit procedures that included, corroborating probability weighted hold periods with market conditions, giving consideration to management's plans, comparing the significant data and assumptions used to estimate future cash flows to the Partnership's accounting records, current industry and economic trends, or other third-party data and testing the mathematical accuracy of management's calculations.

/s/ Ernst & Young LLP

We have served as the Partnership's auditor since 2017.

Los Angeles, California

March 17, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of Healthcare GA Holdings, General Partnership

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Healthcare GA Holdings, General Partnership (the “Partnership”) as of December 31, 2020, the related consolidated statement of operations, comprehensive income (loss), changes in partners’ equity, and cash flows for the year ended December 31, 2020, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership at December 31, 2020, and the results of its operations and its cash flows for the year ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

Supplementary Information

The accompanying other financial information, including the Healthcare GA Holdings, General Partnership Consolidated Financial Statements – Historical Basis of NorthStar Healthcare Income, Inc., have been subjected to audit procedures performed in conjunction with the audit of the Partnership’s financial statements. This information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of the Partnership’s management. Our audit procedures included determining whether the information reconciles to the consolidated financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Basis for Opinion

These financial statements are the responsibility of the Partnership’s management. Our responsibility is to express an opinion on the Partnership’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Real Estate Impairment

Description of the Matter

As more fully disclosed in Note 1 and 3 to the consolidated financial statements, the Partnership evaluates its real estate held for investment for impairment periodically or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. During the year ended December 31, 2020, the Partnership recorded approximately \$508.8 million in impairment losses related to real estate assets classified as held for investment that are not expected to be recovered through future undiscounted cash flows.

Auditing the Partnership's assessment of the recoverability of its real estate assets is highly judgmental due to the significant estimation in assessing the current and estimated future cash flows, the anticipated hold period, and the exit capitalization rates for the Partnership's real estate assets.

How We Addressed the Matter in our Audit

We obtained an understanding, and evaluated the design and tested the operating effectiveness of controls over the Partnership's process to evaluate the recoverability and estimate the fair value of its real estate assets, including controls over management's development and review of the significant inputs and assumptions used in the estimates.

To test management's assessment for those real estate assets where there were indicators of impairment, we performed audit procedures that included, corroborating probability weighted hold periods with market conditions, giving consideration to management's plans, comparing the significant data and assumptions used to estimate future cash flows and estimate the fair values to the Partnership's accounting records, current industry and economic trends, or other third-party data and testing the mathematical accuracy of management's calculations. On a sample basis, we also involved our valuation specialists to assist in evaluating the reasonableness of significant assumptions and methodologies used in the impairment assessments, including assessing consistency of such assumptions with external data sources and evaluating management's fair value estimate.

/s/ Ernst & Young LLP

We have served as the Partnership's auditor since 2017.

Los Angeles, California

March 19, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of Healthcare GA Holdings, General Partnership

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Healthcare GA Holdings, General Partnership (the Partnership) as of December 31, 2019, the related consolidated statement of operations, comprehensive income (loss), changes in partners' equity, and cash flows for the year ended December 31, 2019, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership at December 31, 2019, and the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Supplementary Information

The accompanying other financial information, including the Healthcare GA Holdings, General Partnership Consolidated Financial Statements - Historical Basis of NorthStar Healthcare Income, Inc., have been subjected to audit procedures performed in conjunction with the audit of the Partnership's financial statements. Such information is the responsibility of the Partnership's management. Our audit procedures included determining whether the information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Basis for Opinion

These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on the Partnership's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Partnership's auditor since 2017.

New York, New York
March 20, 2020

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Share Data)

| | December 31, 2021 | December 31, 2020 |
|---|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 200,473 | \$ 65,995 |
| Restricted cash | 10,465 | 27,575 |
| Operating real estate, net | 972,599 | 1,483,930 |
| Investments in unconsolidated ventures | 212,309 | 229,173 |
| Real estate debt investment, net | — | 55,864 |
| Assets held for sale | — | 5,000 |
| Receivables, net | 3,666 | 14,735 |
| Goodwill and intangible assets, net | 2,590 | 26,483 |
| Other assets | 10,771 | 9,681 |
| Total assets⁽¹⁾ | \$ 1,412,873 | \$ 1,918,436 |
| Liabilities | | |
| Mortgage and other notes payable, net | \$ 929,811 | \$ 1,416,871 |
| Line of credit - related party | — | 35,000 |
| Due to related party | 7,338 | 8,318 |
| Escrow deposits payable | 1,171 | 3,851 |
| Accounts payable and accrued expenses | 24,671 | 38,393 |
| Other liabilities | 3,064 | 3,941 |
| Total liabilities⁽¹⁾ | 966,055 | 1,506,374 |
| Commitments and contingencies (Note 13) | | |
| 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 December 31, 2021 and 2020 | — | — |
| Common stock, \$0.01 par value, 400,000,000 shares authorized, 193,120,940 and 190,409,341 shares issued and outstanding as of December 31, 2021 and 2020, respectively | 1,930 | 1,904 |
| Additional paid-in capital | 1,720,719 | 1,710,023 |
| Retained earnings (accumulated deficit) | (1,277,688) | (1,302,755) |
| Accumulated other comprehensive income (loss) | (486) | 467 |
| Total NorthStar Healthcare Income, Inc. stockholders' equity | 444,475 | 409,639 |
| Non-controlling interests | 2,343 | 2,423 |
| Total equity | 446,818 | 412,062 |
| Total liabilities and equity | \$ 1,412,873 | \$ 1,918,436 |

- (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 NorthStar Healthcare Income, Inc. (together with its consolidated subsidiaries, the "Company") is the sole general partner and owns approximately 99.99%. As of December 31, 2021, the Operating Partnership includes \$238.9 million and \$183.6 million 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)

| | Year Ended December 31, | | |
|---|-------------------------|--------------|-------------|
| | 2021 | 2020 | 2019 |
| Property and other revenues | | | |
| Resident fee income | \$ 105,955 | \$ 118,126 | \$ 130,135 |
| Rental income | 137,322 | 157,024 | 161,084 |
| Other revenue | — | 198 | 1,959 |
| Total property and other revenues | 243,277 | 275,348 | 293,178 |
| Interest income | | | |
| Interest income on debt investments | 4,667 | 7,674 | 7,703 |
| Expenses | | | |
| Property operating expenses | 177,936 | 184,178 | 181,214 |
| Interest expense | 61,620 | 65,991 | 68,896 |
| Transaction costs | 54 | 65 | 122 |
| Asset management fees - related party | 11,105 | 17,170 | 19,789 |
| General and administrative expenses | 12,691 | 16,505 | 12,761 |
| Depreciation and amortization | 54,836 | 65,006 | 70,989 |
| Impairment loss | 5,386 | 165,968 | 27,554 |
| Total expenses | 323,628 | 514,883 | 381,325 |
| Other income (loss) | | | |
| Other income, net | 7,278 | 1,840 | — |
| Realized gain (loss) on investments and other | 79,477 | 302 | 6,314 |
| Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax expense | 11,071 | (229,719) | (74,130) |
| Equity in earnings (losses) of unconsolidated ventures | 15,843 | (34,466) | (3,545) |
| Income tax expense | (99) | (53) | (75) |
| Net income (loss) | 26,815 | (264,238) | (77,750) |
| Net (income) loss attributable to non-controlling interests | (1,748) | 2,780 | 790 |
| Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders | \$ 25,067 | \$ (261,458) | \$ (76,960) |
| Net income (loss) per share of common stock, basic/diluted | \$ 0.13 | \$ (1.38) | \$ (0.41) |
| Weighted average number of shares of common stock outstanding, basic/diluted ⁽¹⁾ | 191,629,613 | 189,573,204 | 189,054,270 |
| Distributions declared per share of common stock | \$ — | \$ — | \$ 0.03 |

(1) The Company has issued 66,840 restricted stock units during the year ended December 31, 2021. The impact of the restricted stock units on the diluted earnings per share calculation is de minimis for the year ended December 31, 2021.

Refer to accompanying notes to consolidated financial statements.

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

| | Year Ended December 31, | | |
|--|-------------------------|---------------------|--------------------|
| | 2021 | 2020 | 2019 |
| Net income (loss) | \$ 26,815 | \$ (264,238) | \$ (77,750) |
| Other comprehensive income (loss) | | | |
| Foreign currency translation adjustments related to investment in unconsolidated venture | (953) | 937 | 1,814 |
| Total other comprehensive income (loss) | (953) | 937 | 1,814 |
| Comprehensive income (loss) | 25,862 | (263,301) | (75,936) |
| Comprehensive (income) loss attributable to non-controlling interests | (1,748) | 2,780 | 790 |
| Comprehensive income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders | <u>\$ 24,114</u> | <u>\$ (260,521)</u> | <u>\$ (75,146)</u> |

Refer to accompanying notes to consolidated financial statements.

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

| | <u>Common Stock</u> | | <u>Additional Paid-in Capital</u> | <u>Retained Earnings (Accumulated Deficit)</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Total Company's Stockholders' Equity</u> | <u>Non- controlling Interests</u> | <u>Total Equity</u> |
|--|---------------------|---------------|---|--|--|---|---|-------------------------|
| | <u>Shares</u> | <u>Amount</u> | | | | | | |
| 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 | 1,408 | 14 | 9,885 | — | — | 9,899 | — | 9,899 |
| Amortization of equity-based compensation | 35 | — | 239 | — | — | 239 | — | 239 |
| Non-controlling interests - contributions | — | — | — | — | — | — | 505 | 505 |
| Non-controlling interests - distributions | — | — | — | — | — | — | (294) | (294) |
| Shares redeemed for cash | (1,514) | (15) | (10,731) | — | — | (10,746) | — | (10,746) |
| 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) | — | — | — | — | 1,814 | 1,814 | — | 1,814 |
| Net income (loss) | — | — | — | (76,960) | — | (76,960) | (790) | (77,750) |
| Balance as of December 31, 2019 | 189,111 | \$ 1,891 | \$ 1,702,260 | \$ (1,041,297) | \$ (470) | \$ 662,384 | \$ 5,120 | \$ 667,504 |
| Share-based payment of advisor asset management fees | 1,600 | 16 | 9,669 | — | — | 9,685 | — | 9,685 |
| Amortization of equity-based compensation | 29 | — | 169 | — | — | 169 | — | 169 |
| Non-controlling interests - contributions | — | — | — | — | — | — | 234 | 234 |
| Non-controlling interests - distributions | — | — | — | — | — | — | (151) | (151) |
| Shares redeemed for cash | (331) | (3) | (2,075) | — | — | (2,078) | — | (2,078) |
| Other comprehensive income (loss) | — | — | — | — | 937 | 937 | — | 937 |
| Net income (loss) | — | — | — | (261,458) | — | (261,458) | (2,780) | (264,238) |
| Balance as of December 31, 2020 | 190,409 | \$ 1,904 | \$ 1,710,023 | \$ (1,302,755) | \$ 467 | \$ 409,639 | \$ 2,423 | \$ 412,062 |
| Share-based payment of advisor asset management fees | 2,712 | 26 | 10,531 | — | — | 10,557 | — | 10,557 |
| Amortization of equity-based compensation | — | — | 165 | — | — | 165 | — | 165 |
| Non-controlling interests - contributions | — | — | — | — | — | — | 724 | 724 |
| Non-controlling interests - distributions | — | — | — | — | — | — | (2,552) | (2,552) |
| Other comprehensive income (loss) | — | — | — | — | (953) | (953) | — | (953) |
| Net income (loss) | — | — | — | 25,067 | — | 25,067 | 1,748 | 26,815 |
| Balance as of December 31, 2021 | 193,121 | \$ 1,930 | \$ 1,720,719 | \$ (1,277,688) | \$ (486) | \$ 444,475 | \$ 2,343 | \$ 446,818 |

Refer to accompanying notes to consolidated financial statements.

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

| | Year Ended December 31, | | |
|--|-------------------------|--------------|-------------|
| | 2021 | 2020 | 2019 |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ 26,815 | \$ (264,238) | \$ (77,750) |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | | |
| Equity in (earnings) losses of unconsolidated ventures | (15,843) | 34,466 | 3,545 |
| Depreciation and amortization | 54,836 | 65,006 | 70,989 |
| Impairment loss | 5,386 | 165,968 | 27,554 |
| Capitalized interest for mortgage and other notes payable | — | 222 | 193 |
| Amortization of below market debt | 3,169 | 3,090 | 3,015 |
| Straight-line rental (income) loss, net | 7,803 | 441 | (467) |
| Amortization of discount/accretion of premium on investments | (697) | (125) | (113) |
| Amortization of deferred financing costs | 1,662 | 1,887 | 1,850 |
| Amortization of equity-based compensation | 165 | 169 | 239 |
| Paid-in-kind interest on real estate debt investment | (194) | — | — |
| Realized (gain) loss on investments and other | (79,477) | (302) | (6,314) |
| Change in allowance for uncollectible accounts | 176 | 2,371 | 801 |
| Issuance of common stock as payment for asset management fees | 10,557 | 9,685 | 9,899 |
| Changes in assets and liabilities: | | | |
| Receivables | 1,756 | (4,233) | 691 |
| Other assets | (1,287) | 4,859 | (629) |
| Due to related party | (985) | 2,853 | 204 |
| Escrow deposits payable | (2,680) | 559 | (1,087) |
| Accounts payable and accrued expenses | (17,346) | 8,479 | (6,647) |
| Other liabilities | (254) | (139) | (675) |
| Net cash (used in) provided by operating activities | (6,438) | 31,018 | 25,298 |
| Cash flows from investing activities: | | | |
| Capital expenditures for operating real estate | (27,773) | (15,214) | (22,323) |
| Sales of operating real estate | 596,414 | 927 | 19,618 |
| Repayment of real estate debt investment | 74,376 | — | 818 |
| Investments in unconsolidated ventures | (400) | — | (39,801) |
| Distributions from unconsolidated ventures | 18,110 | 5,923 | 35,922 |
| Real estate debt investment modification fee | 686 | — | — |
| Other assets | 413 | (51) | 1,479 |
| Net cash provided by (used in) investing activities | 661,826 | (8,415) | (4,287) |
| Cash flows from financing activities: | | | |
| Borrowings from mortgage notes | 26,000 | — | 12,800 |
| Repayments of mortgage notes | (517,618) | (20,250) | (51,734) |
| Borrowings from line of credit - related party | — | 35,000 | — |
| Repayment of borrowings from line of credit - related party | (35,000) | — | — |
| Payment of deferred financing costs | (708) | — | (708) |
| Debt extinguishment costs | (8,288) | — | — |
| Payments under finance leases | (578) | (608) | (585) |
| Shares redeemed for cash | — | (2,078) | (10,746) |
| Distributions paid on common stock | — | — | (10,813) |
| Proceeds from distribution reinvestment plan | — | — | 4,876 |
| Contributions from non-controlling interests | 724 | 234 | 505 |
| Distributions to non-controlling interests | (2,552) | (151) | (294) |
| Net cash (used in) provided by financing activities | (538,020) | 12,147 | (56,699) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 117,368 | 34,750 | (35,688) |
| Cash, cash equivalents and restricted cash-beginning of period | 93,570 | 58,820 | 94,508 |
| Cash, cash equivalents and restricted cash-end of period | \$ 210,938 | \$ 93,570 | \$ 58,820 |

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

| | Year Ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 2021 | 2020 | 2019 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | \$ 65,828 | \$ 53,140 | \$ 64,163 |
| Cash paid for income taxes | 100 | 10 | 28 |
| Supplemental disclosure of non-cash investing and financing activities: | | | |
| Accrued capital expenditures | \$ 3,624 | 1,779 | 2,378 |
| Assets acquired under finance leases | 144 | 112 | — |
| Assets acquired under operating leases | 100 | — | — |
| Reclassification of assets held for sale | — | 5,000 | — |

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”), manages a diversified portfolio of investments in healthcare real estate, owned directly or through joint ventures, with a focus on the mid-acuity seniors housing sector, which the Company defines as assisted living (“ALF”), memory care (“MCF”), skilled nursing (“SNF”), independent living facilities (“ILF”) and continuing care retirement communities (“CCRC”), which have independent living, assisted living, skilled nursing and memory care available on one campus. Primarily through joint ventures, the Company is also invested 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 through its joint ventures also has international investments in the United Kingdom.

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 has conducted its operations, and intends to do so in the future, 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 December 31, 2021 and 2020. 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 December 31, 2021, 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 is externally managed and has no employees. On February 28, 2022, the Company’s former Sponsor, DigitalBridge Group, Inc. (NYSE: DBRG) (the “Former Sponsor”), completed the previously announced disposition of its wellness infrastructure platform (the “Sponsor Transaction”). Following completion of the Sponsor Transaction, NRF Holdco, LLC (“NRF” or the “New Sponsor”) (and together with the Company’s Former Sponsor, the Company’s Sponsor as the context requires), owns the Company’s advisor, CNI NSHC Advisors, LLC (the “Advisor”), as well as its own diversified portfolio of medical office buildings, senior housing facilities, skilled nursing facilities and specialty hospitals. NRF is wholly owned by CWP Bidco LP, an entity affiliated with Highgate, a privately held real estate investment and hospitality management company, and Aurora Health Network LLC, a privately held healthcare-focused investment firm. In addition, upon completion of the Sponsor Transaction, employees of the Company’s Former Sponsor focused on the wellness infrastructure platform became employees of the Company’s New Sponsor. The Company’s Advisor, now a subsidiary of the Company’s New Sponsor, will continue to manage the Company’s day-to-day operations pursuant to an advisory agreement.

From inception through December 31, 2021, the Company raised \$2.0 billion in total gross proceeds from the sale of shares of common stock in its continuous, public offerings (the “Offering”), including \$232.6 million pursuant to its distribution reinvestment plan (the “DRP”).

Impact of COVID-19

The world continues to experience the broad effects of the coronavirus 2019 (“COVID-19”) pandemic. Throughout the year ended December 31, 2021, the Company’s healthcare real estate business and investments were challenged by declines in resident occupancy, lower labor force participation rates, which drove increased labor costs, and inflationary pressures on other operating expenses. These impacts of COVID-19 are expected to last, even as states and municipalities have eased and may further ease restrictions.

The continuing impact of the COVID-19 pandemic on the Company’s operational and financial performance will depend on a variety of factors, which may differ considerably across regions and fluctuate over time. An extended recovery period increases

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

the risk of a prolonged negative impact on the Company's financial condition and results of operations. While the Company has the ability to meet its near term liquidity needs, general market concerns over credit and liquidity continue, and the effects of COVID-19 may also lead to heightened risk of litigation, with an ensuing increase in litigation and related costs.

At this time, the progression of the global economic recovery from the broad effects of COVID-19 remains difficult for the Company to assess and estimate the future impact of COVID-19 on the Company's results of operations. Accordingly, any estimates of the effects of COVID-19 as reflected or discussed in these financial statements are based upon the Company's best estimates using information known to the Company as of the date of this Annual Report, and such estimates may change, the effects of which could be material. The Company will continue to monitor the progression of the economic recovery from COVID-19 and reassess its effects on the Company's results of operations and recoverability of value across its assets as conditions change.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying 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").

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Operating Partnership and their consolidated subsidiaries. The Company consolidates entities in which it has a controlling financial interest by first considering if an entity meets the definition of a variable interest entity ("VIE") for which the Company is deemed to be the primary beneficiary or if the Company has the power to control an entity through majority voting interest or other arrangements. 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. 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. During the year ended December 31, 2021, the Company determined that a reconsideration event for an unconsolidated VIE did not result in a change in the evaluation that the Company is not the primary beneficiary.

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 December 31, 2021, 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)

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 sheet as of December 31, 2021 is \$222.1 million related to such consolidated VIEs. Included in mortgage and other notes payable, net on the Company's consolidated balance sheet as of December 31, 2021 is \$174.9 million, collateralized by the real estate assets of the related consolidated VIEs.

Unconsolidated VIEs

As of December 31, 2021, the Company identified unconsolidated VIEs related to its real estate equity investments with a carrying value of \$212.3 million. The Company's maximum exposure to loss as of December 31, 2021 would not exceed the carrying value of its investment in 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 December 31, 2021. During the year ended December 31, 2021, the Company contributed \$0.4 million to an unconsolidated VIE. As of December 31, 2021, 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.

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.

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

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. Any estimates of the effects of COVID-19 as reflected and/or discussed in these financial statements are based upon the Company's best estimates using information known to the Company as of the date of this Annual Report. Such estimates may change and the impact of which could be material.

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 operating real estate (escrows for taxes, insurance, capital expenditures, security deposits received from residents and payments required under certain lease agreements) and other escrows required by lenders of the Company's borrowings.

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):

| | December 31, | | |
|--|-------------------|------------------|------------------|
| | 2021 | 2020 | 2019 |
| Cash and cash equivalents | \$ 200,473 | \$ 65,995 | \$ 41,884 |
| Restricted cash | 10,465 | 27,575 | 16,936 |
| Total cash, cash equivalents and restricted cash | <u>\$ 210,938</u> | <u>\$ 93,570</u> | <u>\$ 58,820</u> |

Operating Real Estate

Operating real estate is carried at historical cost less accumulated depreciation. 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 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 asset is available for its intended use.

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

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

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.

Right of Use ("ROU") - Finance Assets

The Company has entered into finance leases for equipment which are included in operating real estate, net on the Company's consolidated balance sheets. As of December 31, 2021 furniture, fixtures and equipment under finance leases totaled \$2.5 million. The leased equipment is amortized on a straight-line basis. For the year ended December 31, 2021 and 2020, payments for finance leases totaled \$0.7 million, respectively, including assets that were disposed of through portfolio sales.

The following table presents the future minimum lease payments under finance leases and the present value of the minimum lease payments, which are included in other liabilities on the Company's consolidated balance sheets (dollars in thousands):

| Years Ending December 31: | | |
|---|----|------|
| 2022 | \$ | 473 |
| 2023 | | 93 |
| 2024 | | 60 |
| 2025 | | 29 |
| 2026 | | 23 |
| Thereafter | | 27 |
| Total minimum lease payments | \$ | 705 |
| Less: Amount representing interest | | (46) |
| Present value of minimum lease payments | \$ | 659 |

The weighted average interest rate related to the finance lease obligations is 6.2% with a weighted average lease term of 2.2 years.

As of December 31, 2021, 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 December 31, 2021, the Company did not have any assets classified as held for sale. As of December 31, 2020, the Company classified two operating real estate properties within the Kansas City portfolio as held for sale, which were sold in June 2021.

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 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. Refer to "—Credit Losses on Real Estate Debt Investments and Receivables" for additional information on estimated credit losses for real estate debt investments.

Goodwill, Intangible Assets and Deferred Costs

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

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

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, such as the value of in-place leases, goodwill and other intangibles, based on estimated fair value at the acquisition date. The value allocated to the identified intangibles is amortized over the remaining lease term. In-place leases are amortized into depreciation and amortization expense.

Impairment analysis for identified intangible assets is performed in connection with the impairment assessment of the related operating real estate. An impairment establishes a new basis for the identified intangible asset and any impairment loss recognized is not subject to subsequent reversal. Refer to “—Impairment on Operating Real Estate and Investments in Unconsolidated Ventures” for additional information.

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 in the fourth quarter 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 deferred costs and intangible assets, net (dollars in thousands):

| | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| <i>Goodwill and intangible assets, net:</i> | | |
| In-place lease value, net | \$ 2,590 | \$ 4,635 |
| Goodwill ⁽¹⁾ | — | 21,387 |
| Certificate of need intangible assets ⁽¹⁾ | — | 380 |
| Subtotal intangible assets | 2,590 | 26,402 |
| Deferred costs, net ⁽¹⁾ | — | 81 |
| Total | <u>\$ 2,590</u> | <u>\$ 26,483</u> |

(1) Balances as of December 31, 2020 pertain to properties sold in December 2021.

The Company recorded amortization expense for in-place leases and deferred costs of \$1.4 million and \$1.9 million for the year ended December 31, 2021 and 2020, respectively.

In-place lease value, net includes a gross asset amount of \$120.1 million for in-place leases related to the Company’s direct investment - net lease properties, of which \$117.5 million has been amortized as of December 31, 2021. All other in-place leases related to the Company’s direct investment - operating properties have been fully amortized as of December 31, 2021.

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

| | |
|----------------------------------|-----------------|
| Years Ending December 31: | |
| 2022 | \$ 337 |
| 2023 | 337 |
| 2024 | 337 |
| 2025 | 337 |
| 2026 | 337 |
| Thereafter | 905 |
| Total | <u>\$ 2,590</u> |

Other Assets

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

The following table presents a summary of other assets (dollars in thousands):

| | December 31, 2021 | December 31, 2020 |
|--|----------------------|----------------------|
| <i>Other assets:</i> | | |
| Remainder interest in condominium units ⁽¹⁾ | 2,030 | 2,327 |
| Prepaid expenses | 4,948 | 3,798 |
| Lease / rent inducements, net | 3,209 | 2,246 |
| Utility deposits | 142 | 447 |
| Other | 442 | 863 |
| Total | <u>\$ 10,771</u> | <u>\$ 9,681</u> |

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

Revenue Recognition

Operating Real Estate

Rental income from operating real estate is derived from leasing of space to healthcare operators, including rent received from the Company's net lease properties and rent, ancillary service fees and other related revenue earned from ILF residents. Rental income recognition commences when the operator 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 Company also generates revenue 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. Revenue derived from our ALFs, MCFs and CCRCs is recorded in resident fee income in the consolidated statements of operations.

Revenue from operators and residents is recognized at lease commencement only to the extent collection is expected to be probable in consideration of operators' and residents' creditworthiness. This assessment is based on several qualitative and quantitative factors, including and as appropriate, the payment history, ability to satisfy its lease obligations, the value of the underlying collateral or deposit, if any, and current economic conditions. If collection is assessed to not be probable thereafter, lease income recognized is limited to amounts collected, with the reversal of any revenue recognized to date in excess of amounts received. If collection is subsequently reassessed to be probable, revenue is adjusted to reflect the amount that would have been recognized had collection always been assessed as probable.

A summary of rental income recognized for the year ended December 31, 2021 for the Company's direct net lease properties is as follows:

- The operator of the Arbors portfolio failed to remit contractual monthly rent obligations and the Company deemed it not probable that these obligations will be satisfied in the future. Beginning in February 2021, the Company recorded rental income to the extent rental payments were received. In addition, rental income was reduced by \$7.4 million for the write-off of straight-line rent receivables, as full collection of contractual rent under the leases was deemed not to be probable.
- In December 2021, the Company sold the Watermark Fountains net lease portfolio. The operator of the Watermark Fountains net lease portfolio remitted full contractual rent through the sale date. Effective April 15, 2021, the Company executed a lease modification that allowed the operator to defer up to \$3.0 million of contractual rent payments over the remaining term of the lease, which was forgiven at the time of the sale. The Company recognized rental revenue on a straight-line basis based on the modified terms of the lease.
- The operator of the Smyrna property failed to remit rental payments and accordingly no lease income was recognized. The Smyrna property was sold in May 2021.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2021 and 2020, total property and other revenue includes variable lease revenue of \$13.1 million and \$14.4 million, respectively. Variable lease revenue includes ancillary services provided to operator/residents, as well as non-recurring services and fees at the Company's operating facilities.

The Company recognized grant income received from the Provider Relief Fund administered by the U.S. Department of Health and Human Services totaling \$7.7 million and \$1.8 million for the year ended December 31, 2021 and 2020, respectively. The grant income is classified as other income, net in the consolidated statements of operations. These grants are intended to mitigate the negative financial impact of the COVID-19 pandemic as reimbursements for expenses incurred to prevent, prepare for and respond to COVID-19 and lost revenues attributable to COVID-19. Provided that the Company attests to and complies with certain terms and conditions of the grants, the Company will not be required to repay these grants in the future.

Lease Concessions Related to COVID-19

As a result of the COVID-19 pandemic, the Company engages with affected operators on a case-by-case basis to evaluate and respond to the current environment and assess the potential for flexible payment terms. For lease concessions resulting directly from the impact of COVID-19 that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee, for example, where total payments required by the modified contract will be substantially the same as or less than the original contract, the Company made a policy election to account for the concessions as though the enforceable rights and obligations for those concessions existed in the lease contracts, under a relief provided by the Financial Accounting Standards Board ("FASB"). Under the relief, the concessions will not be treated as lease modifications that are accounted for over the remaining term of the respective leases, as the Company believes this would not accurately reflect the temporary economic effect of the concessions. Instead, (i) rent deferrals that meet the criteria will be treated as if no changes were made to the lease contract, with continued recognition of lease income and receivable under the original terms of the contract; and (ii) rent forgiveness that meets the criteria will be accounted for as variable lease payments in the affected periods.

Effective June 1, 2020, the Company granted a lease concession to the operator of its Watermark Fountains net lease portfolio. The concession allowed the operator 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 provided the operator relief consistent with the debt forbearance received from the lender of the properties in the portfolio. The lease concession period ended on August 31, 2020 and deferred rent was fully repaid as of September 2021. The Company sold the Watermark Fountains net lease portfolio in December 2021.

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.

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 investment is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an 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 or legally discharged.

Impairment on Operating Real Estate and Investments in Unconsolidated Ventures

Due to uncertainties over the extent and duration of the economic fallout from COVID-19, it is difficult for the Company to assess and estimate the future economic effects of COVID-19 with any meaningful precision. As the future impact of COVID-19 will depend on many factors beyond the Company's control and knowledge, the resulting effect on impairment of the Company's real estate held for investment and held for sale and investments in unconsolidated ventures may materially differ from the Company's current expectations and further impairment charges may be recorded in future periods.

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

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

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.

Real estate held for sale is stated at the lower of its carrying amount or estimated fair value less disposal cost, with any write-down to disposal cost recorded as an impairment loss. For any increase in fair value less disposal cost subsequent to classification as held for sale, the impairment may be reversed, but only up to the amount of cumulative loss previously recognized.

The Company considered the potential impact of the COVID-19 pandemic on the future net operating income of its healthcare real estate held for investment as an indicator of impairment. Fair values were estimated based upon the income capitalization approach, using net operating income for each property and applying indicative capitalization rates.

During the year ended December 31, 2021, the Company recorded impairment losses totaling \$5.4 million on operating real estate, consisting of \$4.6 million recognized for one facility within the Winterfell portfolio, as a result of lower estimated future cash flows and market value and \$0.8 million for its Smyrna net lease property, which was sold in May 2021. During the year ended December 31, 2020, the Company recorded impairment losses totaling \$166.0 million on its operating real estate and held for sale 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 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.

The Company did not impair any of its investments in unconsolidated ventures during the years ended December 31, 2021 and 2020. The underlying joint ventures recorded impairments and reserves on properties in their respective portfolios, which the Company recognized through equity in earnings (losses), of which the Company's proportionate share totaled \$1.8 million and \$38.2 million for the years ended December 31, 2021 and 2020, respectively.

Credit Losses on Real Estate Debt Investments and Receivables

The current expected credit loss model, in estimating expected credit losses over the life of a financial instrument at the time of origination or acquisition, considers historical loss experiences, current conditions and the effects of reasonable and supportable expectations of changes in future macroeconomic conditions. The Company assesses the estimate of expected credit losses on a quarterly basis or more frequently as necessary. The Company considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

The Company measures expected credit losses of real estate debt investments and other receivables ("Financial Assets") on a collective basis when similar risk characteristics exist. If the Company determines that a particular Financial Asset does not share risk characteristics with its other Financial Assets, the Company evaluates the Financial Asset for expected credit losses on an individual basis.

When developing an estimate of expected credit losses on Financial Assets, the Company considers available information relevant to assessing the collectability of cash flows. This information may include internal information, external information, or a combination of both relating to past events, current conditions, and reasonable and supportable forecasts. The Company considers relevant qualitative and quantitative factors that relate to the environment in which the Company operates and are specific to the borrower.

Further, the fair value of the collateral, less estimated costs to sell, may be used when determining the allowance for credit losses for a Financial Asset for which the repayment is expected to be provided substantially through the sale of the collateral when the borrower is experiencing financial difficulty.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2021, the Company has not recorded an allowance for credit losses on its Financial Assets.

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 directors, including a majority of its independent directors. The Company records as an expense for 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. 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.

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 2018 to 2021, 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 managers/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 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

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asset, which as of December 31, 2021 totaled \$13.1 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.

The Company recorded an income tax expense of approximately \$99,000, \$53,000 and \$75,000 for the years ended December 31, 2021, 2020 and 2019, respectively.

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.

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.

As of December 31, 2021 and 2020, the Company had exposure to foreign currency through an investment in an unconsolidated venture, the effects of which are reflected as a component of accumulated OCI in the consolidated statements of equity and in equity in earnings (losses) in the consolidated statements of operations.

Recent Accounting Pronouncements

Accounting Standards Adopted in 2021

Income Tax Accounting—In December 2019, the FASB issued Accounting Standards Update ("ASU") No. 2019-12, *Simplifying the Accounting for Income Taxes*. The ASU simplifies accounting for income taxes by eliminating certain exceptions to the general approach in Accounting Standards Codification ("ASC") 740, *Income Taxes*, and clarifies certain aspects of the guidance for more consistent application. The simplifications relate to intraperiod tax allocations when there is a loss in continuing operations and a gain outside of continuing operations, accounting for tax law or tax rate changes and year-to-date losses in interim periods, recognition of deferred tax liability for outside basis difference when investment ownership changes, and accounting for franchise taxes that are partially based on income. The ASU also provides new guidance that clarifies the accounting for transactions resulting in a step-up in tax basis of goodwill, among other changes. Transition is generally prospective, other than the provision related to outside basis difference which is on a modified retrospective basis with cumulative effect adjusted to retained earnings at the beginning of the period adopted, and franchise tax provision which is on either full or modified retrospective. The Company adopted ASU No. 2019-12 on January 1, 2021, with no transitional impact upon adoption.

Accounting for Certain Equity Investments—In January 2020, the FASB issued ASU No. 2020-01, *Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. The ASU clarifies that if as a result of an observable transaction, an equity investment under the measurement alternative is transitioned into equity method and vice versa, the investment is to be remeasured immediately before and after the transaction, respectively. The ASU also clarifies that certain forward contracts or purchased options to acquire equity securities that are not deemed to be derivatives or in-substance common stock will generally be measured using the fair value principles of ASC 321 before settlement or exercise, and that an entity should not be considering how it will account for the resulting investments upon eventual settlement or exercise. The Company adopted ASU No. 2020-01 on January 1, 2021, with no transitional impact upon adoption.

Future Application of Accounting Standards

Reference Rate Reform—In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The guidance in Topic 848 is optional, the election of which provides temporary relief for the accounting effects on contracts, hedging relationships and other transactions impacted by the transition from interbank offered rates (such as London Interbank Offered Rate ("LIBOR")) that are expected to be discontinued

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by the end of 2021 to alternative reference rates (such as Secured Overnight Financing Rate). Modification of contractual terms to effect the reference rate reform transition on debt, leases, derivatives and other contracts is eligible for relief from modification accounting and accounted for as a continuation of the existing contract. Topic 848 is effective upon issuance through December 31, 2022, and may be applied retrospectively to January 1, 2020. The Company may elect practical expedients or exceptions as applicable over time as reference rate reform activities occur.

In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848): Scope*. The guidance amends the scope of the recent reference rate reform guidance issued in ASU No. 2020-04. New optional expedients allow derivative instruments impacted by changes in the interest rate used for margining, discounting, or contract price alignment to qualify for certain optional relief. The guidance was effective immediately and may be applied retrospectively to January 1, 2020. The Company may elect practical expedients or exceptions as applicable over time as reference rate reform activities occur.

Certain Leases with Variable Lease Payments— In July 2021, the FASB issued ASU No. 2021-05, *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*. The guidance in ASU 2021-05 amends the lease classification requirements for the lessors under certain leases containing variable payments to align with practice under ASC 840. Under the guidance, the lessor should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met: 1) the lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in ASC 842-10-25-2 through 25-3; and 2) the lessor would have otherwise recognized a day-one loss. The amendments in ASU 2021-05 are effective for fiscal years beginning after December 15, 2021 and are not expected to have a significant impact on the Company’s consolidated financial statements.

Disclosures by Business Entities about Government Assistance— In November 2021, the FASB issued ASU No. 2021-10: *Disclosures by Business Entities about Government Assistance*. The guidance requires expanded disclosure for transactions involving the receipt of government assistance. Required disclosures include a description of the nature of transactions with government entities, accounting policies for such transactions and their impact to the Company’s consolidated financial statements. The guidance is effective beginning January 1, 2022 and is not expected to have a significant impact on the Company’s consolidated financial statements.

3. Operating Real Estate

The following table presents operating real estate, net (dollars in thousands):

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|-----------------------------------|--------------------------|--------------------------|
| Land | \$ 121,518 | \$ 234,706 |
| Land improvements | 17,798 | 23,797 |
| Buildings and improvements | 965,630 | 1,389,706 |
| Tenant improvements | — | 16,172 |
| Construction in progress | 8,141 | 2,535 |
| Furniture, fixtures and equipment | 84,813 | 108,055 |
| Subtotal | \$ 1,197,900 | \$ 1,774,971 |
| Less: Accumulated depreciation | (225,301) | (291,041) |
| Operating real estate, net | <u>\$ 972,599</u> | <u>\$ 1,483,930</u> |

For the years ended December 31, 2021, 2020 and 2019 depreciation expense was \$53.5 million, \$63.1 million, and \$62.8 million, respectively.

Within the table above, buildings and improvements have been reduced by accumulated impairment losses of \$149.7 million and \$213.9 million as of December 31, 2021 and December 31, 2020, respectively. Impairment loss, as presented on the consolidated statements of operations, totaled \$5.4 million and \$166.0 million for the years ended December 31, 2021 and 2020, respectively. Refer to Note 2, “Summary of Significant Accounting Policies” for further discussion.

During the year ended December 31, 2021, the Company completed property sales including its Watermark Fountains portfolios in December 2021, the Kansas City portfolio in June 2021 and a property within the Aqua portfolio in March 2021.

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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 December 31, 2021 (dollars in thousands):

| Years Ending December 31:⁽¹⁾ | | |
|--|----|---------------|
| 2022 | \$ | 10,653 |
| 2023 | | 10,919 |
| 2024 | | 11,192 |
| 2025 | | 11,472 |
| 2026 | | 11,759 |
| Thereafter | | 33,845 |
| Total | \$ | <u>89,840</u> |

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

Net lease rental properties owned as of December 31, 2021 have current lease expirations of 2029, with certain operator renewal rights. These net lease arrangements require the operator to pay rent and substantially all the expenses of the leased property including maintenance, taxes, utilities and insurance. For certain properties, the operators 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.

The operator of the Company's remaining net lease portfolio failed to remit contractual monthly rent obligations during the year ended December 31, 2021 and the Company deemed it not probable that these obligations will be satisfied in the future. Beginning in February 2021, the Company recorded rental income to the extent rental payments were received.

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 (dollars in thousands):

| Portfolio | Acquisition Date | Ownership | Carrying Value⁽¹⁾ | |
|-------------------------|-------------------------|------------------|-------------------------------------|--------------------------|
| | | | December 31, 2021 | December 31, 2020 |
| Trilogy | Dec-2015 | 23.2 % | \$ 126,366 | \$ 133,896 |
| Diversified US/UK | Dec-2014 | 14.3 % | 80,766 | 89,651 |
| Eclipse | May-2014 | 5.6 % | 4,856 | 5,624 |
| Envoy ⁽²⁾ | Sep-2014 | 11.4 % | — | 2 |
| Espresso ⁽³⁾ | Jul-2015 | 36.7 % | — | — |
| Subtotal | | | \$ 211,988 | \$ 229,173 |
| Solstice ⁽⁴⁾ | Jul-2017 | 20.0 % | 321 | — |
| Total | | | <u>\$ 212,309</u> | <u>\$ 229,173</u> |

(1) Includes \$1.3 million, \$13.4 million and \$9.8 million of capitalized acquisition costs for the Company's investments in the Eclipse, Diversified US/UK, and Trilogy joint ventures, respectively.

(2) In March 2019, the Envoy joint venture completed the sale of its remaining 11 properties for a sales price of \$118.0 million, which generated net proceeds to the Company totaling \$4.3 million.

(3) 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 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 and was repaid in full August 2021. During the year ended December 31, 2021, the Company received distributions from the joint venture greater than the Company's carrying value of its unconsolidated investment, which resulted in the Company recording a gain on the distribution totaling \$4.3 million and a carrying value of zero as of December 31, 2021.

(4) Represents 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 management company of ILF, ALF and MCF founded in 2000, which owns 80.0%, and the Company, which owns 20.0%. During the year ended December 31, 2021, the Company contributed an additional \$0.4 million to Solstice.

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| Portfolio | Years Ended December 31, | | | |
|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | 2021 | | 2020 | |
| | Equity in Earnings (Losses) | Cash Distribution | Equity in Earnings (Losses) | Cash Distribution |
| Trilogy | \$ (2,891) | \$ 4,638 | \$ 4,495 | \$ 3,960 |
| Diversified US/UK | (3,676) | 4,257 | (35,396) | 1,487 |
| Eclipse | 2,130 | 2,898 | (3,774) | 86 |
| Envoy | 740 | 817 | (7) | 390 |
| Espresso | 19,619 | 5,500 | 270 | — |
| Subtotal | \$ 15,922 | \$ 18,110 | \$ (34,412) | \$ 5,923 |
| Solstice | (79) | — | (54) | — |
| Total | <u>\$ 15,843</u> | <u>\$ 18,110</u> | <u>\$ (34,466)</u> | <u>\$ 5,923</u> |

Summarized Financial Data

The combined balance sheets as of December 31, 2021 and 2020 and combined statements of operations for the years ended December 31, 2021, 2020 and 2019 for the Company's unconsolidated ventures are as follows (dollars in thousands):

| | December 31, 2021 | December 31, 2020 | | Years Ended December 31, | | |
|-------------------------------|----------------------|----------------------|-------------------|--------------------------|--------------|--------------|
| | | | | 2021 | 2020 | 2019 |
| Assets | | | | | | |
| Operating real estate, net | \$ 4,051,899 | \$ 4,500,319 | Total revenues | \$ 1,493,341 | \$ 1,562,284 | \$ 1,575,758 |
| Other assets | 1,308,236 | 1,261,678 | Net income (loss) | \$ 59,321 | \$ (294,501) | \$ (17,689) |
| Total assets | <u>\$ 5,360,135</u> | <u>\$ 5,761,997</u> | | | | |
| | | | | | | |
| Liabilities and equity | | | | | | |
| Total liabilities | \$ 4,277,887 | \$ 4,626,761 | | | | |
| Equity | 1,082,248 | 1,135,236 | | | | |
| Total liabilities and equity | <u>\$ 5,360,135</u> | <u>\$ 5,761,997</u> | | | | |

5. Real Estate Debt Investments

The Company's mezzanine loan debt investment was repaid in full in August 2021. During the year ended December 31, 2021, the Company received principal repayments on its debt investment totaling \$74.4 million, which included payment-in-kind interest. The borrower funded principal repayments through net proceeds generated from the sale of underlying collateral and available operating cash flow. For the year ended December 31, 2021, the mezzanine loan had a contractual interest rate of 14% and generated interest income totaling \$4.7 million, which represents 100% of the Company's interest income on debt investments as presented on the consolidated statements of operations.

The following table presents the Company's one debt investment (dollars in thousands) as of December 31, 2020:

| Asset Type: | Principal Amount | Carrying Value ⁽¹⁾ | Effective Interest Rate |
|----------------|------------------|-------------------------------|-------------------------|
| Mezzanine loan | \$ 74,182 | \$ 55,864 | 10.0 % |

- (1) 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 reduction to the carrying value of its mezzanine loan, which was originated to a subsidiary of the Espresso joint venture. As of December 31, 2020, the cumulative excess equity in losses included in the mezzanine loan carrying value were \$18.3 million.

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

6. Borrowings

The following table presents the Company's mortgage and other notes payable (dollars in thousands):

| | Recourse vs. Non-Recourse | Initial Maturity | Contractual Interest Rate ⁽¹⁾ | December 31, 2021 | | December 31, 2020 | |
|---|------------------------------|---------------------|---|------------------------------------|----------------------------------|------------------------------------|----------------------------------|
| | | | | Principal Amount ⁽²⁾ | Carrying Value ⁽²⁾ | Principal Amount ⁽²⁾ | Carrying Value ⁽²⁾ |
| Mortgage notes payable, net | | | | | | | |
| Watermark Aqua Portfolio | | | | | | | |
| Denver, CO | Non-recourse | Repaid | LIBOR + 2.92% | \$ — | \$ — | \$ 20,189 | \$ 20,183 |
| Frisco, TX ⁽³⁾ | Non-recourse | Feb 2026 | 3.0% | 26,000 | 25,431 | 18,770 | 18,764 |
| Milford, OH | Non-recourse | Sep 2026 | LIBOR + 2.68% | 18,661 | 18,388 | 18,760 | 18,423 |
| Rochester Portfolio | | | | | | | |
| Rochester, NY | Non-recourse | Feb 2025 | 4.25% | 18,911 | 18,853 | 19,907 | 19,830 |
| Rochester, NY ⁽⁴⁾ | Non-recourse | Aug 2027 | LIBOR + 2.34% | 101,224 | 100,495 | 101,224 | 100,378 |
| Rochester, NY | Non-recourse | Aug 2022 | LIBOR + 2.90% | 11,732 | 11,716 | 12,800 | 12,584 |
| Arbors Portfolio ⁽⁵⁾ | | | | | | | |
| Various locations | Non-recourse | Feb 2025 | 3.99% | 85,369 | 84,799 | 87,302 | 86,521 |
| Watermark Fountains Portfolio | | | | | | | |
| Various locations | Non-recourse | Repaid | 3.92% | — | — | 386,607 | 385,606 |
| Various locations | Non-recourse | Repaid | 5.56% | — | — | 73,439 | 73,180 |
| Winterfell Portfolio ⁽⁶⁾ | | | | | | | |
| Various locations | Non-recourse | Jun 2025 | 4.17% | 608,810 | 597,460 | 622,045 | 607,526 |
| Avamere Portfolio ⁽⁷⁾ | | | | | | | |
| Various locations | Non-recourse | Feb 2027 | 4.66% | 69,144 | 68,755 | 70,427 | 69,962 |
| Subtotal mortgage notes payable, net | | | | \$ 939,851 | \$ 925,897 | \$ 1,431,470 | \$ 1,412,957 |
| Other notes payable | | | | | | | |
| Oak Cottage | | | | | | | |
| Santa Barbara, CA | Non-recourse | ⁽⁸⁾ | 6.00% | 3,914 | 3,914 | 3,914 | 3,914 |
| Subtotal other notes payable, net | | | | \$ 3,914 | \$ 3,914 | \$ 3,914 | \$ 3,914 |
| Total mortgage and other notes payable, net | | | | \$ 943,765 | \$ 929,811 | \$ 1,435,384 | \$ 1,416,871 |

(1) Floating-rate borrowings total \$131.6 million of principal outstanding and reference one-month 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) In January 2021, the Company refinanced its existing mortgage note payable with a new \$26.0 million mortgage note payable. The new mortgage note carries a fixed interest rate of 3.0% through February 2024, followed by the greater of the fixed rate or one-month LIBOR plus 2.80% through the initial maturity date of February 2026.

(4) Composed of seven individual mortgage notes payable secured by seven healthcare real estate properties, cross-collateralized and subject to cross-default.

(5) Composed of four individual mortgage notes payable secured by four healthcare real estate properties, cross-collateralized and subject to cross-default.

(6) Composed of 32 individual mortgage notes payable secured by 32 healthcare real estate properties, cross-collateralized and subject to cross-default.

(7) Composed of five individual mortgage notes payable secured by five healthcare real estate properties, cross-collateralized and subject to cross-default.

(8) In accordance with the financing agreement, in February 2022, the Company has the option to repay the outstanding principal balance or begin to make periodic payments with the net cash flow generated by the property until the financing is repaid in full.

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

The following table presents future scheduled principal payments on mortgage and other notes payable based on final maturity (dollars in thousands):

| Years Ending December 31: | | |
|----------------------------------|----|----------------|
| 2022 | \$ | 29,495 |
| 2023 | | 20,142 |
| 2024 | | 20,865 |
| 2025 | | 670,775 |
| 2026 | | 47,451 |
| Thereafter | | 155,037 |
| Total | \$ | <u>943,765</u> |

As of December 31, 2021, the operator for the Arbors portfolio failed to remit contractual rent and comply with other contractual terms of its lease agreements, which resulted in defaults under the operator's leases, which in turn, resulted in a non-monetary default under the mortgage notes collateralized by the properties. During the year ended December 31, 2021, the Company remitted contractual debt service and is in compliance with the other contractual terms under the mortgage notes collateralized by the properties.

As of December 31, 2021, a property within the Rochester portfolio did not satisfy the financial covenants under its mortgage note, which have been waived by the lender. During the year ended December 31, 2021, the Company remitted contractual debt service and is in compliance with the other contractual terms under the mortgage note, which matures in February 2025.

In response to the operational challenges resulting from the COVID-19 pandemic, the Company entered into forbearance agreements to defer contractual debt service for borrowings on properties within the Aqua, Rochester, Arbors, Winterfell and Watermark Fountains portfolios. Deferred debt service has been repaid in full for all borrowings as of December 31, 2021.

Line of Credit - Related Party

In October 2017, the Company obtained a revolving line of credit from an affiliate of the Sponsor (the "Sponsor Line"). As of December 31, 2021, the Sponsor Line has a borrowing capacity of \$35.0 million at an interest rate of 3.5% plus LIBOR. In June 2021, the maturity date was extended through June 2023. If the Company terminates its advisory agreement with the Advisor, it will no longer have access to the Sponsor Line. Upon termination of the advisory agreement for any reason, amounts drawn under the Sponsor Line, if any, would become immediately due.

In April 2020, the Company borrowed \$35.0 million under the Sponsor Line to improve its liquidity position in response to the uncertainties surrounding the COVID-19 pandemic. In July 2021, the Company repaid in full the outstanding borrowings. For the year ended December 31, 2021 and 2020, Sponsor Line interest totaled \$0.7 million and \$0.9 million, respectively. For additional information, refer to Note 14, "Subsequent Events."

The following table presents the Company's borrowings under the Sponsor Line as of December 31, 2021 (dollars in thousands):

| Asset Type: | Principal Amount | | Capacity | Contractual Interest Rate | Maturity Date |
|------------------------|--------------------------|--------------------------|-----------------|----------------------------------|----------------------|
| | December 31, 2021 | December 31, 2020 | | | |
| Sponsor Line of Credit | \$ — | \$ 35,000 | \$ 35,000 | LIBOR + 3.50% | Jun 2023 |

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.

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

In June 2021, the advisory agreement was renewed for an additional one-year term commencing on June 30, 2021, with terms identical to those in effect through June 30, 2021, but for the following modifications:

- the payment of the asset management fee entirely in the form of shares of common stock of the Company; and
- effective January 1, 2022, a reduction of the asset management fee with respect to the Company's corporate cash balance exceeding \$75.0 million, subject to the terms and conditions set forth in the advisory agreement.

For additional information regarding our advisory agreement, refer to Note 14, "Subsequent Events."

Fees to Advisor

Asset Management Fee

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. Effective July 1, 2021, the asset management fee is paid entirely in shares of the Company's common stock at a price per share equal to the most recently published net asset value per share, and effective January 1, 2022 the fee will be reduced if the Company's corporate cash balance exceeds \$75.0 million, subject to the terms and conditions set forth in the advisory agreement.

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. From inception through December 31, 2021, the Advisor has not received any incentive fees from the Company.

Acquisition Fee

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

Effective June 30, 2020, the Advisor no longer has the potential to receive a disposition fee in connection with the sale of real estate properties or debt investments.

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 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 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

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

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 tables present the fees and reimbursements incurred and paid to the Advisor (dollars in thousands):

| Type of Fee or Reimbursement | Financial Statement Location | Due to Related Party as of December 31, 2020 | Year Ended December 31, 2021 | | Due to Related Party as of December 31, 2021 |
|------------------------------------|-------------------------------------|--|------------------------------|----------------------------|--|
| | | | Incurred | Paid | |
| Fees to Advisor Entities | | | | | |
| Asset management ⁽¹⁾ | Asset management fees-related party | \$ 923 | \$ 11,105 | \$ (11,091) ⁽¹⁾ | \$ 937 |
| Reimbursements to Advisor Entities | | | | | |
| Operating costs ⁽²⁾ | General and administrative expenses | 7,395 | 14,035 | (15,029) | 6,401 |
| Total | | \$ 8,318 | \$ 25,140 | \$ (26,120) | \$ 7,338 |

(1) Includes \$10.6 million paid in shares of the Company's common stock.

(2) As of December 31, 2021, the Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to the Company.

| Type of Fee or Reimbursement | Financial Statement Location | Due to Related Party as of December 31, 2019 | Year Ended December 31, 2020 | | Due to Related Party as of December 31, 2020 |
|---|---|--|------------------------------|----------------------------|--|
| | | | Incurred | Paid | |
| Fees to Advisor Entities ⁽¹⁾ | | | | | |
| Asset management ⁽²⁾ | Asset management and other fees-related party | \$ 1,477 | \$ 17,170 | \$ (17,724) ⁽²⁾ | \$ 923 |
| Reimbursements to Advisor Entities | | | | | |
| Operating costs ⁽³⁾ | General and administrative expenses | 4,303 | 14,682 | (11,590) | 7,395 |
| Total | | \$ 5,780 | \$ 31,852 | \$ (29,314) | \$ 8,318 |

(1) Effective June 30, 2020, our Advisor no longer has the potential to receive a disposition fee in connection with the sale of real estate properties or debt investments. The Company did not incur any disposition fees during the year ended December 31, 2020, nor were any such fees outstanding as of December 31, 2020.

(2) Includes \$9.7 million paid in shares of the Company's common stock and a \$0.3 million gain recognized on the settlement of the share-based payment.

(3) As of December 31, 2020, the Advisor did not have any unreimbursed operating costs which remained eligible to be allocated to the Company.

Pursuant to the advisory agreement, for the year ended December 31, 2021, the Company issued 2.7 million shares totaling \$10.6 million, based on the estimated value per share on the date of each issuance, to an affiliate of the Advisor as part of its asset management fee. As of December 31, 2021, the Advisor, the Sponsor and their affiliates owned a total of 7.4 million shares, or \$29.0 million of the Company's common stock based on the Company's most recent estimated value per share. As of December 31, 2021, the Advisor, the Sponsor and their affiliates owned 3.8% of the total outstanding shares of the Company's common stock.

Investments in Joint Ventures

Solstice, the manager of the Winterfell portfolio, is a joint venture between affiliates of ISL, which owns 80.0%, and the Company, which owns 20.0%. For the year ended December 31, 2021, the Company recognized property management fee expense of \$4.9 million paid to Solstice related to the Winterfell portfolio.

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

The below table indicates the Company's investments for which the Sponsor 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 | NRF/ Formation Capital, LLC | May 2014 | 5.6% |
| Diversified US/UK | NRF | December 2014 | 14.3% |

In addition, the Company owns a 23.2% interest in the Trilogy joint venture, of which American Healthcare REIT, Inc. ("AHR") and the management of Trilogy own the remaining 76.8% of the portfolio. The Former Sponsor owns a passive, non-controlling interest in AHR's operating partnership, which was formed by the combination of Griffin American Healthcare REIT III, Inc., American Healthcare Investors, LLC and Griffin-American Healthcare REIT IV, Inc.

Mezzanine Loan

In July 2015, the Company originated a \$75.0 million mezzanine loan to a subsidiary of the Espresso joint venture, of which the Company owns a minority interest. In August 2021, the Company received full repayment of the outstanding principal balance of the loan. Refer to Note 5, "Real Estate Debt Investments" for further discussion.

Line of Credit - Related Party

The Company has 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. Under the Plan, 2.0 million shares of restricted common stock were eligible to be issued for any equity-based awards granted under the Plan.

Pursuant to the Plan, as of December 31, 2021, the Company's independent directors were granted a total of 159,932 shares of restricted common stock and 66,840 restricted stock units totaling \$1.3 million and \$0.3 million, respectively, based on the share price on the date of each grant.

The restricted common stock and restricted stock units granted generally vest quarterly over two years in equal installments and 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 restricted stock units are convertible, on a one-for-one basis, into shares of the Company's common stock upon the earlier occurrence of: (i) the termination of the independent director's service as a director; or (ii) a change in control of the Company.

The Company recognized equity-based compensation expense of \$230,083, \$168,917 and \$239,083 for the years ended December 31, 2021, 2020, and 2019 respectively. Equity-based compensation expense is recorded in general and administrative expenses in the consolidated statements of operations.

Unrecognized expense related to unvested restricted common stock and restricted stock units totaled \$223,167 and \$193,250 as of December 31, 2021 and December 31, 2020, respectively. Unvested shares totaled 4,800 and 30,403 as of December 31, 2021 and December 31, 2020, respectively. Unvested restricted stock units totaled 50,130 as of December 31, 2021.

9. Stockholders' Equity

Common Stock

The Company stopped accepting subscriptions for its Offering on December 17, 2015 and all of the shares initially registered for its 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, excluding proceeds from the DRP.

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

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 common stock. The following table presents the estimated value per share of common stock based on when the value 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 |
| December 2019 | 6.25 | 6/30/2019 |
| December 2020 | 3.89 | 6/30/2020 |
| November 2021 | 3.91 | 6/30/2021 |

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 year ended December 31, 2021, the Company has not issued shares of common stock pursuant to the DRP. Since inception, the Company issued 25.7 million shares of common stock, generating gross offering proceeds of \$232.6 million pursuant to the DRP.

Distributions

Effective February 1, 2019, the Company's board of directors determined to suspend distributions in order to preserve capital and liquidity and no distributions were declared during the years ended December 31, 2021 and 2020.

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. Distributions were paid to stockholders on the first business day of the following month and totaled \$5.4 million, with \$3.0 million distributed in cash and \$2.4 million reinvested pursuant to its DRP.

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 year ended December 31, 2021, the Company generated net operating income for tax purposes, however, the Company was not required to make distributions to its stockholders in 2021 to qualify as a REIT due to a net operating loss carry-forward from 2020. The Company's most recently filed tax return is for the year ended December 31, 2020 and includes a net operating loss carry-forward of \$122.9 million.

Share Repurchase Program

The Company adopted the share repurchase program (the "Share Repurchase Program") that enabled stockholders to sell their shares to the Company in limited circumstances. 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 April 2020, the Company's board of directors determined to suspend all repurchases under the Share Repurchase Program effective April 30, 2020 in order to preserve capital and liquidity and has not repurchased any shares during the year ended December 31, 2021. For the year ended December 31, 2020, the Company repurchased 0.3 million shares of common stock for \$2.1 million at an average price of \$6.29 per share.

The Company had funded repurchase requests with cash on hand, borrowings or other available capital.

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

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 years ended December 31, 2021, 2020 and 2019 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 income attributable to the other non-controlling interests was \$1.7 million for the year ended December 31, 2021. Net loss attributable to other non-controlling interest was \$2.8 million and \$0.8 million for the years ended December 31, 2020 and 2019, 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.

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

The following table presents the principal amount, carrying value and fair value of certain financial assets and liabilities (dollars in thousands):

| | December 31, 2021 | | | December 31, 2020 | | |
|--|-------------------|----------------|------------|-------------------|----------------|--------------|
| | Principal Amount | Carrying Value | Fair Value | Principal Amount | Carrying Value | Fair Value |
| Financial assets:⁽¹⁾ | | | | | | |
| Real estate debt investments, net ⁽²⁾ | \$ — | \$ — | \$ — | \$ 74,182 | \$ 55,864 | \$ 74,182 |
| Financial liabilities:⁽¹⁾ | | | | | | |
| Mortgage and other notes payable, net | \$ 943,765 | \$ 929,811 | \$ 889,485 | \$ 1,435,384 | \$ 1,416,871 | \$ 1,354,832 |
| Line of credit - related party ⁽²⁾ | — | — | — | 35,000 | 35,000 | 35,000 |

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

(2) Repaid in full during the year ended December 31, 2021.

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

The Company's real estate debt investment's fair value was 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. The fair value measurement of the Company's real estate debt investment was generally based on unobservable inputs, and as such, is classified as Level 3 of the fair value hierarchy. In August 2021, the Company's real estate debt investment was repaid in full.

Mortgage and Other Notes Payable, Net and Line of Credit - Related Party

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 and LIBOR 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.

Derivative Instruments

For certain mortgage notes payable, the Company has interest rate caps with fair values that are de minimis as of December 31, 2021.

Nonrecurring Fair Values

The Company measures fair value of certain assets on a nonrecurring basis when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Adjustments to fair value generally result from the application of lower of amortized cost or fair value accounting for assets held for sale or otherwise, write-down of asset values due to impairment.

The following table summarizes the fair value, measured at the time of impairment, of Level 3 assets which have been measured at fair value on a nonrecurring basis during the periods presented and the associated impairment losses (dollars in thousands):

| | Years Ended December 31, | | | | | |
|----------------------------|--------------------------|-------------------|------------|-------------------|------------|-------------------|
| | 2021 | | 2020 | | 2019 | |
| | Fair Value | Impairment Losses | Fair Value | Impairment Losses | Fair Value | Impairment Losses |
| Operating real estate, net | \$ 11,793 | \$ 5,386 | \$ 234,650 | \$ 164,215 | \$ 58,804 | \$ 27,021 |
| Assets held for sale | — | — | 5,000 | 1,753 | 1,649 | 533 |

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

Operating Real Estate, Net

Operating real estate that is impaired is carried at fair value at the time of impairment. Impairment was driven by various factors that impacted undiscounted future net cash flows, including declines in operating performance, market growth assumptions, and expected margins to be generated by the properties. Fair value of impaired operating real estate was estimated based upon various approaches including discounted cash flow analysis using terminal capitalization rates ranging from 6.00% to 7.75% and discount rates ranging from 7.0% to 8.75%, third party appraisals and offer prices or broker opinions of value.

Assets Held For Sale

Assets held for sale are carried at the lower of amortized cost or fair value. Assets held for sale that were written down to fair value were generally valued using either broker opinions of value, or a combination of market information, including third-party appraisals and indicative sale prices, adjusted as deemed appropriate by management to account for the inherent risk associated with specific properties. In all cases, fair value of real estate held for sale is reduced for estimated selling costs.

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 - Operating* - Healthcare properties operated pursuant to management agreements with healthcare managers.
- *Direct Investments - Net Lease* - Healthcare properties operated under net leases with an operator.
- *Unconsolidated Investments* - Healthcare joint ventures, including properties operated under net leases with operators or pursuant to management agreements with healthcare managers, in which the Company owns a minority interest.
- *Debt Investments* - Mortgage loans or mezzanine loans to owners of healthcare real estate.
- *Corporate* - The corporate segment includes corporate level asset management fees - related party and general and administrative expenses.

The Company primarily generates rental and resident fee income from its direct investments and interest income on real estate debt investments. Additionally, the Company reports its proportionate interest of revenues and expenses from unconsolidated investments through equity in earnings (losses) of unconsolidated ventures.

The following tables present segment reporting (dollars in thousands):

| Year Ended December 31, 2021 | Direct Investments | | Unconsolidated Investments | Debt | Corporate ⁽¹⁾ | Total |
|--|--------------------|------------------|----------------------------|-----------------|--------------------------|------------------|
| | Net Lease | Operating | | | | |
| Property and other revenues | \$ 14,708 | \$ 228,569 | \$ — | \$ — | \$ — | \$ 243,277 |
| Interest income on debt investments | — | — | — | 4,667 | — | 4,667 |
| Property operating expenses | (29) | (177,907) | — | — | — | (177,936) |
| Interest expense | (10,900) | (49,979) | — | — | (741) | (61,620) |
| Transaction costs | — | (54) | — | — | — | (54) |
| Asset management fees - related party | — | — | — | — | (11,105) | (11,105) |
| General and administrative expenses | (192) | (227) | — | — | (12,272) | (12,691) |
| Depreciation and amortization | (11,748) | (43,088) | — | — | — | (54,836) |
| Impairment loss | (786) | (4,600) | — | — | — | (5,386) |
| Other income, net | — | 7,278 | — | — | — | 7,278 |
| Realized gain (loss) on investments and other | 10,601 | 64,618 | 4,263 | — | (5) | 79,477 |
| Equity in earnings (losses) of unconsolidated ventures | — | — | 15,843 | — | — | 15,843 |
| Income tax expense | — | (99) | — | — | — | (99) |
| Net income (loss) | \$ 1,654 | \$ 24,511 | \$ 20,106 | \$ 4,667 | \$ (24,123) | \$ 26,815 |

(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)

| Year Ended December 31, 2020 | Direct Investments | | Unconsolidated Investments | Debt | Corporate ⁽¹⁾ | Total |
|--|--------------------|---------------------|----------------------------|-----------------|--------------------------|---------------------|
| | Net Lease | Operating | | | | |
| Property and other revenues | \$ 32,899 | \$ 242,250 | \$ — | \$ — | \$ 199 | \$ 275,348 |
| Interest income on debt investments | — | — | — | 7,674 | — | 7,674 |
| Property operating expenses | (13) | (184,165) | — | — | — | (184,178) |
| Interest expense | (11,832) | (53,210) | — | — | (949) | (65,991) |
| Transaction costs | (58) | (7) | — | — | — | (65) |
| Asset management fees - related party | — | — | — | — | (17,170) | (17,170) |
| General and administrative expenses | (804) | (296) | — | (19) | (15,386) | (16,505) |
| Depreciation and amortization | (14,940) | (50,066) | — | — | — | (65,006) |
| Impairment loss | (722) | (165,246) | — | — | — | (165,968) |
| Other income, net | — | 1,840 | — | — | — | 1,840 |
| Realized gain (loss) on investments and other | — | (13) | — | — | 315 | 302 |
| Equity in earnings (losses) of unconsolidated ventures | — | — | (34,466) | — | — | (34,466) |
| Income tax benefit (expense) | — | (53) | — | — | — | (53) |
| Net income (loss) | \$ 4,530 | \$ (208,966) | \$ (34,466) | \$ 7,655 | \$ (32,991) | \$ (264,238) |

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

| Year Ended December 31, 2019 | Direct Investments | | Unconsolidated Investments | Debt and Securities | Corporate ⁽¹⁾ | Total |
|--|--------------------|--------------------|----------------------------|---------------------|--------------------------|--------------------|
| | Net Lease | Operating | | | | |
| Property and other revenues | \$ 33,424 | \$ 259,033 | \$ — | \$ 35 | \$ 686 | \$ 293,178 |
| Interest income on debt investments | — | — | — | 7,703 | — | 7,703 |
| Property operating expenses | (11) | (181,203) | — | — | — | (181,214) |
| Interest expense | (12,434) | (56,360) | — | — | (102) | (68,896) |
| Transaction costs | — | (122) | — | — | — | (122) |
| Asset management and other fees - related party | — | — | — | — | (19,789) | (19,789) |
| General and administrative expenses | (268) | (42) | — | (38) | (12,413) | (12,761) |
| Depreciation and amortization | (14,329) | (56,660) | — | — | — | (70,989) |
| Impairment loss | (4,132) | (23,422) | — | — | — | (27,554) |
| Realized gain (loss) on investments and other | 5,872 | 719 | — | — | (277) | 6,314 |
| Equity in earnings (losses) of unconsolidated ventures | — | — | (3,545) | — | — | (3,545) |
| Income tax benefit (expense) | — | (75) | — | — | — | (75) |
| Net income (loss) | \$ 8,122 | \$ (58,132) | \$ (3,545) | \$ 7,700 | \$ (31,895) | \$ (77,750) |

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

The following table presents total assets by segment (dollars in thousands):

| Total Assets: | Direct Investments | | Unconsolidated Investments | Debt | Corporate ⁽¹⁾ | Total |
|-------------------|--------------------|------------|----------------------------|--------|--------------------------|--------------|
| | Net Lease | Operating | | | | |
| December 31, 2021 | \$ 104,809 | \$ 908,517 | \$ 212,309 | \$ — | \$ 187,238 | \$ 1,412,873 |
| December 31, 2020 | 348,688 | 1,223,045 | 229,170 | 56,502 | 61,031 | 1,918,436 |

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

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

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

| Operator / Manager | As of December 31, 2021 | | Year Ended December 31, 2021 | |
|---------------------------------------|-----------------------------|---------------------------------------|--|--|
| | Properties Under Management | Units Under Management ⁽¹⁾ | Property and Other Revenues ⁽²⁾ | % of Total Property and Other Revenues |
| Solstice Senior Living ⁽³⁾ | 32 | 4,000 | \$ 98,977 | 40.7 % |
| Watermark Retirement Communities | 14 | 1,753 | 42,447 | 17.4 % |
| Avamere Health Services | 5 | 453 | 17,301 | 7.1 % |
| Integral Senior Living | 1 | 44 | 4,556 | 1.9 % |
| Arcadia Management ⁽⁴⁾ | 4 | 572 | (3,900) | (1.6)% |
| Subtotal | 56 | 6,822 | 159,381 | 65.5 % |
| Properties sold | 17 | 3,630 | 83,896 | 34.5 % |
| Total | | | \$ 243,277 | 100.0 % |

(1) Represents rooms for ALFs and ILFs and beds for MCFs and SNFs, based on predominant type.

(2) Includes rental income received from the Company's net lease properties as well as rental income, ancillary service fees and other related revenue earned from ILF residents and resident fee income derived from the Company's ALFs, MCFs and CCRCs, which includes resident room and care charges, ancillary fees and other resident service charges.

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

(4) During the year ended December 31, 2021, the Company recorded rental income to the extent payments were received. Rental income was reduced by \$7.4 million for the write-off of straight-line rent receivables, as full collection of rent under the lease was deemed not to be probable.

13. Commitments and Contingencies

As of December 31, 2021, the Company believes there are no material contingencies that would affect its results of operations, cash flows or financial position.

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.

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. The effects of COVID-19 may also lead to heightened risk of litigation, with an ensuing increase in litigation-related costs.

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 professional liability, 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, including those that are related to the COVID-19 pandemic, that may be either uninsurable or not economically insurable.

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

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

The following is a discussion of material events which have occurred subsequent to December 31, 2021 through the issuance of the consolidated financial statements.

Sponsor Transaction

On February 28, 2022, the Former Sponsor completed the previously announced Sponsor Transaction, which included the Company's Advisor and the individuals currently engaged in the management and oversight of the healthcare platform. The sale resulted in a change of the owner and control of the Advisor to NRF, but did not directly impact the ownership or control of the Company or any of the Company's assets.

Advisory Agreement

In connection with the Sponsor Transaction, the Company's advisory agreement was renewed for a one-year term commencing on February 28, 2022 upon terms identical to those in effect through February 28, 2022, but removed the Former Sponsor as the Sponsor and added NRF as the Company's New Sponsor.

Sponsor Line of Credit

On February 28, 2022, the Company's Sponsor Line was amended to extend the maturity date to February 28, 2024.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2021
(Dollars in Thousands)

| Location City, State | Initial Cost | | | | Gross Amount Carried at Close of Period ⁽¹⁾ | | | Accumulated Depreciation | Net Book Value | Date Acquired | Life on Which Depreciation is Computed |
|---|--------------|-------|----------------------------|--|---|----------------------------|--------|-----------------------------|-------------------|------------------|---|
| | Encumbrances | Land | Building & Improvements | Capitalized Subsequent to Acquisition ⁽¹⁾ | Land | Building & Improvements | Total | | | | |
| Direct Investments - Operating | | | | | | | | | | | |
| Milford, OH | 18,661 | 1,160 | 14,440 | 2,860 | 1,160 | 17,300 | 18,460 | 4,413 | 14,047 | Dec-13 | 40 years |
| Milford, OH | — | 700 | — | 5,646 | 700 | 5,646 | 6,346 | 566 | 5,780 | Jul-17 | 40 years |
| Frisco, TX | 26,000 | 3,100 | 35,874 | 3,491 | 3,100 | 39,365 | 42,465 | 8,601 | 33,864 | Feb-14 | 40 years |
| Apple Valley, CA | 20,522 | 1,168 | 24,625 | (6,357) | 1,168 | 18,268 | 19,436 | 4,455 | 14,981 | Mar-16 | 40 years |
| Auburn, CA | 23,185 | 1,694 | 18,438 | 1,422 | 1,694 | 19,860 | 21,554 | 4,210 | 17,344 | Mar-16 | 40 years |
| Austin, TX | 25,528 | 4,020 | 19,417 | 2,722 | 4,020 | 22,139 | 26,159 | 4,760 | 21,399 | Mar-16 | 40 years |
| Bakersfield, CA | 16,201 | 1,831 | 21,006 | 1,507 | 1,831 | 22,513 | 24,344 | 4,678 | 19,666 | Mar-16 | 40 years |
| Bangor, ME | 20,661 | 2,463 | 23,205 | 1,192 | 2,463 | 24,397 | 26,860 | 4,713 | 22,147 | Mar-16 | 40 years |
| Bellingham, WA | 22,941 | 2,242 | 18,807 | 1,721 | 2,242 | 20,528 | 22,770 | 4,246 | 18,524 | Mar-16 | 40 years |
| Clovis, CA | 18,055 | 1,821 | 21,721 | 1,102 | 1,821 | 22,823 | 24,644 | 4,476 | 20,168 | Mar-16 | 40 years |
| Columbia, MO | 21,844 | 1,621 | 23,521 | 1,033 | 1,621 | 24,554 | 26,175 | 4,787 | 21,388 | Mar-16 | 40 years |
| Corpus Christi, TX | 17,900 | 2,263 | 20,142 | (5,153) | 2,263 | 14,989 | 17,252 | 4,100 | 13,152 | Mar-16 | 40 years |
| East Amherst, NY | 17,829 | 2,873 | 18,279 | 917 | 2,873 | 19,196 | 22,069 | 3,797 | 18,272 | Mar-16 | 40 years |
| El Cajon, CA | 20,197 | 2,357 | 14,733 | 1,309 | 2,357 | 16,042 | 18,399 | 3,355 | 15,044 | Mar-16 | 40 years |
| El Paso, TX | 11,750 | 1,610 | 14,103 | 1,486 | 1,610 | 15,589 | 17,199 | 3,200 | 13,999 | Mar-16 | 40 years |
| Fairport, NY | 15,899 | 1,452 | 19,427 | 1,826 | 1,452 | 21,253 | 22,705 | 3,710 | 18,995 | Mar-16 | 40 years |
| Fenton, MO | 23,626 | 2,410 | 22,216 | 1,236 | 2,410 | 23,452 | 25,862 | 4,747 | 21,115 | Mar-16 | 40 years |
| Grand Junction, CO | 18,751 | 2,525 | 26,446 | 978 | 2,525 | 27,424 | 29,949 | 5,205 | 24,744 | Mar-16 | 40 years |
| Grand Junction, CO | 9,608 | 1,147 | 12,523 | 1,002 | 1,147 | 13,525 | 14,672 | 2,880 | 11,792 | Mar-16 | 40 years |
| Grapevine, TX | 21,492 | 1,852 | 18,143 | (8,359) | 1,852 | 9,784 | 11,636 | 3,556 | 8,080 | Mar-16 | 40 years |
| Groton, CT | 16,933 | 3,673 | 21,879 | (8,705) | 3,673 | 13,174 | 16,847 | 4,501 | 12,346 | Mar-16 | 40 years |
| Guilford, CT | 23,382 | 6,725 | 27,488 | (22,435) | 6,725 | 5,053 | 11,778 | 4,374 | 7,404 | Mar-16 | 40 years |
| Joliet, IL | 14,349 | 1,473 | 23,427 | (6,825) | 1,473 | 16,602 | 18,075 | 4,237 | 13,838 | Mar-16 | 40 years |
| Kennewick, WA | 7,387 | 1,168 | 18,933 | 1,264 | 1,168 | 20,197 | 21,365 | 3,964 | 17,401 | Mar-16 | 40 years |
| Las Cruces, NM | 10,764 | 1,568 | 15,091 | 1,742 | 1,568 | 16,833 | 18,401 | 3,440 | 14,961 | Mar-16 | 40 years |
| Lees Summit, MO | 26,162 | 1,263 | 20,500 | 1,341 | 1,263 | 21,841 | 23,104 | 4,568 | 18,536 | Mar-16 | 40 years |
| Lodi, CA | 19,353 | 2,863 | 21,152 | 1,139 | 2,863 | 22,291 | 25,154 | 4,600 | 20,554 | Mar-16 | 40 years |
| Normandy Park, WA | 15,617 | 2,031 | 16,407 | (3,130) | 2,031 | 13,277 | 15,308 | 3,617 | 11,691 | Mar-16 | 40 years |
| Palatine, IL | 19,352 | 1,221 | 26,993 | (11,153) | 1,221 | 15,840 | 17,061 | 5,500 | 11,561 | Mar-16 | 40 years |
| Plano, TX | 15,483 | 2,200 | 14,860 | (5,095) | 2,200 | 9,765 | 11,965 | 3,387 | 8,578 | Mar-16 | 40 years |
| Renton, WA | 18,327 | 2,642 | 20,469 | 2,483 | 2,642 | 22,952 | 25,594 | 4,455 | 21,139 | Mar-16 | 40 years |
| Sandy, UT | 15,201 | 2,810 | 19,132 | (5,875) | 2,810 | 13,257 | 16,067 | 3,731 | 12,336 | Mar-16 | 40 years |
| Santa Rosa, CA | 26,889 | 5,409 | 26,183 | 2,443 | 5,409 | 28,626 | 34,035 | 5,547 | 28,488 | Mar-16 | 40 years |
| Sun City West, AZ | 24,707 | 2,684 | 29,056 | (5,097) | 2,684 | 23,959 | 26,643 | 5,765 | 20,878 | Mar-16 | 40 years |
| Tacoma, WA | 28,916 | 7,974 | 32,435 | 2,785 | 7,977 | 35,217 | 43,194 | 7,405 | 35,789 | Mar-16 | 40 years |
| Frisco, TX | — | 1,130 | — | 12,641 | 1,130 | 12,641 | 13,771 | 2,025 | 11,746 | Oct-16 | 40 years |
| Albany, OR | 8,492 | 958 | 6,625 | (3,581) | 758 | 3,244 | 4,002 | 1,247 | 2,755 | Feb-17 | 40 years |
| Port Townsend, WA | 16,236 | 1,613 | 21,460 | 933 | 996 | 23,010 | 24,006 | 3,833 | 20,173 | Feb-17 | 40 years |
| Roseburg, OR | 12,013 | 699 | 11,589 | 697 | 459 | 12,526 | 12,985 | 2,116 | 10,869 | Feb-17 | 40 years |
| Sandy, OR | 13,702 | 1,611 | 16,697 | 893 | 1,233 | 17,968 | 19,201 | 2,829 | 16,372 | Feb-17 | 40 years |
| Santa Barbara, CA | 3,914 | 2,408 | 15,674 | 451 | 2,408 | 16,125 | 18,533 | 2,240 | 16,293 | Feb-17 | 40 years |
| Wenatchee, WA | 18,700 | 2,540 | 28,971 | 1,117 | 1,534 | 31,094 | 32,628 | 4,543 | 28,085 | Feb-17 | 40 years |
| Churchville, NY | 6,575 | 296 | 7,712 | 789 | 296 | 8,501 | 8,797 | 1,517 | 7,280 | Aug-17 | 35 years |
| Greece, NY | — | 534 | 18,158 | (11,097) | 533 | 7,062 | 7,595 | 1,580 | 6,015 | Aug-17 | 49 years |
| Greece, NY | 26,833 | 1,007 | 31,960 | 2,029 | 1,007 | 33,989 | 34,996 | 4,986 | 30,010 | Aug-17 | 41 years |
| Henrietta, NY | 11,881 | 1,153 | 16,812 | 1,409 | 1,152 | 18,222 | 19,374 | 3,382 | 15,992 | Aug-17 | 36 years |
| Penfield, NY | 12,502 | 781 | 20,273 | (8,053) | 781 | 12,220 | 13,001 | 3,378 | 9,623 | Aug-17 | 30 years |
| Penfield, NY | 10,918 | 516 | 9,898 | 736 | 515 | 10,635 | 11,150 | 1,864 | 9,286 | Aug-17 | 35 years |
| Rochester, NY | 18,911 | 2,426 | 31,861 | 2,587 | 2,425 | 34,449 | 36,874 | 5,165 | 31,709 | Aug-17 | 39 years |
| Rochester, NY | 5,341 | 297 | 12,484 | (9,153) | 296 | 3,332 | 3,628 | 2,044 | 1,584 | Aug-17 | 37 years |
| Victor, NY | 27,174 | 1,060 | 33,246 | 2,241 | 1,059 | 35,488 | 36,547 | 5,115 | 31,432 | Aug-17 | 41 years |

| Location City, State | Initial Cost | | | | Gross Amount Carried at Close of Period ⁽²⁾ | | | | | | | Life on Which Depreciation is Computed |
|-----------------------------------|--------------|------------|----------------------------|--|---|----------------------------|-------------|-----------------------------|-------------------|------------------|----------|---|
| | Encumbrances | Land | Building & Improvements | Capitalized Subsequent to Acquisition ⁽¹⁾ | Land | Building & Improvements | Total | Accumulated Depreciation | Net Book Value | Date Acquired | | |
| Victor, NY | 11,732 | 557 | 13,570 | 17 | 555 | 13,589 | 14,144 | 1,534 | 12,610 | Nov-17 | 41 years | |
| Undeveloped Land | | | | | | | | | | | | |
| Rochester, NY | — | 544 | — | — | 544 | — | 544 | — | 544 | Aug-17 | (3) | |
| Penfield, NY | — | 534 | — | — | 534 | — | 534 | — | 534 | Aug-17 | (3) | |
| Direct Investments - Net Lease | | | | | | | | | | | | |
| Bohemia, NY | 22,716 | 4,258 | 27,805 | 160 | 4,258 | 27,965 | 32,223 | 5,854 | 26,369 | Sep-14 | 40 years | |
| Hauppauge, NY | 13,782 | 2,086 | 18,495 | 1,351 | 2,086 | 19,846 | 21,932 | 4,464 | 17,468 | Sep-14 | 40 years | |
| Islandia, NY | 33,866 | 8,437 | 37,198 | 291 | 8,437 | 37,489 | 45,926 | 8,011 | 37,915 | Sep-14 | 40 years | |
| Westbury, NY | 15,005 | 2,506 | 19,163 | 293 | 2,506 | 19,456 | 21,962 | 4,028 | 17,934 | Sep-14 | 40 years | |
| Total | \$ 943,765 | \$ 123,964 | \$ 1,120,722 | \$ (46,786) | \$ 121,518 | \$ 1,076,382 | \$1,197,900 | \$ 225,301 | \$ 972,599 | | | |

- (1) Negative amount represents impairment of operating real estate.
(2) The aggregate cost for federal income tax purposes is approximately \$1.5 billion.
(3) Depreciation is not recorded on land.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2021
(Dollars in Thousands)

The following table presents changes in the Company's operating real estate portfolio for the years ended December 31, 2021, 2020 and 2019 (dollars in thousands):

| | Year Ended December 31, | | |
|--|-------------------------|---------------------|---------------------|
| | 2021 | 2020 | 2019 |
| Balance at beginning of year | \$ 1,774,971 | \$ 1,931,032 | \$ 1,949,997 |
| Dispositions | (603,082) | — | (16,645) |
| Improvements | 31,397 | 17,036 | 24,701 |
| Impairment | (5,386) | (165,246) | (27,021) |
| Subtotal | 1,197,900 | 1,782,822 | 1,931,032 |
| Classified as held for sale ⁽¹⁾ | — | (7,851) | — |
| Balance at end of year ⁽²⁾ | <u>\$ 1,197,900</u> | <u>\$ 1,774,971</u> | <u>\$ 1,931,032</u> |

(1) Amounts classified as held for sale during the year and remained as held for sale at the end of the year.

(2) The aggregate cost of the properties is approximately \$318.2 million higher for federal income tax purposes as of December 31, 2021.

The following table presents changes in accumulated depreciation as of December 31, 2021, 2020 and 2019 (dollars in thousands):

| | Year Ended December 31, | | |
|------------------------------|-------------------------|-------------------|-------------------|
| | 2021 | 2020 | 2019 |
| Balance at beginning of year | \$ 291,041 | \$ 230,814 | \$ 171,083 |
| Depreciation expense | 53,476 | 63,078 | 62,798 |
| Property dispositions | (119,216) | — | (3,067) |
| Subtotal | 225,301 | 293,892 | 230,814 |
| Classified as held for sale | — | (2,851) | — |
| Balance at end of year | <u>\$ 225,301</u> | <u>\$ 291,041</u> | <u>\$ 230,814</u> |

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES
SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE
December 31, 2021
(Dollars in Thousands)

The Company's mezzanine loan debt investment was repaid in full in August 2021. The following table presents changes in the Company's real estate debt investments for the years ended December 31, 2021, 2020 and 2019 (dollars in thousands):

| | Years Ended December 31, | | |
|---|--------------------------|------------------|------------------|
| | 2021 | 2020 | 2019 |
| Balance at beginning of year | \$ 55,864 | \$ 55,468 | \$ 58,600 |
| <u>Additions:</u> | | | |
| Capitalized payment-in-kind interest | 194 | — | — |
| Loan modification fees | (687) | — | — |
| <u>Deductions:</u> | | | |
| Reclassification ⁽¹⁾ | 18,307 | 271 | (2,427) |
| Repayment of principal | (74,376) | — | (818) |
| Amortization of acquisition costs, fees, premiums and discounts | 698 | 125 | 113 |
| Balance at end of year | <u>\$ —</u> | <u>\$ 55,864</u> | <u>\$ 55,468</u> |

- (1) 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 as of December 31, 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 and was repaid in full in August 2021. During the year ended December 31, 2021, the Company received distributions from the joint venture greater than the Company's carrying value of its unconsolidated investment, which resulted in the Company recording a gain on the distribution and a carrying value of zero as of December 31, 2021.

Corporate Directory

BOARD OF DIRECTORS

T. ANDREW SMITH

Non-Executive Chairman
Independent Director
Former Chief Executive Officer of
Brookdale Senior Living, Inc.

RONALD J. JEANNEAULT

Vice Chairman

JONATHAN A. CARNELLA

Chairman, Audit Committee
Independent Director
Former President and Chief Executive
Officer of Diversicare Canada

GREGORY A. SAMAY

Independent Director
Former Chief Investment Officer
of Fairfax County Retirement Systems

OFFICERS

RONALD J. JEANNEAULT

Chief Executive Officer,
President & Vice Chairman

DOUGLAS W. BATH

Chief Investment Officer

PAUL V. VARISANO

Chief Financial Officer & Treasurer

ANN B. HARRINGTON

General Counsel & Secretary

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New York, NY

LEGAL COUNSEL

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