UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2023

or

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

Commission File Number: 000-55190

NORTHSTAR HEALTHCARE INCOME, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland	**27-3663988**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

16 East 34th Street, 18th Floor, New York, NY 10016
(Address of Principal Executive Offices, Including Zip Code)

(929) 777-3135
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	**None**	**None**

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

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

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

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

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

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

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

The Company has one class of common stock, $0.01 par value per share, 195,421,656 shares outstanding as of May 10, 2023.

NORTHSTAR HEALTHCARE INCOME, INC.

FORM 10-Q

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "seek," "anticipate," "estimate," "believe," "could," "project," "predict," "continue," "future" or other similar words or expressions. Forward-looking statements are not guarantees of performance and are based on certain assumptions, discuss future expectations, describe plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Such statements include, but are not limited to, those relating to our ability to make distributions to our stockholders; our ability to retain our senior executives and other sufficient personnel to manage our business; our ability to realize substantial efficiencies as well as anticipated strategic and financial benefits of the internalization of our management function as operating costs and business disruption may be greater than expected; 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 Quarterly Report on Form 10-Q are based on information available to us on the date hereof and we are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

Factors that could have a material adverse effect on our operations and future prospects are set forth in our filings with the U.S. Securities and Exchange Commission, or the SEC, including Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and in Part II, Item 1A of this Quarterly Report on Form 10-Q under the heading "Risk Factors." The risk factors set forth in our filings with the SEC could cause our actual results to differ significantly from those contained in any forward-looking statement contained in this report.

PART I—Financial Information

Item 1. Financial Statements

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

	March 31, 2023 (Unaudited)	December 31, 2022
Assets		
Cash and cash equivalents	$ 95,566	$ 103,926
Restricted cash	10,912	11,734
Operating real estate, net	928,344	933,002
Investments in unconsolidated ventures	171,495	176,502
Receivables, net	2,061	2,815
Intangible assets, net	2,169	2,253
Other assets	7,373	7,603
Total assets(1)	$ 1,217,920	$ 1,237,835
Liabilities		
Mortgage notes payable, net	$ 908,408	$ 912,248
Due to related party	261	469
Escrow deposits payable	1,323	993
Accounts payable and accrued expenses	17,720	21,034
Other liabilities	1,862	2,019
Total liabilities(1)	929,574	936,763
Commitments and contingencies (Note 12)		
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 March 31, 2023 and December 31, 2022	—	—
Common stock, $0.01 par value, 400,000,000 shares authorized, 195,421,656 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	1,954	1,954
Additional paid-in capital	1,729,589	1,729,589
Retained earnings (accumulated deficit)	(1,442,766)	(1,428,840)
Accumulated other comprehensive income (loss)	(2,431)	(3,679)
Total NorthStar Healthcare Income, Inc. stockholders' equity	286,346	299,024
Non-controlling interests	2,000	2,048
Total equity	288,346	301,072
Total liabilities and equity	$ 1,217,920	$ 1,237,835

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(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 March 31, 2023, the Operating Partnership includes $216.4 million and $176.7 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 (unaudited).

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

	Three Months Ended March 31,	
	2023	2022
Property and other revenues		
Resident fee income	$ 11,850	$ 10,755
Rental income	36,999	32,559
Other revenue	719	18
Total property and other revenues	49,568	43,332
Expenses		
Property operating expenses	35,077	32,894
Interest expense	11,359	10,309
Transaction costs	97	—
Asset management fees - related party	—	2,647
General and administrative expenses	3,910	3,686
Depreciation and amortization	9,649	9,923
Total expenses	60,092	59,459
Other income (loss)		
Other income, net	132	72
Realized gain (loss) on investments and other	332	587
Income (loss) before equity in earnings (losses) of unconsolidated ventures and income tax expense	(10,060)	(15,468)
Equity in earnings (losses) of unconsolidated ventures	(3,922)	2,502
Income tax expense	(15)	(15)
Net income (loss)	(13,997)	(12,981)
Net (income) loss attributable to non-controlling interests	71	45
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (13,926)	$ (12,936)
Net income (loss) per share of common stock, basic/diluted[(1)]	$ (0.07)	$ (0.07)
Weighted average number of shares of common stock outstanding, basic/diluted[(1)]	195,421,656	193,368,486
Distributions declared per share of common stock	$ —	$ —

(1) The Company issued 49,872 and 66,840 restricted stock units in June 2022 and 2021, respectively. The restricted stock units have been excluded from the diluted earnings per share calculation as their impact is anti-dilutive due to the net loss generated during the three months ended March 31, 2023 and 2022.

Refer to accompanying notes to consolidated financial statements (unaudited).

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

	Three Months Ended March 31,	
	2023	**2022**
Net income (loss)	$ (13,997)	$ (12,981)
Other comprehensive income (loss)		
Foreign currency translation adjustments related to investment in unconsolidated venture	1,248	(568)
Total other comprehensive income (loss)	1,248	(568)
Comprehensive income (loss)	(12,749)	(13,549)
Comprehensive (income) loss attributable to non-controlling interests	71	45
Comprehensive income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (12,678)	$ (13,504)

Refer to accompanying notes to consolidated financial statements (unaudited).

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

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Company's Stockholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount						
Balance as of December 31, 2021	193,121	$ 1,930	$ 1,720,719	$ (1,277,688)	$ (486)	$ 444,475	$ 2,343	$ 446,818
Share-based payment of advisor asset management fees	698	7	2,722	—	—	2,729	—	2,729
Amortization of equity-based compensation	—	—	15	—	—	15	—	15
Non-controlling interests - contributions	—	—	—	—	—	—	64	64
Non-controlling interests - distributions	—	—	—	—	—	—	(53)	(53)
Other comprehensive income (loss)	—	—	—	—	(568)	(568)	—	(568)
Net income (loss)	—	—	—	(12,936)	—	(12,936)	(45)	(12,981)
Balance as of March 31, 2022 (Unaudited)	193,819	$ 1,937	$ 1,723,456	$ (1,290,624)	$ (1,054)	$ 433,715	$ 2,309	$ 436,024
Balance as of December 31, 2022	195,422	$ 1,954	$ 1,729,589	$ (1,428,840)	$ (3,679)	$ 299,024	$ 2,048	$ 301,072
Non-controlling interests - contributions	—	—	—	—	—	—	45	45
Non-controlling interests - distributions	—	—	—	—	—	—	(22)	(22)
Other comprehensive income (loss)	—	—	—	—	1,248	1,248	—	1,248
Net income (loss)	—	—	—	(13,926)	—	(13,926)	(71)	(13,997)
Balance as of March 31, 2023 (Unaudited)	195,422	$ 1,954	$ 1,729,589	$ (1,442,766)	$ (2,431)	$ 286,346	$ 2,000	$ 288,346

Refer to accompanying notes to consolidated financial statements (unaudited).

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

	Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net income (loss)	$ (13,997)	$ (12,981)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Equity in (earnings) losses of unconsolidated ventures	3,922	(2,502)
Depreciation and amortization	9,649	9,923
Amortization of below market debt	824	804
Amortization of deferred financing costs	155	154
Amortization of equity-based compensation	57	48
Realized (gain) loss on investments and other	(332)	(587)
Change in allowance for uncollectible accounts	167	58
Issuance of common stock as payment for asset management fees	—	2,647
Changes in assets and liabilities:		
Receivables	587	1,502
Other assets	(374)	(1,665)
Due to related party	(208)	(3,115)
Escrow deposits payable	330	295
Accounts payable and accrued expenses	(4,445)	(5,751)
Other liabilities	129	327
Net cash provided by (used in) provided by operating activities	(3,536)	(10,843)
Cash flows from investing activities:		
Capital expenditures for operating real estate	(3,810)	(2,337)
Sales of operating real estate	135	—
Distributions from unconsolidated ventures	2,334	7,053
Sales of other assets	523	—
Net cash provided by (used in) investing activities	(818)	4,716
Cash flows from financing activities:		
Repayments of mortgage notes	(4,819)	(4,171)
Payments under finance leases	(32)	(137)
Contributions from non-controlling interests	45	64
Distributions to non-controlling interests	(22)	(53)
Net cash (used in) provided by financing activities	(4,828)	(4,297)
Net increase (decrease) in cash, cash equivalents and restricted cash	(9,182)	(10,424)
Cash, cash equivalents and restricted cash-beginning of period	115,660	210,938
Cash, cash equivalents and restricted cash-end of period	$ 106,478	$ 200,514

	Three Months Ended March 31,	
	2023	2022
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 10,434	$ 9,121
Supplemental disclosure of non-cash investing and financing activities:		
Accrued capital expenditures	$ 1,071	$ 364

Refer to accompanying notes to consolidated financial statements (unaudited).

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"), owns a diversified portfolio of seniors housing properties, including independent living facilities ("ILF"), assisted living ("ALF") and memory care facilities ("MCF") located throughout the United States. In addition, the Company also has made investments through non-controlling interests in joint ventures in a broader spectrum of healthcare real estate, including seniors housing properties, as well as continuing care retirement communities ("CCRC"), skilled nursing ("SNF"), medical office buildings ("MOB"), specialty hospitals and ancillary services businesses, across the United States and 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 and NorthStar Healthcare Income OP Holdings, LLC (the "Special Unit Holder"). NorthStar Healthcare Income Advisor, LLC 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 March 31, 2023 and December 31, 2022. 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 March 31, 2023, 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 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").

The Internalization

From inception through October 21, 2022, the Company was externally managed by CNI NSHC Advisors, LLC or its predecessor (the "Former Advisor"), an affiliate of NRF Holdco, LLC (the "Former Sponsor"). The Former Advisor was responsible for managing the Company's operations, subject to the supervision of the Company's board of directors, pursuant to an advisory agreement. On October 21, 2022, the Company completed the internalization of the Company's management function (the "Internalization"). In connection with the Internalization, the Company agreed with the Former Advisor to terminate the advisory agreement and arranged for the Former Advisor to continue to provide certain services for a transition period.

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") for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and note disclosures normally included in the consolidated financial statements prepared under U.S. GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, which was filed with the U.S. Securities and Exchange Commission on March 27, 2023.

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.

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 March 31, 2023, 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.

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 and mortgage notes payable, net on the Company's consolidated balance sheet as of March 31, 2023 is $211.4 million and $172.6 million, respectively, related to such consolidated VIEs.

Unconsolidated VIEs

As of March 31, 2023, the Company identified unconsolidated VIEs related to its investments in unconsolidated ventures with a carrying value of $171.5 million. The Company's maximum exposure to loss as of March 31, 2023 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 March 31, 2023. The Company did not provide financial support to its unconsolidated VIEs during the three months ended March 31, 2023. As of March 31, 2023, 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.

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 the COVID-19 pandemic, inflation, rising interest rates, risk of recession and other economic conditions 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 Quarterly Report on Form 10-Q. 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 and money market funds invested in short-term U.S. government securities. 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):

	March 31, 2023 (Unaudited)	December 31, 2022
Cash and cash equivalents	$ 95,566	$ 103,926
Restricted cash	10,912	11,734
Total cash, cash equivalents and restricted cash	$ 106,478	$ 115,660

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:

Category:	Term:
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.

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 March 31, 2023, furniture, fixtures and equipment under finance leases totaled $0.5 million. The leased equipment is amortized on a straight-line basis. Payments for finance leases totaled $29,070 and $138,942 for the three months ended March 31, 2023 and 2022, respectively.

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):

April 1 through December 31, 2023	$ 76
Years Ending December 31:	
2024	69
2025	38
2026	33
2027	18
Thereafter	10
Total minimum lease payments	$ 244
Less: Amount representing interest	(35)
Present value of minimum lease payments	$ 209

The weighted average interest rate related to the finance lease obligations is 6.9% with a weighted average lease term of 3.4 years.

As of March 31, 2023, there were no leases that had yet to commence which would create significant rights and obligations to the Company as lessee.

Intangible Assets and Deferred Costs

Deferred Costs

Deferred costs consist of deferred financing 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.

Identified Intangibles

The Company records acquired identified intangibles, such as the value of in-place leases 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.

Identified intangible assets are recorded in intangible assets, net on the consolidated balance sheets. Intangible assets relate to the Company's in-place lease values for the Company's four net lease properties. The following table presents intangible assets, net (dollars in thousands):

	March 31, 2023 (Unaudited)	December 31, 2022
In-place lease value	$ 120,149	$ 120,149
Less: Accumulated amortization	(117,980)	(117,896)
Intangible assets, net	$ 2,169	$ 2,253

The Company recorded $0.1 million of amortization expense for in-place leases for the three months ended March 31, 2023 and 2022, respectively.

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

April 1 through December 31, 2023	$	253
Years Ending December 31:		
2024		337
2025		337
2026		337
2027		337
Thereafter		568
Total	$	2,169

Derivative Instruments

The Company uses derivative instruments to manage its interest rate risk. The Company's derivative instruments are recorded at fair value. The accounting for changes in fair value of derivatives depends upon whether or not the Company has elected to designate the derivative in a hedging relationship and the derivative qualifies for hedge accounting. Under hedge accounting, changes in fair value for derivatives are recorded through other comprehensive income. When hedge accounting is not elected, changes in fair value for derivatives are recorded through the income statement.

The Company has interest rate caps that have not been designated for hedge accounting. The fair value of the Company's interest rate caps totaled $0.5 million and $0.7 million as of March 31, 2023 and December 31, 2022, respectively, and are included in other assets on the consolidated balance sheets. Changes in fair value of derivatives totaled a $0.2 million decrease and a $0.3 million increase for the three months ended March 31, 2023 and 2022, respectively, and have been recorded in realized gain (loss) on investments and other in the consolidated statements of operations.

Revenue Recognition

Operating Real Estate

Rental income from operating real estate is derived from leasing of space to operators and residents, 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, which includes community and move-in fees, is recognized 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 and MCFs 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. 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.

The operator of the Company's four net lease properties failed to remit contractual monthly rent obligations and the Company deemed it not probable that these obligations will be satisfied in the foreseeable future. On March 27, 2023, the Company entered into a lease forbearance and modification agreement (the "Forbearance Agreement") with the existing operator, pursuant to which, among other things, the Company will be entitled to receive all cash flow in excess of permitted expenses, and be required to fund any operating deficits, through 2025, subject to the terms and conditions thereof (including lender approval).

For the three months ended March 31, 2023, the Company did not receive any excess cash flow or fund any operating deficits and, as such, did not record any rental income related to its net lease properties.

For the three months ended March 31, 2023 and 2022, total property and other revenue includes variable lease revenue of $3.4 million and $1.6 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.

Impairment on Operating Real Estate and Investments in Unconsolidated Ventures

At this time, it is difficult for the Company to assess and estimate the continuing impact of the COVID-19 pandemic, inflation, rising interest rates, risk of recession and other economic conditions. The future economic effects 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 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 lasting effects of the COVID-19 pandemic, inflation, rising interest rates, risk of recession and other economic conditions 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 three months ended March 31, 2023 and 2022, the Company did not record any impairment losses on its operating real estate.

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 on the Company's investment in unconsolidated ventures, 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 impairment loss in the consolidated statements of operations.

During the three months ended March 31, 2023, the Company did not impair any of its investments in unconsolidated ventures, nor did the underlying joint ventures record any impairments or reserves on properties in their respective portfolios. During the three months ended March 31, 2022, the Company did not impair any of its investments in unconsolidated ventures, however, 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 was de minimis.

Credit Losses on 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 receivables on a collective basis when similar risk characteristics exist. If the Company determines that a particular receivable does not share risk characteristics with its other receivables, the Company evaluates the receivable for expected credit losses on an individual basis.

When developing an estimate of expected credit losses on receivables, 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 receivable for which the repayment is expected to be provided substantially through the sale of the collateral when the borrower is experiencing financial difficulty.

As of March 31, 2023, the Company has not recorded an allowance for credit losses on its receivables.

Acquisition Fees and Expenses

The Company recorded an expense for certain acquisition costs and fees associated with transactions deemed to be business combinations in which it consolidated the asset and capitalized these costs for transactions deemed to be acquisitions of an asset, including an equity investment.

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 2022, 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 and state 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 sheet date. The Company evaluates the realizability of its deferred tax assets (e.g., net operating loss and capital loss carryforwards) and recognizes a valuation allowance if, based on the available evidence, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers estimates of expected future taxable income, existing and projected book/tax differences, tax planning strategies available and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires the Company to forecast its business and general economic environment in future periods. Changes in estimate of deferred tax asset realizability, if any, are included in provision for income tax benefit (expense) in the consolidated statements of operations. The Company has a deferred tax asset, which as of March 31, 2023 totaled $15.4 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 $15,000 for the three months ended March 31, 2023 and 2022.

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 March 31, 2023 and December 31, 2022, 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 2023

None.

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 ASU No. 2020-04 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")) to alternative reference rates (such as Secured Overnight Financing Rate ("SOFR")). 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. ASU No. 2020-04 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.

In December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848.* The guidance defers the sunset date of ASU No. 2020-04 from December 31, 2022 to December 31, 2024. The Company continues to evaluate the impact of the guidance and may elect practical expedients or exceptions as applicable over time as reference rate reform activities occur.

3. Operating Real Estate

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

	March 31, 2023 (Unaudited)	December 31, 2022
Land	$ 121,518	$ 121,518
Land improvements	19,063	18,945
Buildings and improvements	962,877	957,924
Tenant improvements	372	372
Construction in progress	4,911	6,736
Furniture, fixtures and equipment	92,656	91,058
Subtotal	$ 1,201,397	$ 1,196,553
Less: Accumulated depreciation	(273,053)	(263,551)
Operating real estate, net	$ 928,344	$ 933,002

For the three months ended March 31, 2023 and 2022, depreciation expense was $9.6 million and $9.8 million, respectively.

Within the table above, buildings and improvements have been reduced by accumulated impairment losses of $181.5 million as of March 31, 2023 and December 31, 2022. There was no impairment loss recorded for the three months ended March 31, 2023 and 2022. Refer to Note 2, “Summary of Significant Accounting Policies” for further discussion.

4. Investments in Unconsolidated Ventures

All investments in unconsolidated ventures are accounted for under the equity method. The following table presents the Company’s investments in unconsolidated ventures (dollars in thousands):

			Carrying Value[(1)]	
Portfolio	Acquisition Date	Ownership	March 31, 2023 (Unaudited)	December 31, 2022
Trilogy	Dec-2015	23.2 %	$ 126,242	$ 128,884
Diversified US/UK	Dec-2014	14.3 %	26,832	28,442
Espresso	Jul-2015	36.7 %	18,127	18,019
Eclipse	May-2014	5.6 %	—	834
Subtotal			$ 171,201	$ 176,179
Solstice[(2)]	Jul-2017	20.0 %	294	323
Total			$ 171,495	$ 176,502

(1) Includes $9.8 million of capitalized acquisition costs for the Company’s investment in the Trilogy joint venture.
(2) 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%.

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(Unaudited)

The following table presents the results of the Company’s investment in unconsolidated ventures (dollars in thousands):

	Three Months Ended March 31,			
	2023		2022	
Portfolio	Equity in Earnings (Losses)	Cash Distribution	Equity in Earnings (Losses)	Cash Distribution
Trilogy	$ (309)	$ 2,334	$ 2,027	$ 2,301
Diversified US/UK	(2,859)	—	(1,148)	1,932
Espresso	109	—	1,954	2,200
Eclipse[(1)]	(834)	—	(295)	620
Subtotal	$ (3,893)	$ 2,334	$ 2,538	$ 7,053
Solstice	(29)	—	(36)	—
Total	$ (3,922)	$ 2,334	$ 2,502	$ 7,053

(1) For the three months ended March 31, 2023, the Eclipse joint venture generated losses in excess of the Company's investment carrying value. The Company's proportionate share of losses generated by the joint venture that were not recognized through equity in earnings (losses) totaled $3.8 million.

5. Borrowings

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

				March 31, 2023 (Unaudited)		December 31, 2022	
	Recourse vs. Non-Recourse[(1)]	Initial Maturity	Contractual Interest Rate[(2)]	Principal Amount[(3)]	Carrying Value[(3)]	Principal Amount[(3)]	Carrying Value[(3)]
Mortgage notes payable, net							
Aqua Portfolio							
Frisco, TX[(4)]	Non-recourse	Feb 2026	3.0%	$ 26,000	$ 25,593	$ 26,000	$ 25,560
Milford, OH	Non-recourse	Sep 2026	LIBOR + 2.68%	18,286	18,091	18,336	18,126
Rochester Portfolio							
Rochester, NY	Non-recourse	Feb 2025	4.25%	18,025	17,986	18,206	18,165
Rochester, NY[(5)]	Non-recourse	Aug 2027	LIBOR + 2.34%	100,218	99,643	100,651	100,042
Rochester, NY	Non-recourse	Aug 2023	SOFR + 2.93%	11,289	11,277	11,336	11,315
Arbors Portfolio[(6)]							
Various locations	Non-recourse	Feb 2025	3.99%	82,912	82,586	83,423	83,051
Winterfell Portfolio[(7)]							
Various locations	Non-recourse	Jun 2025	4.17%	593,139	585,861	596,408	588,306
Avamere Portfolio[(8)]							
Various locations	Non-recourse	Feb 2027	4.66%	67,664	67,371	67,995	67,683
Total mortgage notes payable, net				$ 917,533	$ 908,408	$ 922,355	$ 912,248

(1) Subject to non-recourse carve-outs.
(2) Floating-rate borrowings total $129.8 million of principal outstanding and reference one-month LIBOR and one-month SOFR.
(3) 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.
(4) The mortgage note carries a fixed interest rate of 3.0% through February 2024, followed by one-month adjusted SOFR, plus 2.80% through the initial maturity date of February 2026.
(5) Composed of seven individual mortgage notes payable secured by seven healthcare real estate properties, cross-collateralized and subject to cross-default.
(6) Composed of four individual mortgage notes payable secured by four healthcare real estate properties, cross-collateralized and subject to cross-default.
(7) Composed of 32 individual mortgage notes payable secured by 32 healthcare real estate properties, cross-collateralized and subject to cross-default.
(8) Composed of five individual mortgage notes payable secured by five healthcare real estate properties, cross-collateralized and subject to cross-default.

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

April 1 through December 31, 2023	$	25,434
Years Ending December 31:		
2024		19,612
2025		669,466
2026		46,876
2027		156,145
Total	$	917,533

As of March 31, 2023, 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 resulted in a non-monetary default under the mortgage notes collateralized by the properties as of March 31, 2023. On March 27, 2023, the Company entered into a Forbearance Agreement, which remains subject to lender approval, to address the defaults under the existing lease. During the three months ended March 31, 2023, the Company remitted contractual debt service and is in compliance with the other contractual terms under the mortgage notes collateralized by the properties.

6. Related Party Arrangements

Former Advisor

In connection with the Internalization, the advisory agreement was terminated on October 21, 2022. Prior to the Internalization, the Former Advisor was 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. For such services, to the extent permitted by law and regulations, the Former Advisor received fees and reimbursements from the Company. Pursuant to the advisory agreement, the Former Advisor could defer or waive fees in its discretion.

As of March 31, 2023, the Former Advisor, the Former Sponsor and their affiliates owned a total of 9.7 million shares, or $28.4 million of the Company's common stock based on the Company's most recent estimated value per share. As of March 31, 2023, the Former Advisor, the Former Sponsor and their affiliates owned 4.97% of the total outstanding shares of the Company's common stock.

Transition Services

In connection with the Internalization, on October 21, 2022, the Company, the Operating Partnership and the Former Advisor entered into a Transition Services Agreement (the "TSA") to facilitate an orderly transition of the Company's management of its operations. The TSA, as amended on March 22, 2023, provides for, among other things, the Former Advisor to provide certain services, including primarily technology and insurance, for a transition period of up to six months following the Internalization, with legal, treasury and accounts payable services to continue until the Company terminates these services or in other specified circumstances in accordance with the TSA. The Company will reimburse the Former Advisor for costs to provide the services, including the allocated cost of employee wages and compensation and incurred out-of-pocket expenses.

Summary of Fees and Reimbursements

The following table presents the fees and reimbursements incurred and paid to the Former Advisor (dollars in thousands):

			Three Months Ended March 31, 2023		
Reimbursements to Former Advisor Entities	**Financial Statement Location**	**Due to Related Party as of December 31, 2022**	**Incurred**	**Paid**	**Due to Related Party as of March 31, 2023 (Unaudited)**
Operating costs	General and administrative expenses/ Transaction costs	469	130 [1]	(338)	261

(1) Represents costs incurred under the TSA during the three months ended March 31, 2023.

Incentive Fee

The Special Unit Holder, an affiliate of the Former 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 March 31, 2023, the Special Unit Holder has not received any incentive fees from the Company.

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 three months ended March 31, 2023, the Company recognized property management fee expense of $1.5 million paid to Solstice related to the Winterfell portfolio.

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

7. 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 March 31, 2023, the Company's independent directors were granted a total of 159,932 shares of restricted common stock and 116,712 restricted stock units totaling $1.3 million and $0.5 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 $56,875 and $47,500 for the three months ended March 31, 2023 and 2022, respectively. Equity-based compensation expense is recorded in general and administrative expenses in the consolidated statements of operations.

Unrecognized expense related to unvested restricted stock units totaled $154,375 and $211,250 as of March 31, 2023 and December 31, 2022, respectively. Unvested restricted stock units totaled 39,525 and 54,114 as of March 31, 2023 and December 31, 2022, respectively. As of December 31, 2022, the Company's shares of restricted common stock were fully vested.

8. 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.

Distribution Reinvestment Plan

The Company adopted the DRP through which common stockholders were able to 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. Since inception, the Company issued 25.7 million shares of common stock, generating gross offering proceeds of $232.6 million pursuant to the DRP. 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. In April 2022, the Company's board of directors elected to suspend the DRP, effective April 30, 2022.

Distributions

Effective February 1, 2019, the Company's board of directors determined to suspend recurring distributions in order to preserve capital and liquidity.

On April 20, 2022, the Company's board of directors declared a special distribution of $0.50 per share (the "Special Distribution") for each stockholder of record on May 2, 2022 totaling approximately $97.0 million.

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). The Company did not have REIT taxable income for its taxable year ending December 31, 2022, therefore, it was not required to make distributions to its stockholders in 2022 to qualify as a REIT. The Company's most recently filed tax return is for the year ended December 31, 2021 and includes a net operating loss carry-forward of $226.5 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.

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

9. 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 three months ended March 31, 2023 and 2022 was de minimis.

Other

Other non-controlling interests represent third-party equity interests in ventures that are consolidated with the Company's financial statements. Net loss attributable to the other non-controlling interests was $71,242 and $45,468 for the three months ended March 31, 2023 and 2022, respectively.

10. 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.

Derivative Instruments

Derivative instruments consist of interest rate contracts and foreign exchange contracts that are generally traded over-the-counter, and are valued using a third-party service provider. Quotations on over-the counter derivatives are not adjusted and are generally valued using observable inputs such as contractual cash flows, yield curve, foreign currency rates and credit spreads, and are classified as Level 2 of the fair value hierarchy. Although credit valuation adjustments, such as the risk of default, rely on Level 3 inputs, these inputs are not significant to the overall valuation of its derivatives. As a result, derivative valuations in their entirety are classified as Level 2 of the fair value hierarchy.

Fair Value Hierarchy

Financial assets recorded at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table presents financial assets that were accounted for at fair value on a recurring basis as of March 31, 2023 and December 31, 2022 by level within the fair value hierarchy (dollars in thousands):

	March 31, 2023 (Unaudited)			December 31, 2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets:						
Derivative assets - interest rate caps	$ —	$ 521	$ —	$ —	$ 652	$ —

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.

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

	March 31, 2023 (Unaudited)			December 31, 2022		
	Principal Amount	Carrying Value	Fair Value	Principal Amount	Carrying Value	Fair Value
Financial liabilities:(1)						
Mortgage notes payable, net	$ 917,533	$ 908,408	$ 882,255	$ 922,355	$ 912,248	$ 882,754

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

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

Mortgage Notes Payable

The Company primarily uses rates currently available with similar terms and remaining maturities to estimate fair value. These measurements are determined using comparable U.S. Treasury and LIBOR or SOFR 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.

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

	Three Months Ended March 31, 2023 (Unaudited)		Year Ended December 31, 2022	
	Fair Value	Impairment Losses	Fair Value	Impairment Losses
Operating real estate, net[1]	$ —	$ —	$ 80,931	$ 30,900
Investments in unconsolidated ventures	—	—	28,442	13,419

(1) During the year ended December 31, 2022, the Company recorded impairment losses totaling $1.0 million for property damage sustained by facilities in its Winterfell and Avamere portfolios. The fair value and impairment losses of these facilities are excluded from the table.

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 6.25% to 8.5% and discount rates ranging from 8.5% to 10.5%, third party appraisals and offer prices.

Investments in Unconsolidated Ventures

The Company recorded impairment on its investment in the Diversified US/UK joint venture, which totaled $13.4 million and reduced the carrying value of its investment in the Diversified US/UK joint venture to $28.4 million as of December 31, 2022. The Company's assessment for the recoverability of its investment took into consideration the joint venture's post-COVID-19 underperformance, rising interest rates and the joint venture's ability to continue to service debt collateralized by substantially all of its domestically-located healthcare real estate. Fair value of the joint venture's underlying operating real estate was estimated based upon various approaches including discounted cash flow analysis, using terminal capitalization rates ranging from 6.6% to 12.5% and discount rates ranging from 8.8% to 16.0%, and offer prices.

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. As of March 31, 2023 and December 31, 2022, the Company did not have any assets classified as held for sale.

11. Segment Reporting

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

- *Direct Investments - Operating* - Properties operated pursuant to management agreements with healthcare managers.
- *Direct Investments - Net Lease* - Properties operated under net leases with an operator.

NORTHSTAR HEALTHCARE INCOME, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

- *Unconsolidated Investments* - 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.
- *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. 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):

	Direct Investments				
Three Months Ended March 31, 2023	**Net Lease**	**Operating**	**Unconsolidated Investments**	**Corporate**	**Total**
Property and other revenues	$ —	$ 48,849	$ —	$ 719	$ 49,568
Property operating expenses	—	(35,077)	—	—	(35,077)
Interest expense	(876)	(10,483)	—	—	(11,359)
Transaction costs	—	(2)	—	(95)	(97)
General and administrative expenses	—	—	—	(3,910)	(3,910)
Depreciation and amortization	(729)	(8,920)	—	—	(9,649)
Other income, net	—	132	—	—	132
Realized gain (loss) on investments and other	—	332	—	—	332
Equity in earnings (losses) of unconsolidated ventures	—	—	(3,922)	—	(3,922)
Income tax expense	—	(15)	—	—	(15)
Net income (loss)	$ (1,605)	$ (5,184)	$ (3,922)	$ (3,286)	$ (13,997)

	Direct Investments				
Three Months Ended March 31, 2022	**Net Lease**	**Operating**	**Unconsolidated Investments**	**Corporate**	**Total**
Property and other revenues	$ 249	$ 43,065	$ —	$ 18	$ 43,332
Property operating expenses	(25)	(32,869)	—	—	(32,894)
Interest expense	(898)	(9,411)	—	—	(10,309)
Asset management fees - related party	—	—	—	(2,647)	(2,647)
General and administrative expenses	—	—	—	(3,686)	(3,686)
Depreciation and amortization	(863)	(9,060)	—	—	(9,923)
Other income, net	—	72	—	—	72
Realized gain (loss) on investments and other	—	341	246	—	587
Equity in earnings (losses) of unconsolidated ventures	—	—	2,502	—	2,502
Income tax expense	—	(15)	—	—	(15)
Net income (loss)	$ (1,537)	$ (7,877)	$ 2,748	$ (6,315)	$ (12,981)

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

	Direct Investments				
Total Assets:	**Net Lease**	**Operating**	**Unconsolidated Investments**	**Corporate[(1)]**	**Total**
March 31, 2023 (Unaudited)	$ 82,693	$ 876,980	$ 171,495	$ 86,752	$ 1,217,920
December 31, 2022	83,435	884,137	176,502	93,761	1,237,835

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

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

	As of March 31, 2023		Three Months Ended March 31, 2023	
Operator / Manager	Properties Under Management	Units Under Management(1)	Property and Other Revenues(2)	% of Total Property and Other Revenues
Solstice Senior Living(3)	32	3,993	$ 30,472	61.5 %
Watermark Retirement Communities	14	1,782	11,728	23.6 %
Avamere Health Services	5	453	5,385	10.9 %
Integral Senior Living	1	40	1,265	2.6 %
Arcadia Management(4)	4	572	—	— %
Other(5)	—	—	718	1.4 %
Total	56	6,840	$ 49,568	100.0 %

(1) Represents rooms for ALFs, ILFs and MCFs, 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 and MCFs, 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 three months ended March 31, 2023, the Company did not record any rental income from its net lease operator.
(5) Consists primarily of interest income earned on corporate-level cash and cash equivalents.

12. Commitments and Contingencies

As of March 31, 2023, the Company believes there are no material unrecorded 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.

As of March 31, 2023, the Company has a contingency reserve of $0.5 million related to litigation matters against the manager of one of the Company's direct operating investments, for which the Company has indemnification obligations under the management agreement.

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, that may be either uninsurable or not economically insurable.

Other

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

13. Subsequent Events

The following is a discussion of material events which have occurred subsequent to March 31, 2023 through the issuance of the consolidated financial statements.

Disposition of Mixed U.S. Sub-Portfolio by Diversified US/UK Joint Venture

On May 1, 2023, following the payment default in March 2023 under the mezzanine tranche of the debt secured by the remaining U.S. assets in the Diversified US/UK Portfolio (the “Mixed U.S. Sub-Portfolio”) and resulting discussions with the mezzanine lender, the Diversified US/UK joint venture voluntarily transferred the Mixed U.S. Sub-Portfolio to the mezzanine lender, in lieu of the mezzanine lender exercising its existing rights and remedies. The Company had recorded its proportionate share of impairment recognized on the Mixed U.S. Sub-Portfolio in prior periods, which reduced its carrying value in the Diversified US/UK joint venture. No additional impairment was required as a result of this transaction.

Distribution from Unconsolidated Venture

In April 2023, the Espresso joint venture completed the sale of 10 properties. As a result of the sale, the Company received a distribution totaling $19.4 million in April 2023.

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

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

Overview

We own a diversified portfolio of seniors housing properties, including independent living facilities, or ILFs, assisted living facilities, or ALFs, and memory care facilities, or MCFs, located throughout the United States. In addition, we have made investments through non-controlling interests in joint ventures in a broader spectrum of healthcare real estate, including seniors housing properties, as well as continuing care retirement communities, or CCRCs, skilled nursing facilities, or SNFs, medical office buildings, or MOBs, specialty hospitals and ancillary services businesses, across the United States and United Kingdom.

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 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.

The Internalization

From inception through October 21, 2022, we were externally managed by CNI NSHC Advisors, LLC or its predecessor, or the Former Advisor, an affiliate of NRF Holdco, LLC, or the Former Sponsor. The Former Advisor was responsible for managing our operations, subject to the supervision of our board of directors, pursuant to an advisory agreement. On October 21, 2022, we completed the internalization of our management function, or the Internalization. In connection with the Internalization, we agreed with the Former Advisor to terminate the advisory agreement and arranged for the Former Advisor to continue to provide certain services for a transition period.

Business Update

Factors Impacting Our Operating Results

Our occupancy has recovered to pre-pandemic levels, driven by supply-demand fundamentals in the industry overall and specifically by our investment of capital to enhance our facilities, which has led to increases in revenues. However, operating costs remained elevated as a result of macroeconomic trends, including increases in labor costs and historically low unemployment, inflation and rising interest rates, as well as increased health and safety measures. Increased labor costs and a shortage of available skilled and unskilled workers has, and may continue to increase the cost of staffing at our facilities. We have offset increased labor and inflation with increased rates charged to residents, but continuing to do so may result in a decline in occupancy and revenues. Increases in interest rates may help ease inflation and our operating costs, but have increased our debt service obligations on our variable rate debt and may create the possibility of slowing economic growth.

Operating Performance

The following is a summary of the performance of our investment segments for the three months ended March 31, 2023 as compared to the three months ended December 31, 2022. For additional information on financial results, refer to "—Results of Operations."

Direct Investments - Operating

The average quarterly occupancy of our facilities improved 0.5% from the fourth quarter of 2022. By comparison, the average quarterly occupancy for the seniors housing industry improved 0.3%. Industry improvements were attributable to increasing resident demand and a deceleration in supply growth, however industry average occupancy was still 3.9% below its pre-pandemic level of 87.1% in the first quarter of 2020 (source: The National Investment Centers for Seniors Housing & Care Map Top 31 Primary Metropolitan Markets).

A summary of average occupancy of our direct operating investments by property manager is as follows:

	Average Monthly Occupancy			Average Quarterly Occupancy		
Manager	**March 2023**	**December 2022**	**Variance**	**Q1 2023**	**Q4 2022**	**Variance**
Solstice Senior Living	86.5 %	85.9 %	0.6 %	86.7 %	85.5 %	1.2 %
Watermark Retirement Communities	78.9 %	78.9 %	— %	79.0 %	78.7 %	0.3 %
Avamere Health Services	89.8 %	90.5 %	(0.7)%	89.8 %	90.7 %	(0.9)%
Integral Senior Living	87.6 %	97.5 %	(9.9)%	93.7 %	97.5 %	(3.8)%
Direct Investments - Operating	**84.6 %**	**84.3 %**	**0.3 %**	**84.8 %**	**84.0 %**	**0.8 %**

The following table is a summary of the operating performance at our direct operating investments, excluding properties sold, for the three months ended March 31, 2023 and December 31, 2022 (dollars in thousands):

	Three Months Ended,		Increase (Decrease)	
	March 31, 2023	**December 31, 2022**	**Amount**	**%**
Property revenues				
Resident fee income	$ 11,850	$ 11,287	$ 563	5.0 %
Rental income	36,999	36,464	535	1.5 %
Total property revenues	48,849	47,751	1,098	2.3 %
Property operating expenses				
Salaries and wages	16,379	16,220	159	1.0 %
Utilities	3,361	3,046	315	10.3 %
Food and beverage	2,589	2,780	(191)	(6.9)%
Repairs and maintenance	3,420	3,846	(426)	(11.1)%
Property taxes	3,132	2,800	332	11.9 %
Property management fee	2,458	2,384	74	3.1 %
All other expenses	3,738	5,175	(1,437)	(27.8)%
Total property operating expenses	35,077	36,251	(1,174)	(3.2)%
Total property revenues, net of property operating expenses	$ 13,772	$ 11,500	$ 2,272	19.8 %

Overall, property revenues, net of property operating expenses, increased by $2.3 million for the three months ended March 31, 2023 as compared to prior quarter. Rental and resident fee income increased by $1.1 million as a result of improved occupancy and increases in market rates for new residents and in-place rates for existing residents at our ALFs, ILFs and MCFs. Property operating expenses decreased by $1.2 million due to a contingency reserve expense recognized during the fourth quarter of 2022 related to litigation matters and lower repairs and maintenance, primarily at our Winterfell and Avamere portfolios.

Direct Investments - Net Lease

Beginning in February 2021, the operator of the four net lease properties in our Arbors portfolio has been unable to satisfy its obligations under its leases and remits rent and pays property-level expenses based on its available cash. During the three months ended March 31, 2023, we did not recognize any rental income as compared to $0.4 million recognized for the three months ended December 31, 2022.

On March 27, 2023, we entered into a lease forbearance and modification agreement, or the Forbearance Agreement, with the existing operator, Arcadia, pursuant to which we will be entitled to receive all cash flow in excess of permitted expenses, and be required to fund any operating deficits, through 2025, subject to the terms and conditions thereof (including lender approval). As a result, we will participate in the risks and rewards of this portfolio similar to our operating properties. We also agreed to make available funds for capital improvements in order to stabilize and drive improved performance in this portfolio. If Arcadia performs under the Forbearance Agreement, it will be entitled to forgiveness of accrued and unpaid rent during the forbearance period and a potential incentive fee tied to disposition of the portfolio above a certain value.

Unconsolidated Investments

We own minority, non-controlling interests in joint ventures, which own investments in real estate properties. The following table presents the distributions received from our unconsolidated investments (dollars in thousands):

Portfolio	Cash Distributions for the Three Months Ended: March 31, 2023: Sales	Operating	Total	December 31, 2022: Sales	Operating	Total
Eclipse	$ —	$ —	$ —	$ 226	$ —	$ 226
Envoy[(1)]	—	—	—	66	—	66
Diversified US/UK	—	—	—	—	143	143
Espresso	—	—	—	22,291	—	22,291
Trilogy	—	2,334	2,334	—	2,234	2,234
Total	$ —	$ 2,334	$ 2,334	$ 22,583	$ 2,377	$ 24,960

(1) The joint venture completed the sale of its remaining operating assets in 2019 and is currently in the process of liquidating the remaining cash.

During the three months ended March 31, 2023, we received distributions from our unconsolidated investments, which totaled $2.3 million as compared to $25.0 million for the three months ended December 31, 2022. Distributions continue to be limited by reinvestment and development in the Trilogy joint venture and operational challenges in the Diversified US/UK and Eclipse joint ventures. In addition, there were no property sales or related distributions from the Espresso joint venture during the three months ended March 31, 2023 as compared to $22.3 million for the three months ended December 31, 2022.

The following is a summary of operations and performance for our unconsolidated investments for the three months ended March 31, 2023:

Trilogy

Although the joint venture's facilities experienced continued occupancy recovery and revenue growth, operating margins continued to be impacted by inflationary pressures, most significantly labor-related costs, which resulted in a decline in operating income. Additionally, the joint venture did not recognize any federal and state COVID-19 provider relief grant income and incurred higher interest expense driven by rising London Interbank Offered Rate, or LIBOR, on outstanding debt during the three months ended March 31, 2023.

Diversified US/UK

In February 2023, the Diversified US/UK joint venture sold a portfolio of 15 medical office buildings, or the MOB Sub-Portfolio, for a purchase price of $121.5 million, substantially all of which was used to repay debt on the MOB Sub-Portfolio and pay transaction expenses.

The balance of the U.S. portfolio, consisting of 91 MOBs, 47 ALFs, MCFs and CCRCs, 39 SNFs and 9 specialty hospitals, or the Mixed U.S. Sub-Portfolio, continued to struggle with operating challenges and rising interest rates on the $1.0 billion and $0.5 billion of mortgage and mezzanine financing, respectively, or the Mixed U.S. Sub-Portfolio Debt, resulting in payment default on the mezzanine tranche of the Mixed U.S. Sub-Portfolio Debt in March 2023 and discussions with the mezzanine lender regarding potential solutions to the significant cash flow and liquidity issues within the Mixed U.S. Sub-Portfolio. Refer to "—Recent Developments" for additional information on the Mixed U.S. Sub-Portfolio.

In the United Kingdom, operating performance of the 48 care homes, or the U.K. Sub-Portfolio, has improved overall since the lease and debt restructuring during the fourth quarter of 2022. However, it is expected to take an extended period of time for the properties to fully stabilize following the lease restructuring, and cash flow and rent paid under the restructured lease by the tenant is not expected to cover debt service on the restructured debt in the near-term.

Espresso

The joint venture received full contractual rent from the net lease operators of its remaining portfolio. As a result of sub-portfolio sales, rental income continues to decline. No distributions of excess cash flows from operations were made during the quarter. The joint venture continues to pursue dispositions of its remaining properties. Refer to "—Recent Developments" for additional information on distributions from portfolio sales.

Eclipse

The joint venture continued to struggle with cash flow and liquidity issues. In February 2023, a net lease sub-portfolio of 10 SNFs, which had stopped paying rent, was sold subject to its debt, resulting in no sales proceeds recognized. The remaining three sub-portfolios continue to face operating challenges, to varying degrees, as a result of the macroeconomic environment and slow recovery from the pandemic, among other factors.

Recent Developments

The following is a discussion of material events which have occurred subsequent to March 31, 2023 through May 10, 2023.

Disposition of Mixed U.S. Sub-Portfolio by Diversified US/UK Joint Venture

On May 1, 2023, following the payment default under the mezzanine tranche of the Mixed U.S. Sub-Portfolio Debt in March 2023 and resulting discussions with the mezzanine lender, the Diversified US/UK joint venture voluntarily transferred the Mixed U.S. Sub-Portfolio to the mezzanine lender under the Mixed U.S. Sub-Portfolio Debt, in lieu of the mezzanine lender exercising its existing rights and remedies.

Distribution from Unconsolidated Venture

In April 2023, the Espresso joint venture completed the sale of 10 properties. As a result of the sale, we received a distribution totaling $19.4 million in April 2023.

Our Investments

Our investments are categorized as follows:

- Direct Investments - Operating - Properties operated pursuant to management agreements with managers, in which we own a controlling interest.
- Direct Investments - Net Lease - Properties operated under net leases with an operator, in which we own a controlling interest.
- Unconsolidated Investments - Joint ventures, which include properties operated under net leases with an operator or pursuant to management agreements with managers, in which we own a minority, non-controlling interest.

Our direct investments are in seniors housing facilities, which include ILFs, ALFs and MCFs, 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 Medicaid.

- *Independent living facilities.* ILFs are 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.
- *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 may be bundled within one monthly fee or based on the care needs of the resident and 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. ALFs typically are comprised of studios, one and two bedroom suites equipped with private bathrooms and efficiency kitchens.
- *Memory care facilities.* MCFs offer specialized options for seniors with Alzheimer's disease and other forms of dementia. These facilities offer dedicated care and specialized programming for various conditions relating to memory loss in a secured environment. 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.

Through our unconsolidated investments, we have additional investments in seniors housing facilities, as well as in additional types of healthcare real estate, including the following:

- *Continuing care retirement communities.* CCRCs provide, as a continuum of care, the services described for ILFs, ALFs and SNFs in an integrated campus.
- *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.

- *Care Homes.* Care homes are daily rate or rental properties in the United Kingdom that may provide residential, nursing and/or dementia care. Revenues generated from care homes typically come from private pay sources, as well as government reimbursement.
- *Medical Office Buildings.* MOBs 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. MOBs 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.
- *Specialty 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 long-term acute care, specialty and rehabilitation hospitals and generally are leased to operators under triple-net lease structures.

For financial information regarding our reportable segments, refer to Note 11, "Segment Reporting" in our accompanying consolidated financial statements included in Part I, Item 1. "Financial Statements."

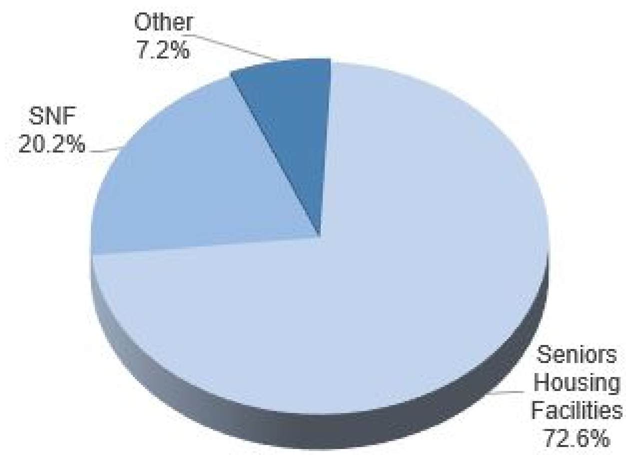
The following table presents a summary of investments as of March 31, 2023 (dollars in thousands):

		Properties[1]						
Investment Type / Portfolio	**Amount[2]**	**Seniors Housing**	**MOB**	**SNF**	**Hospitals**	**Total**	**Primary Locations**	**Ownership Interest**
Direct Investments - Operating								
Winterfell	$ 715,702	32	—	—	—	32	12 U.S. States	100.0%
Rochester	186,635	10	—	—	—	10	New York	97.0%
Avamere	93,581	5	—	—	—	5	Washington/Oregon	100.0%
Aqua	82,937	4	—	—	—	4	Texas/Ohio	97.0%
Oak Cottage	18,628	1	—	—	—	1	California	100.0%
Subtotal	$ 1,097,483	52	—	—	—	52		
Direct Investments - Net Lease								
Arbors	$ 103,915	4	—	—	—	4	New York	100.0%
Total Direct Investments	$ 1,201,398	56	—	—	—	56		
Unconsolidated Investments								
Trilogy[3]	$ 126,242	23	—	75	—	98	4 U.S. States	23.2%
Diversified US/UK[4]	26,832	95	91	39	9	234	27 U.S. States & U.K.	14.3%
Eclipse	—	34	—	—	—	34	9 U.S. States	5.6%
Espresso[4]	18,127	1	—	32	—	33	Ohio/Michigan	36.7%
Subtotal	$ 171,201	153	91	146	9	399		
Solstice[5]	294	—	—	—	—	—		20.0%
Total Unconsolidated Investments	$ 171,495	153	91	146	9	399		
Total Investments	$ 1,372,893	209	91	146	9	455		

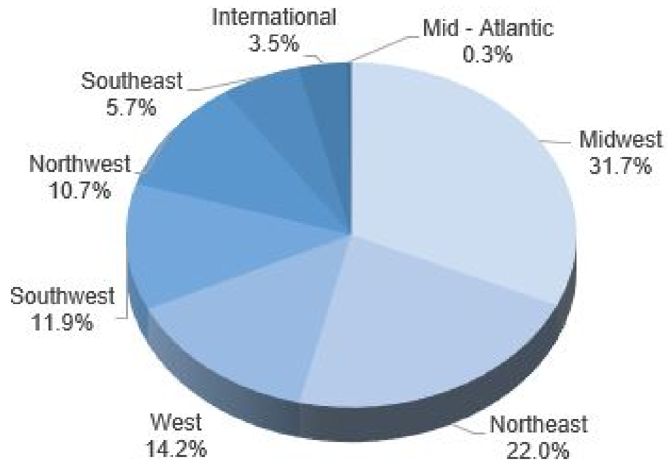
(1) Classification based on predominant services provided, but may include other services.
(2) For direct investments, amount represents operating real estate, before accumulated depreciation as presented in our consolidated financial statements as of March 31, 2023. For unconsolidated investments, amount represents the carrying value of our investments in unconsolidated ventures as presented in our consolidated financial statements as of March 31, 2023. For additional information, refer to "Note 3, Operating Real Estate" and "Note 4, Investments in Unconsolidated Ventures" of Part I, Item 1. "Financial Statements."
(3) Includes institutional pharmacy, therapy businesses and lease purchase buy-out options, which are not subject to property count.
(4) Refer to "—Recent Developments" for additional information on recent transactions.
(5) 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 the properties of our direct and unconsolidated investments by property type and geographic location based on our proportionate share of cost as of March 31, 2023:

Real Estate Equity by Property Type[(1)]



Real Estate Equity by Geographic Location



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

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

	As of March 31, 2023		Three Months Ended March 31, 2023	
Operator / Manager	Properties Under Management	Units Under Management[(1)]	Property and Other Revenues[(2)]	% of Total Property and Other Revenues
Solstice Senior Living[(3)]	32	3,993	$ 30,472	61.5 %
Watermark Retirement Communities	14	1,782	11,728	23.6 %
Avamere Health Services	5	453	5,385	10.9 %
Integral Senior Living	1	40	1,265	2.6 %
Arcadia Management[(4)]	4	572	—	— %
Other[(5)]	—	—	718	1.4 %
Total	56	6,840	$ 49,568	100.0 %

(1) Represents rooms for ALFs, ILFs and MCFs, 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 and MCFs, 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 three months ended March 31, 2023, we did not record any rental income from our net lease operator.
(5) Consists primarily of interest income earned on corporate-level cash and cash equivalents.

Direct Investments - Operating

We generate revenues from resident fees and rental income through our operating properties. Resident fee income is recorded by our ALFs and MCFs when services are rendered and includes resident room and care charges and other resident charges, and rental income is generated from our ILFs.

Our operating properties allow us to participate in the risks and rewards of the operations of the facilities, as compared to receiving only contractual rent under a net lease. We engage independent managers to operate these facilities pursuant to management agreements, including procuring supplies, hiring and training all employees, entering into all third-party contracts for the benefit of the property, including resident/patient agreements, complying with laws and regulations, including but not limited to healthcare laws, and providing resident care and services, in exchange for a management fee. As a result, we must rely on our managers' personnel, expertise, technical resources and information systems, risk management processes, proprietary information, good faith and judgment to manage our operating properties efficiently and effectively. We also rely on our managers to set appropriate resident fees, to provide accurate property-level financial results in a timely manner and otherwise operate our seniors housing facilities in compliance with the terms of our management agreements and all applicable laws and regulations.

Our management agreements generally provide for monthly management fees which are calculated based on various performance measures, including revenue, net operating income and other objective financial metrics. We are also required to reimburse our managers for expenses incurred in the operation of the properties, as well as to indemnify our managers in connection with potential claims and liabilities arising out of the operation of the properties. Our management agreements are terminable after a stated term with certain renewal rights, though we have the ability to terminate earlier upon certain events with or without the payment of a fee.

Watermark Retirement Communities and Solstice, together with their affiliates, manage substantially all of our operating properties. As of March 31, 2023, Watermark and Solstice or their respective affiliates collectively managed 46 of our seniors housing facilities pursuant to management agreements. For the three months ended March 31, 2023, properties managed by Watermark and Solstice represented 24.0% and 62.4% of our total property and other revenues, respectively, and 22.4% and 59.6% of our operating real estate, respectively. Through our 20.0% ownership of Solstice, we are entitled to certain rights and minority protections. The following table presents a summary of the terms of the Watermark and Solstice management agreements:

Manager	Portfolio	Properties	Expiration Date	Management Fees
Solstice Senior Living	Winterfell	32	October 2025	• 5% of monthly gross revenues, subject to certain exclusions • 7% of actual costs of certain capital projects • Additional fees if net operating income exceeds annual target • Additional fees if net operating income long-term growth is achieved
Watermark Retirement Communities[(1)]	Aqua	2	December 2023	• 5% of monthly gross revenues, subject to certain exclusions • Eligible for promote in connection with disposition
	Aqua	2	February 2024	
	Rochester	10	August 2023	

(1) Affiliates of Watermark also own a 3% non-controlling interest in the Rochester and Aqua portfolios, which may impact various rights and economics under the management agreements.

Direct Investments - Net Lease

We generate revenues from rental income from net leases to operators through our net lease properties. A net lease will typically 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.

As of March 31, 2023, we had four ALF properties operated by Arcadia Management under net leases. These leases obligate Arcadia to pay a fixed rental amount and pay all property-level expenses, with a lease term that expires in August 2029. However, Arcadia has been unable to satisfy its obligations under its leases since February 2021, and instead remits rent and pays property-level expenses based on its available cash. On March 27, 2023, we executed a lease forbearance, which requires the operator to make payments based on cash flow generated at the properties and defers any unpaid and remaining contractual rent through the term of the lease. Deferred rent will be forgiven at the expiration or earlier termination of the lease, subject to the satisfaction and compliance with certain terms and conditions.

Unconsolidated Investments

We report our proportionate interest of revenues and expenses from unconsolidated joint ventures through equity in earnings (losses) of unconsolidated ventures on our consolidated statements of operations. Our unconsolidated investment portfolios are as follows:

- *Diversified US/UK.* Consists of sub-portfolios: a diversified portfolio of 91 MOBs, 47 seniors housing facilities, including ALFs, MCFs and CCRCs, 39 SNFs and nine specialty hospitals, or the Mixed U.S. Sub-Portfolio, and 48 care homes located in the United Kingdom operated under a net lease, or the U.K. Sub-Portfolio. The Former Sponsor and other minority partners own the remaining 85.7% of this portfolio.

- *Trilogy.* Portfolio of predominantly SNFs, as well as ALFs, ILFs, MCFs, and CCRCs located in the Midwest and operated pursuant to management agreements with Trilogy Health Services. The portfolio includes 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.
- *Eclipse.* Portfolio of SNFs, ALFs, MCFs, and ILFs located in nine U.S. States, and leased to, or managed by, four different operators/managers. The Former Sponsor and other minority partners and Formation Capital, LLC, or Formation, own 86.4% and 8.0% of this portfolio, respectively.
- *Espresso.* The joint venture is actively conducting the sales process for its remaining net lease portfolio of 32 SNFs and one ALF located in Ohio and Michigan. 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.
- *Solstice.* Operator platform joint venture established to manage the operations of the Winterfell portfolio. An affiliate of ISL owns the remaining 80.0%.

Our Strategy

Our primary objective is to maximize value and generate liquidity for shareholders. 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 that address factors impacting the industry, including inflation and other economic conditions, to enhance the performance of our existing investment portfolio.
- *Deploy Strategic Capital Expenditures.* We will continue to invest capital into our investments in order to maintain market position, functional and operating standards, and improve occupancy and resident rates, in an effort to enhance the overall value of our assets.
- *Pursue Dispositions and Opportunities for Asset Repositioning 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 of assets, joint ventures, operators and markets to position our portfolio for optimal performance.

Portfolio Management

The portfolio management process for our investments includes oversight by our executive and asset management teams, regular management meetings and an operating results review process. These processes are designed to evaluate and proactively identify asset-specific issues and trends on a portfolio-wide, sub-portfolio or asset type basis. The teams work in conjunction with our managers and operators to create tailored action plans to address issues identified.

Our executive and asset management teams are experienced and use many methods to actively manage our investments to enhance or preserve our income, value and capital and mitigate risk. Our teams seek to identify opportunities for our investments that may involve replacing or renovating facilities in our portfolio which, in turn, would allow us to improve occupancy and resident rates and enhance the overall value of our assets. To manage risk, our teams engage in frequent review and dialogue with operators/managers/third party advisors and periodic inspections of our owned properties. In addition, our teams consider the impact of regulatory changes on the performance of our portfolio.

Our teams 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 our expectations.

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 Part I, Item 1. "Financial Statements."

We believe impairment to be a critical accounting estimate based on the nature of our operations and/or require significant management judgment and assumptions. 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 circumstances, 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 three months ended March 31, 2023, we did not record impairment losses on our direct investments.

Accumulated impairment losses totaled $181.5 million for operating real estate that we continue to hold as of March 31, 2023. Refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and 2021 for additional information regarding impairment recorded in prior years.

During the three months ended March 31, 2023, we did not impair any of our investments in unconsolidated ventures, nor did the underlying joint ventures record any impairments or reserves on properties in their respective portfolios.

At this time, it is difficult to assess and estimate the continuing impact of the COVID-19 pandemic, inflation, rising interest rates, risk of recession and other economic conditions. As the future impact 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

Comparison of the Three Months Ended March 31, 2023 to March 31, 2022 (dollars in thousands)

	Three Months Ended March 31,		Increase (Decrease)	
	2023	2022	Amount	%
Property and other revenues				
Resident fee income	$ 11,850	$ 10,755	1,095	10.2 %
Rental income	36,999	32,559	4,440	13.6 %
Other revenue	719	18	701	3,894.4 %
Total property and other revenues	49,568	43,332	6,236	14.4 %
Expenses				
Property operating expenses	35,077	32,894	2,183	6.6 %
Interest expense	11,359	10,309	1,050	10.2 %
Transaction costs	97	—	97	NA
Asset management fees - related party	—	2,647	(2,647)	(100.0)%
General and administrative expenses	3,910	3,686	224	6.1 %
Depreciation and amortization	9,649	9,923	(274)	(2.8)%
Total expenses	60,092	59,459	633	1.1 %
Other income, net	132	72	60	83.3 %
Realized gain (loss) on investments and other	332	587	(255)	(43.4)%
Equity in earnings (losses) of unconsolidated ventures	(3,922)	2,502	(6,424)	(256.8)%
Income tax expense	(15)	(15)	—	— %
Net income (loss)	$ (13,997)	$ (12,981)	$ (1,016)	7.8 %

Total Property and Other Revenues

The following table presents total property and other revenues (dollars in thousands):

	Three Months Ended March 31,		Increase (Decrease)	
	2023	2022	Amount	%
ALF/MCF properties	$ 11,850	$ 10,755	$ 1,095	10.2 %
ILF properties	36,999	32,310	4,689	14.5 %
Net lease properties	—	249	(249)	(100.0)%
Other revenue	719	18	701	3,894.4 %
Total property and other revenues	$ 49,568	$ 43,332	$ 6,236	14.4 %

Overall, total property and other revenues increased $6.2 million during the three months ended March 31, 2023. Revenues generated by our operating properties increased as a result of improved occupancy and higher market rates for new residents and in-place rates for existing residents at our ALFs, MCFs and ILFs. We did not recognize rental income from our Arbors net lease portfolio during the three months ended March 31, 2023 as we did not receive any excess cash flows generated by the properties. Other revenue consists of interest earned on cash and cash equivalents, which increased during the three months ended March 31, 2023 as a result of higher market interest rates.

Property Operating Expenses

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

	Three Months Ended March 31,		Increase (Decrease)	
	2023	2022	Amount	%
Same store (excluding properties sold)				
ALF/MCF properties	$ 9,145	$ 8,582	$ 563	6.6 %
ILF properties	25,932	24,251	1,681	6.9 %
Net lease properties	—	25	(25)	(100.0)%
Properties sold	—	36	(36)	(100.0)%
Total Property operating expenses	$ 35,077	$ 32,894	$ 2,183	6.6 %

Overall, total operating expenses increased $2.2 million, primarily due to rising wages and benefits costs and a shortage of available skilled and unskilled workers, which has increased the cost of staffing at our facilities. In addition, higher occupancy and inflationary pressures impacted significantly all variable operating costs, most notably repairs and maintenance, utilities and food and beverage costs.

Interest Expense

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

	Three Months Ended March 31,		Increase (Decrease)	
	2023	2022	Amount	%
ALF/MCF properties	$ 1,617	$ 1,378	$ 239	17.3 %
ILF properties	8,866	8,033	833	10.4 %
Net lease properties	876	898	(22)	(2.4)%
Total interest expense	$ 11,359	$ 10,309	$ 1,050	10.2 %

Interest expense increased $1.1 million as a result of higher interest expense on our floating rate debt. The increase was partially offset by a decrease in the average mortgage notes principal balances as compared to March 31, 2022 due to continued principal amortization.

Transaction Costs

Transaction costs for the three months ended March 31, 2023 consist of $0.1 million for costs associated with the Internalization and the transition of services and systems previously provided by the Former Advisor.

Asset Management Fees - Related Party & General and Administrative Expenses

Overall, corporate operating costs decreased $2.4 million as compared to the three months ended March 31, 2022. The advisory agreement with our Former Advisor was terminated on October 21, 2022 and as result, there were no asset management fees incurred during 2023. Under our new internalized structure, we directly incur and pay all operating costs. General and administrative expenses increased $0.2 million primarily as a result of an increase in payroll, bonuses and compensation costs for personnel that are now directly employed.

Depreciation and Amortization

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

	Three Months Ended March 31,		Increase (Decrease)	
	2023	2022	Amount	%
ALF/MCF properties	$ 1,841	$ 1,813	$ 28	1.5 %
ILF properties	7,079	7,247	(168)	(2.3)%
Net lease properties	729	863	(134)	(15.5)%
Total depreciation and amortization	$ 9,649	$ 9,923	$ (274)	(2.8)%

Depreciation and amortization expense decreased $0.3 million, primarily as a result of impairments recognized during the year ended December 31, 2022, which reduced building depreciation expense in 2023.

Other Income, Net

Other income, net consisted primarily of a capital expenditures grant received and recognized at our Avamere portfolio during the three months ended March 31, 2023. During the three months ended March 31, 2022, other income, net consisted primarily of COVID-19 testing reimbursements received and recognized at our Avamere portfolio.

Realized Gain (Loss) on Investments and Other

During the three months ended March 31, 2023, we recognized a gain on the sale of other assets and operating real estate, partially offset by net losses on mortgage interest rate caps.

During the three months ended March 31, 2022, we recognized a gain on a distribution that exceeded our carrying value for our investment in the Espresso joint venture and gains on mortgage interest rate caps.

Equity in Earnings (Losses) of Unconsolidated Ventures

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

	Three Months Ended March 31,							
	2023	2022	2023	2022	2023	2022		
Portfolio	Equity in Earnings (Losses)		FFO and MFFO adjustments[1]		Equity in Earnings, after FFO and MFFO adjustments		Increase (Decrease)	
Eclipse[2]	$ (834)	$ (295)	$ 486	$ 288	$ (348)	$ (7)	$ (341)	4,871.4 %
Diversified US/UK	(2,859)	(1,148)	1,907	3,810	(952)	2,662	(3,614)	(135.8)%
Espresso	109	1,954	535	477	644	2,431	(1,787)	(73.5)%
Trilogy	(309)	2,027	4,337	3,968	4,028	5,995	(1,967)	(32.8)%
Subtotal	$ (3,893)	$ 2,538	$ 7,265	$ 8,543	$ 3,372	$ 11,081	$ (7,709)	(69.6)%
Solstice	(29)	(36)	—	—	(29)	(36)	7	(19.4)%
Total	$ (3,922)	$ 2,502	$ 7,265	$ 8,543	$ 3,343	$ 11,045	$ (7,702)	(69.7)%

(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.

(2) For the three months ended March 31, 2023, the Eclipse joint venture generated losses in excess of our investment's carrying value. Our proportionate share of losses generated by the joint venture not recognized through equity in earnings (losses) totaled $3.8 million.

The decrease in equity in earnings (losses) totaled $6.4 million before FFO and MFFO adjustments and $7.7 million after such adjustments. The decreases were primarily due to higher interest expense incurred across the unconsolidated ventures, most significantly in the Trilogy and Diversified US/UK joint ventures. Additionally, prior period portfolio sales in the Espresso joint venture resulted in lower rental income and realized gains during the three months ended March 31, 2023.

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.

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. 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.

We define MFFO in accordance with the concepts established by the IPA. 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.

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 upon completion of our organization and offering, and acquisition and development stages. 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 determined not to pursue an exit strategy.

MFFO does have certain limitations. For instance, 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. 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. 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.

Neither FFO nor MFFO is equivalent to net income (loss) or cash flow provided by operating activities determined in accordance with U.S. GAAP and should not be construed to be more relevant or accurate than the U.S. GAAP methodology in evaluating our operating performance. Neither FFO nor MFFO is necessarily indicative of cash flow available to fund our cash needs including our ability to make distributions to our stockholders. FFO and MFFO do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments or uncertainties. Furthermore, neither FFO nor MFFO should be considered as an alternative to net income (loss) as an indicator of our operating performance.

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

	Three Months Ended March 31,	
	2023	2022
Funds from operations:		
Net income (loss) attributable to NorthStar Healthcare Income, Inc. common stockholders	$ (13,926)	$ (12,936)
Adjustments:		
Depreciation and amortization	9,649	9,923
Depreciation and amortization related to non-controlling interests	(73)	(72)
Depreciation and amortization related to unconsolidated ventures	5,648	7,170
Realized (gain) loss from sales of property	(136)	(29)
Realized gain (loss) from sales of property related to non-controlling interests	4	1
Realized (gain) loss from sales of property related to unconsolidated ventures	258	(2,311)
Impairment losses of depreciable real estate held by unconsolidated ventures	—	20
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 1,424	$ 1,766
Modified funds from operations:		
Funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 1,424	$ 1,766
Adjustments:		
Transaction costs	97	—
Amortization of premiums, discounts and fees on investments and borrowings	985	969
Realized (gain) loss on investments and other	(196)	(558)
Adjustments related to unconsolidated ventures[(1)]	1,359	3,664
Adjustments related to non-controlling interests	3	7
Modified funds from operations attributable to NorthStar Healthcare Income, Inc. common stockholders	$ 3,672	$ 5,848

(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, including corporate general and administrative 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.

As of May 10, 2023, we had approximately $118.3 million of unrestricted cash and currently believe that our capital resources are sufficient to meet our capital needs for the following 12 months.

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, we receive distributions from our investments in unconsolidated ventures. Net cash used in operating activities was $3.5 million for the three months ended March 31, 2023. We have utilized cash reserves generated from asset realizations to fund debt service payments, including principal amortization, which is expected to continue until the operating margins 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, cash flow has continued to be negatively impacted by rate pressures, cost inflation, rising interest rates and other economic market conditions. 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.

The operator of our Arbors net lease portfolio, Arcadia, has been impacted by the same factors discussed above, which has affected its ability to pay rent. Arcadia has been unable to satisfy its obligations under its leases since February 2021, and instead remits rent and pays property-level expenses based on its available cash. On March 27, 2023, we executed a lease forbearance, which requires the operator to make payments based on cash flow generated at the properties and defers any unpaid and remaining contractual rent through the term of the lease. Deferred rent will be forgiven at the expiration or earlier termination of the lease, subject to the satisfaction and compliance with certain terms and conditions.

We have significant joint ventures and will not be able to control the timing of distributions, if any, from these investments. As of March 31, 2023, our unconsolidated joint ventures and consolidated joint ventures represented 12.5% and 19.6%, respectively, of our total investments, based on carrying value. Our unconsolidated joint ventures, which have been similarly impacted as our direct investments by the COVID-19 pandemic, inflation, rising interest rates and other economic market conditions, may 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.

During the three months ended March 31, 2023, we paid $15.3 million in recurring principal and interest payments on borrowings. As of March 31, 2023, we had $917.5 million of consolidated asset-level borrowings outstanding. Fixed-rate borrowings totaled $787.7 million with interest rates ranging from 3.0% to 4.6%. Floating-rate borrowings totaled $129.8 million and are subject to fluctuating LIBOR or Secured Overnight Financing Rate, or SOFR. As of March 31, 2023, effective interest rates on floating rate debt ranged from 7.01% to 7.75%.

As the impact of inflation, rising interest rates, risk of recession and other economic market conditions continue to influence our investments' performance and market values, our ability to service or refinance our borrowings may be negatively impacted, including $593.1 million of borrowings collateralized by our Winterfell portfolio that matures in June 2025.

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 March 31, 2023, our leverage was 55.3% of our assets, other than intangibles, before deducting non-cash reserves and depreciation. As of March 31, 2023, indirect leverage on assets, other than intangibles, before deducting non-cash reserves and depreciation, held through our unconsolidated joint ventures was 59.1%.

For additional information regarding our borrowings, including principal repayments, timing of maturities and loans currently in default, refer to Note 5, "Borrowings" in our accompanying consolidated financial statements included in Part I, Item 1. "Financial Statements."

Capital Expenditures Activities

We are responsible for capital expenditures for our operating properties and may also fund capital expenditures for our net lease properties. We continue to invest capital into our direct investments 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.

The following table presents cash used for capital expenditures at our direct investments (dollars in thousands):

	Three Months Ended March 31,		
	2023	2022	2023 vs. 2022 Change
ALF/MCF properties	$ 363	$ 455	$ (92)
ILF properties	3,447	1,693	1,754
Net lease properties	—	189	(189)
Total capital expenditures	$ 3,810	$ 2,337	$ 1,473

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. As the impact of inflation, rising interest rates, risk of recession and other economic market conditions continue to influence our properties' performance, there may be a negative impact on our ability to generate desired returns on dispositions. The current state of the public and private capital markets, which have been affected by a general tightening of availability of credit (including the price, terms and conditions under which it can be obtained), and decreased liquidity in certain financial markets, has resulted in limited transaction activity and may limit our ability to execute on our strategy of disposing of investments.

We have made significant investments through both consolidated and unconsolidated joint ventures with third parties. We have limited ability to influence material decisions at our unconsolidated joint ventures, including the disposition of assets. Certain portfolios within our unconsolidated joint ventures have experienced loan defaults, which, in some instances, have resulted in the loss of collateral. Refer to "—Recent Developments" for further information regarding unconsolidated joint venture sales.

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.

We generated significant liquidity in 2021 from proceeds from asset sales and other realization events. As a result, on April 20, 2022, our board of directors declared a special distribution of $0.50 per share for each stockholder of record on May 2, 2022, or the Special Distribution. The Special Distribution paid in cash on or around May 5, 2022 totaled approximately $97.0 million. 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 management and board of directors will evaluate special distributions in connection with asset sales and other realizations 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. Refer to "—Distributions Declared and Paid" for further information regarding our 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. While our primary objective is to maximize value and generate liquidity for shareholders, we do not anticipate resuming the share repurchase program in the near future.

Other Commitments

On October 21, 2022, we terminated the advisory agreement and completed the Internalization. Prior to the termination of the advisory agreement, we reimbursed the Former Advisor for direct and indirect operating costs in connection with services provided to us. Under our new internalized structure, we will directly incur and pay all general and administrative costs.

Cash Flows

The following presents a summary of our consolidated statements of cash flows (dollars in thousands):

	Three Months Ended March 31,		
Cash flows provided by (used in):	**2023**	**2022**	**2023 vs. 2022 Change**
Operating activities	$ (3,536)	$ (10,843)	$ 7,307
Investing activities	(818)	4,716	(5,534)
Financing activities	(4,828)	(4,297)	(531)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ (9,182)	$ (10,424)	$ 1,242

Operating Activities

Net cash used in operating activities totaled $3.5 million for the three months ended March 31, 2023, as compared to $10.8 million for the three months ended March 31, 2022. The change in cash flow from operating activities was a result of an increase in rates and occupancy at our direct operating investments, which resulted in higher rent and resident fees collected during the three months ended March 31, 2023 as well as lower reimbursement payments made to our Former Advisor.

Investing Activities

Our cash flows from investing activities are primarily proceeds from investment dispositions, net of any capital expenditures. Net cash used in investing activities was $0.8 million for the three months ended March 31, 2023 as compared to $4.7 million net cash provided by investing activities for the three months ended March 31, 2022. Cash flows used in investing activities for the three months ended March 31, 2023 were capital expenditures for our direct investments, partially offset by distributions received from our Trilogy unconsolidated investment, which totaled $2.3 million. Cash flows provided by investing activities for the three months ended March 31, 2022 were from distributions received from our unconsolidated investments, which totaled $7.1 million, less capital expenditures of our direct investments.

On a same store basis, capital expenditures increased during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022. We continue to invest capital into our operating portfolios in order to maintain market position and enhance overall asset value.

Financing Activities

Cash flows used in financing activities were $4.8 million for the three months ended March 31, 2023 compared to $4.3 million for the three months ended March 31, 2022. For the three months ended March 31, 2023 and 2022, net cash flows used in financing activities were primarily continued principal amortization on our mortgage notes.

Off-Balance Sheet Arrangements

As of March 31, 2023, we are not dependent on the use of any off-balance sheet financing arrangements for liquidity. We have made investments in unconsolidated ventures. Refer to Note 4, “Investments in Unconsolidated Ventures” in Part I, Item 1. “Financial Statements” for a discussion of such unconsolidated ventures in our consolidated financial statements. In each case, our exposure to loss is limited to the carrying value of our investment.

Distributions Declared and Paid

From inception through March 31, 2023, we declared $530.9 million in distributions, inclusive of the recent Special Distribution, and generated cumulative FFO of $110.7 million. From the date of our first investment on April 5, 2013 through December 31, 2017, we declared an annualized distribution amount of $0.675 per share of our common stock. From January 1, 2018 through January 31, 2019, we declared an annualized distribution amount of $0.3375 per share of our common stock. Effective February 1, 2019, our board of directors suspended recurring distributions in order to preserve capital and liquidity. On April 20, 2022, our board of directors declared the Special Distribution of $0.50 per share for each stockholder of record on May 2, 2022 totaling approximately $97.0 million. 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 management and board of directors will evaluate special distributions in connection with asset sales and other realizations 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.

To the extent distributions are paid from sources other than FFO, the ownership interest of our public stockholders may 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.

Related Party Arrangements

Former Advisor

In connection with the Internalization, the advisory agreement was terminated on October 21, 2022. Prior to the Internalization, the Former Advisor was responsible for managing our affairs on a day-to-day basis and for identifying, acquiring, originating and asset managing investments on our behalf. For such services, to the extent permitted by law and regulations, the Former Advisor received fees and reimbursements from us. Pursuant to the advisory agreement, the Former Advisor could defer or waive fees in its discretion.

As of March 31, 2023, the Former Advisor, the Former Sponsor and their affiliates owned a total of 9.7 million shares, or $28.4 million of our common stock based on our most recent estimated value per share. As of March 31, 2023, the Former Advisor, the Former Sponsor and their affiliates owned 4.97% of the total outstanding shares of our common stock.

Transition Services

In connection with the Internalization, on October 21, 2022, we, the Operating Partnership and the Former Advisor entered into a Transition Services Agreement, or TSA, to facilitate an orderly transition of the management of our operations. The TSA, as amended on March 22, 2023, provides for, among other things, the Former Advisor to provide certain services, including primarily technology and insurance, for a transition period of up to six months following the Internalization, with legal, treasury and accounts payable services to continue until we terminate these services or in other specified circumstances in accordance with the TSA. We will reimburse the Former Advisor for costs to provide the services, including the allocated cost of employee wages and compensation and actually incurred out-of-pocket expenses.

Summary of Fees and Reimbursements

The following table presents the fees and reimbursements incurred and paid to the Former Advisor (dollars in thousands):

Reimbursements to Former Advisor Entities	Financial Statement Location	Due to Related Party as of December 31, 2022	Three Months Ended March 31, 2023 Incurred	Three Months Ended March 31, 2023 Paid	Due to Related Party as of March 31, 2023 (Unaudited)
Operating costs	General and administrative expenses/ Transaction costs	469	130 (1)	(338)	261

(1) Represents costs incurred under the TSA during the three months ended March 31, 2023.

Incentive Fee

NorthStar Healthcare Income OP Holdings, LLC, an affiliate of the Former Advisor, or the Special Unit Holder, 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 March 31, 2023, the Special Unit Holder has not received any incentive fees.

Investments in Joint Ventures

Solstice, the manager of the Winterfell portfolio, is a joint venture between affiliates of ISL, who own 80.0%, and us, who owns 20.0%. For the three months ended March 31, 2023, we recognized property management fee expense of $1.5 million paid to Solstice related to the Winterfell portfolio.

The below table indicates our investments for which the Former 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 Note 4, "Investments in Unconsolidated Ventures" of Part I, Item 1. "Financial Statements." for further discussion of these investments:

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The principal market risks affecting us are interest rate risk, inflation 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 March 31, 2023, 14.1% 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. When borrowing at variable rates, we seek the lowest margins available and evaluate hedging opportunities. For our floating-rate borrowings we have entered into interest rate caps that involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

The interest rate on our floating-rate liabilities is a fixed spread over an index such as LIBOR or SOFR and typically reprices every 30 days. As of March 31, 2023, a hypothetical 100 basis point increase in interest rates would increase net interest expense by $0.4 million annually.

The U.K. Financial Conduct Authority, or FCA, ceased the publication of LIBOR for the one-week and two-month USD-LIBOR immediately after December 31, 2021 and intends to cease the publication of the remaining USD-LIBOR immediately after June 30, 2023. While the FCA does not expect any LIBOR settings to be unrepresentative before these dates, the U.S. Federal Reserve System, in conjunction with the Alternative Reference Rates Committee, have issued guidance encouraging market participants entering into new contracts to adopt SOFR as the replacement of LIBOR.

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 or SOFR, 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.

Inflation Risk

Many of our costs are subject to inflationary pressures. These include labor, repairs and maintenance, food costs, utilities, insurance and other operating costs. Higher rates of inflation affecting the economy may substantially affect the operating margins of our investments. While our managers have an ability to partially offset cost inflation by increasing the rates charged to residents, this ability is often limited by competitive conditions and timing may lag behind cost volatility. Therefore, there can be no assurance that cost increases can be offset by increased rates charged to residents in real time or that increased rates will not result in occupancy declines.

Credit Risk

We are subject to the credit risk of the operators of our healthcare properties. The operator of our four net lease properties failed to remit contractual monthly rent obligations and it is not probable that these obligations will be satisfied in the foreseeable future.

Risk Concentration

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

	As of March 31, 2023		Three Months Ended March 31, 2023	
Operator / Manager	Properties Under Management	Units Under Management[1]	Property and Other Revenues[2]	% of Total Property and Other Revenues
Solstice Senior Living[3]	32	3,993	$ 30,472	61.5 %
Watermark Retirement Communities	14	1,782	11,728	23.6 %
Avamere Health Services	5	453	5,385	10.9 %
Integral Senior Living	1	40	1,265	2.6 %
Arcadia Management[4]	4	572	—	— %
Other[5]	—	—	718	1.4 %
Total	56	6,840	$ 49,568	100.0 %

(1) Represents rooms for ALFs, ILFs and MCFs, 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 and MCFs, 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 three months ended March 31, 2023, we did not record any rental income from our net lease operator.
(5) Consists primarily of interest income earned on corporate-level cash and cash equivalents.

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.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

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

Internal Control over Financial Reporting

Changes in Internal Control over Financial Reporting.

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

Part II—Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

Our organizational documents permit us to pay distributions from any source, including offering proceeds, borrowings or sales of assets or we may make distributions in the form of taxable stock dividends. We have not established a limit on the amount of proceeds we may use to fund distributions. We have funded distributions in the past in excess of our cash flow from operations and may continue to do so in the future. If we pay distributions from sources other than our cash flow provided by operations, our book value may be negatively impacted and stockholders' overall return may be reduced. In April 2022, our board of directors declared a special distribution to stockholders, of which approximately $97.0 million was paid in cash in May 2022, using proceeds from asset sales and not cash flow provided by operations. We did not declare any distributions as of March 31, 2023.

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

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.

For the three months ended March 31, 2023, we did not repurchase any shares of our common stock.

Unregistered Sales of Equity Securities

We did not issue any shares of common stock during the three months ended March 31, 2023.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Articles of Amendment and Restatement of NorthStar Healthcare Income, Inc. (filed as Exhibit 3.1 to Pre-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (File No. 333-170802) and incorporated herein by reference)
3.2	Certificate of Correction of the Articles of Amendment and Restatement of NorthStar Healthcare Income, Inc. (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 and incorporated herein by reference)
3.3	Fourth Amended and Restated Bylaws of NorthStar Healthcare Income, Inc. (filed as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 and incorporated herein by reference)
4.1	Amended and Restated Distribution Reinvestment Plan (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 8, 2016 and incorporated herein by reference)
10.1	First Amendment to Transition Services Agreement, dated March 22, 2023, by and among NorthStar Healthcare Income, Inc., NorthStar Healthcare Operating Partnership, LP and CNI NSHC Advisors, LLC (filed as Exhibit 10.15 to the Company's Current Report on Form 10-K filed on March 27, 2023 and incorporated herein by reference)
10.2	Form of Long-Term Incentive Award Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on March 9, 2023 and incorporated herein by reference)
31.1*	Certification by the Chief Executive Officer pursuant to 17 CFR 240.13a-14(a)/15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2**	Certification by the Chief Financial Officer pursuant to 17 CFR 240.13a-14(a)/15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification by the Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification by the Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

** Furnished herewith

^ Portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

^^ Certain schedules and similar attachments have been omitted in reliance on Item 601(a)(5) of Regulation S-K. The Company will provide, on a supplemental basis, a copy of any omitted schedule or attachment to the SEC or its staff upon request.

SIGNATURES

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

NorthStar Healthcare Income, Inc.

Date: May 10, 2023

By: /s/ KENDALL K. YOUNG

Name: Kendall K. Young

Title: *Chief Executive Officer, President and Director*

By: /s/ NICHOLAS R. BALZO

Name: Nicholas R. Balzo

Title: *Chief Financial Officer, Treasurer and Secretary*

Exhibit 31.1

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

I, Kendall K. Young, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ KENDALL K. YOUNG

Name: Kendall K. Young

Title: *Chief Executive Officer, President and Director*

Date: May 10, 2023

Exhibit 31.2

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

I, Nicholas R. Balzo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ NICHOLAS R. BALZO

Name:	Nicholas R. Balzo
Title:	*Chief Financial Officer, Treasurer and Secretary*
Date:	May 10, 2023

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc. (the "Company") for the three months ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kendall K. Young, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

By: /s/ KENDALL K. YOUNG
Kendall K. Young
Chief Executive Officer, President and Director
Date: May 10, 2023

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

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of NorthStar Healthcare Income, Inc. (the “Company”) for the three months ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Nicholas R. Balzo, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

By: /s/ NICHOLAS R. BALZO

Nicholas R. Balzo

Chief Financial Officer, Treasurer and Secretary

Date: May 10, 2023

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

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